STATE OF MINNESOTA

Office of the State Auditor

Rebecca Otto
State Auditor

LAKE COUNTY HOUSING AND REDEVELOPMENT AUTHORITY
TWO HARBORS, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2011

Description of the Office of the State Auditor

The mission of the Office of the State Auditor is to oversee local government finances for Minnesota taxpayers by helping to ensure financial integrity and accountability in local governmental financial activities.

Through financial, compliance, and special audits, the State Auditor oversees and ensures that local government funds are used for the purposes intended by law and that local governments hold themselves to the highest standards of financial accountability.

The State Auditor performs approximately 160 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

Audit Practice - conducts financial and legal compliance audits of local governments;

Government Information - collects and analyzes financial information for cities, towns, counties, and special districts;

Legal/Special Investigations - provides legal analysis and counsel to the Office and responds to outside inquiries about Minnesota local government law; as well as investigates allegations of misfeasance, malfeasance, and nonfeasance in local government;

Pension - monitors investment, financial, and actuarial reporting for approximately 730 public pension funds; and

Tax Increment Financing - promotes compliance and accountability in local governments' use of tax increment financing through financial and compliance audits.

The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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LAKE COUNTY HOUSING AND REDEVELOPMENT AUTHORITY
TWO HARBORS, MINNESOTA

For the Year Ended December 31, 2011

Audit Practice Division
Office of the State Auditor
State of Minnesota

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LAKE COUNTY HOUSING AND REDEVELOPMENT AUTHORITY
TWO HARBORS, MINNESOTA

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LAKE COUNTY HOUSING AND REDEVELOPMENT AUTHORITY
TWO HARBORS, MINNESOTA

ORGANIZATION
DECEMBER 31, 2011

Commissioners	Term Expires
Richard DeRosier	May 30, 2015
Bob Entzion	May 30, 2015
Paul Iverson	May 30, 2016
Gordon Klein	May 30, 2013
Tom Lovdahl	May 30, 2016

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Financial Section

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STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

REBECCA OTTO
STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Lake County Housing and
Redevelopment Authority

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Lake County Housing and Redevelopment Authority, a component unit of Lake County, as of and for the year ended December 31, 2011, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Lake County Housing and Redevelopment Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Lake County Housing and Redevelopment Authority as of December 31, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1.E.8. to the financial statements, the Authority adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, as of and for the year ended December 31, 2011. GASB Statement 54 provides clearer fund balance classifications that can be more consistently applied and clarifies existing governmental fund type definitions.

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements is required by the GASB, who consider it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2012, on our consideration of the Lake County Housing and Redevelopment Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

November 8, 2012

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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LAKE COUNTY HOUSING AND REDEVELOPMENT AUTHORITY
TWO HARBORS, MINNESOTA

EXHIBIT 1

STATEMENT OF NET ASSETS
DECEMBER 31, 2011

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash	$ 320,386	$ 16,509	$ 336,895
Cash with management company for operations	-	86,908	86,908
Taxes receivable	9,787	-	9,787
Accounts receivable	118,851	137	118,988
Loans receivable - current	667	-	667
Loans receivable - long-term	10,714	-	10,714
Restricted assets - cash			
Debt service	-	69,197	69,197
Cash with management company for security deposits	-	14,731	14,731
Capital assets			
Depreciable - net of accumulated depreciation	1,065	1,194,022	1,195,087
Total Assets	**$ 461,470**	**$ 1,381,504**	**$ 1,842,974**
Liabilities			
Accounts payable	$ 12,068	$ 11,070	$ 23,138
Due to primary government	400,403	-	400,403
Accrued interest payable	-	3,544	3,544
Unearned revenue	-	860	860
Liabilities payable from restricted assets			
Security deposits payable	-	14,731	14,731
Long-term liabilities			
Due within one year	-	33,218	33,218
Due in more than one year	-	790,156	790,156
Total Liabilities	**$ 412,471**	**$ 853,579**	**$ 1,266,050**
Net Assets			
Investment in capital assets - net of related debt	$ 1,065	$ 370,648	$ 371,713
Restricted for debt service	-	69,197	69,197
Restricted for operations	-	86,908	86,908
Unrestricted	47,934	1,172	49,106
Total Net Assets	**$ 48,999**	**$ 527,925**	**$ 576,924**

The notes to the financial statements are an integral part of this statement.

LAKE COUNTY HOUSING AND REDEVELOPMENT AUTHORITY
TWO HARBORS, MINNESOTA

EXHIBIT 2

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011

		Program Revenues	Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Governmental Activities	Business-Type Activities	Total
Functions/Programs					
Governmental activities					
Urban and economic development	$ 110,629	$ 9,500	$ (101,129)	$ -	$ (101,129)
Business-type activities					
Senior housing	186,682	183,783	-	(2,899)	(2,899)
Total	**$ 297,311**	**$ 193,283**	**$ (101,129)**	**$ (2,899)**	**$ (104,028)**
General Revenues					
Property taxes			$ 109,468	$ -	$ 109,468
Tax increments			191,484	-	191,484
Intergovernmental			18,461	-	18,461
Investment earnings			1,914	33	1,947
Miscellaneous			12,009	520	12,529
Total general revenues			**$ 333,336**	**$ 553**	**$ 333,889**
Change in net assets			**$ 232,207**	**$ (2,346)**	**$ 229,861**
Net Assets - Beginning			**(183,208)**	**530,271**	**347,063**
Net Assets - Ending			**$ 48,999**	**$ 527,925**	**$ 576,924**

The notes to the financial statements are an integral part of this statement.

FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUND

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LAKE COUNTY HOUSING AND REDEVELOPMENT AUTHORITY
TWO HARBORS, MINNESOTA

EXHIBIT 3

BALANCE SHEET
GENERAL FUND
DECEMBER 31, 2011

Assets		
Cash	$	309,140
Undistributed cash with primary government		11,246
Taxes receivable		9,787
Accounts receivable		118,851
Loans receivable - current		667
Loans receivable - long-term		10,714
Total Assets	**$**	**460,405**
Liabilities and Fund Balance		
Liabilities		
Accounts payable	$	12,068
Due to primary government		400,403
Deferred revenue - unavailable		125,600
Total Liabilities	**$**	**538,071**
Fund Balance		
Nonspendable for long-term loans	$	10,714
Unassigned		(88,380)
Total Fund Balance	**$**	**(77,666)**
Total Liabilities and Fund Balance	**$**	**460,405**

The notes to the financial statements are an integral part of this statement.

LAKE COUNTY HOUSING AND REDEVELOPMENT AUTHORITY
TWO HARBORS, MINNESOTA

EXHIBIT 4

RECONCILIATION OF GOVERNMENTAL FUND BALANCE SHEET TO THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2011

Fund balance - governmental fund (Exhibit 3)	**$**	**(77,666)**
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		1,065
Long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		125,600
Net Assets of Governmental Activities (Exhibit 1)	**$**	**48,999**

The notes to the financial statements are an integral part of this statement.

LAKE COUNTY HOUSING AND REDEVELOPMENT AUTHORITY
TWO HARBORS, MINNESOTA

EXHIBIT 5

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2011

		General
Revenues		
Property taxes	$	109,468
Tax increments		197,068
Intergovernmental		18,461
Charges for services		9,500
Investment earnings		1,914
Miscellaneous		12,009
Total Revenues	**$**	**348,420**
Expenditures		
Current		
Urban and economic development		
Meetings	$	9,050
Administrative services		8,800
Consulting		1,854
Accounting and auditing		10,534
Housing rehabilitation		43,510
Housing coordinator		29,527
Other		7,087
Total Expenditures	**$**	**110,362**
Change in Fund Balance	**$**	**238,058**
Fund Balance - January 1		**(315,724)**
Fund Balance - December 31	**$**	**(77,666)**

The notes to the financial statements are an integral part of this statement.

LAKE COUNTY HOUSING AND REDEVELOPMENT AUTHORITY
TWO HARBORS, MINNESOTA

EXHIBIT 6

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE OF THE GOVERNMENTAL FUND TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2011

Net change in fund balance - total governmental fund (Exhibit 5)		**$ 238,058**
Amounts reported for governmental activities in the statement of activities are different because:		
In the funds, under the modified accrual basis, receivables not available for expenditure are deferred. In the statement of activities, those revenues are recognized when earned. The adjustment to revenues between the fund statement and the statement of activities is the increase or decrease in revenue deferred as unavailable.		
Deferred revenue - December 31	$ 125,600	
Deferred revenue - January 1	(131,184)	(5,584)
Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Current year depreciation		(267)
Change in Net Assets of Governmental Activities (Exhibit 2)		**$ 232,207**

The notes to the financial statements are an integral part of this statement.

PROPRIETARY FUND

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LAKE COUNTY HOUSING AND REDEVELOPMENT AUTHORITY
TWO HARBORS, MINNESOTA

EXHIBIT 7

STATEMENT OF FUND NET ASSETS
SILVERPOINTE ENTERPRISE FUND
DECEMBER 31, 2011

Assets		
Current assets		
Cash and cash equivalents	$	103,417
Accounts receivable		137
Total current assets	**$**	**103,554**
Restricted assets		
Cash		
Debt service	$	69,197
Cash with management company for security deposits		14,731
Total restricted assets	**$**	**83,928**
Noncurrent assets		
Capital assets		
Depreciable capital assets - net of accumulated depreciation	**$**	**1,194,022**
Total Assets	**$**	**1,381,504**
Liabilities		
Current liabilities		
Accounts payable	$	11,070
Interest payable		3,544
Unearned revenue		860
General obligation bonds payable - current		33,218
Total current liabilities	**$**	**48,692**
Current liabilities payable from restricted assets		
Security deposits payable		14,731
Noncurrent liabilities		
General obligation bonds payable - long-term		790,156
Total Liabilities	**$**	**853,579**
Net Assets		
Invested in capital assets - net of related debt	$	370,648
Restricted for debt service		69,197
Restricted for operations		86,908
Unrestricted		1,172
Total Net Assets	**$**	**527,925**

The notes to the financial statements are an integral part of this statement.

LAKE COUNTY HOUSING AND REDEVELOPMENT AUTHORITY
TWO HARBORS, MINNESOTA

EXHIBIT 8

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
SILVERPOINTE ENTERPRISE FUND
YEAR ENDED DECEMBER 31, 2011

Operating Revenues		
Rental	$	178,871
Parking		4,912
Miscellaneous		520
Total Operating Revenues	**$**	**184,303**
Operating Expenses		
Other services and charges		
Human resources	$	17,253
Management fees		12,940
Professional fees		1,148
Real estate taxes		8,015
Travel		133
Telephone		2,321
Utilities		14,199
Advertising		1,836
Insurance		5,234
Repairs and maintenance		25,715
Sanitation		6,135
Miscellaneous		183
Supplies		1,605
Depreciation expense		46,978
Total Operating Expenses	**$**	**143,695**
Operating Income (Loss)	**$**	**40,608**
Nonoperating Revenues (Expenses)		
Interest expense	$	(42,987)
Interest income		33
Total Nonoperating Revenues (Expenses)	**$**	**(42,954)**
Change in Net Assets	**$**	**(2,346)**
Net Assets - January 1		**530,271**
Net Assets - December 31	**$**	**527,925**

The notes to the financial statements are an integral part of this statement.

LAKE COUNTY HOUSING AND REDEVELOPMENT AUTHORITY
TWO HARBORS, MINNESOTA

EXHIBIT 9

STATEMENT OF CASH FLOWS
SILVERPOINTE ENTERPRISE FUND
YEAR ENDED SEPTEMBER 30, 2011

Cash Flows from Operating Activities		
Cash received from customers	$	184,166
Cash paid to suppliers		(89,609)
Net cash provided by (used in) operating activities	**$**	**94,557**
Cash Flows from Capital and Related Financing Activities		
Principal paid on long-term debt	$	(31,646)
Interest paid on long-term debt		(42,707)
Net cash provided by (used in) capital and related financing activities	**$**	**(74,353)**
Cash Flows from Investing Activities		
Interest income	**$**	**98**
Net Increase (Decrease) in Cash	**$**	**20,302**
Cash and Cash Equivalents - January 1		**83,115**
Cash and Cash Equivalents - December 31	**$**	**103,417**
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities		
Net operating income (loss)	**$**	**40,608**
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities		
Depreciation expense	$	46,978
(Increase) decrease in receivables		(137)
Increase (decrease) in accounts payable		6,450
Increase (decrease) in unearned revenue		658
Total adjustments	**$**	**53,949**
Net Cash Provided by (Used for) Operating Activities	**$**	**94,557**
Noncash Investing, Capital, and Financing Activities		
Increase in cash with management company for security deposits	**$**	**524**

The notes to the financial statements are an integral part of this statement.

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1. Summary of Significant Accounting Policies

The Lake County Housing and Redevelopment Authority's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) for the year ended December 31, 2011. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. Although the Authority has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the Authority has chosen not to do so. The Authority has not presented in the financial statements a Management's Discussion and Analysis that GASB has determined is necessary to supplement, although not required to be part of, the basic financial statements. The more significant accounting policies established in GAAP and used by the Authority are discussed below.

A. Financial Reporting Entity

The Lake County Housing and Redevelopment Authority was established June 13, 1984, and became active in 1986, having all the powers and duties of a county housing and redevelopment authority under the provisions of Minn. Stat. §§ 469.001-.047. The Authority is governed by a five-member Board appointed by the Lake County Board of Commissioners. The Board is organized with a chair, vice chair, secretary, and treasurer, elected annually.

Component Unit

The Lake County Housing and Redevelopment Authority is considered to be a component unit of Lake County and is included in Lake County's annual financial report.

1. Summary of Significant Accounting Policies (Continued)

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (the statement of net assets and the statement of activities) display information about the government. These statements include the financial activities of the overall Authority government. Eliminations have been made to minimize the double counting of internal activities. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external parties for support.

In the government-wide statement of net assets, both the governmental and business-type activities columns: (a) are presented on a consolidated basis by column; and (b) are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations.

The Authority's net assets are reported in three parts: (1) invested in capital assets, net of related debt; (2) restricted net assets; and (3) unrestricted net assets.

The statement of activities demonstrates the degree to which the direct expenses of each function of the Authority's governmental activities and business-type activities are offset by program revenues. Direct expenses are those clearly identifiable with a specific function or activity. Program revenues include: (1) fees, fines, and charges paid by the recipients of goods, services, or privileges provided by a given function or activity; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or activity. Revenues not classified as program revenues, including all taxes, are presented as general revenues.

2. Fund Financial Statements

The fund financial statements provide information about the Authority's funds. Separate statements for each fund--governmental and proprietary--are presented.

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

The Authority reports the following major governmental fund:

The General Fund is the Authority's primary operating fund. It accounts for all financial resources of the general government not accounted for in other funds.

The Authority reports the following major enterprise fund:

The Silverpointe Enterprise Fund is used to account for the operations of a 25-unit senior housing facility in Silver Bay, Minnesota. The facility is owned by the Authority and was built to provide quality and affordable housing for senior citizens in Lake County. Silverpointe is operated similar to a business enterprise. The intent of the Authority is that the cost of providing housing services to the general public, on a continuing basis, is financed or recovered primarily through user charges.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. The Lake County Housing and Redevelopment Authority considers all revenues as available if collected within 90 days after the end of the current period, except for taxes, which have a 60-day accrual period. Property and other taxes, licenses, and interest are all considered susceptible to accrual.

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or incidental activities.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first and then unrestricted resources as needed.

D. Budget

The Authority does not prepare budgets for the General Fund operations. Expenditures are made in accordance with the tax increment financing plans for the tax increment financing districts. An estimated operating budget is prepared by the management company for the Silverpointe Enterprise Fund. The budget is prepared on an accrual basis. The budget is approved and can be adjusted by the Board.

E. Assets, Liabilities, and Net Assets or Equity

1. Cash and Cash Equivalents

The Authority's cash and cash equivalents consist of savings and checking accounts, cash on hand, certificates of deposit, and cash with management company for operations, and do not include restricted accounts.

1. Summary of Significant Accounting Policies

E. Assets, Liabilities, and Net Assets or Equity (Continued)

2. Receivables and Payables

All outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

Property taxes, including property taxes captured as tax increment, are levied as of January 1 on property values assessed as of the same date. The tax levy notice is mailed in March with the first half payment due May 15 and the second half payment due October 15. The Authority approved an annual levy for operating purposes. Property taxes, including tax increment, are collected by Lake County. Unpaid taxes at December 31 become liens on the respective property and are classified in the financial statements as taxes receivable.

3. Restricted Assets

Certain funds of the Authority are classified as restricted assets on the statement of net assets because the restriction is either imposed by law through constitutional provisions or enabling legislation or imposed externally by creditors, grantors, contributors, or laws or regulations of other governments. Therefore, their use is limited by applicable laws and regulations.

4. Capital Assets

Capital assets, which include land, buildings and structures, and equipment, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than $1,000 and have an expected life of at least five years. Such assets are recorded at historical cost.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets’ lives are not capitalized.

1. Summary of Significant Accounting Policies

E. Assets, Liabilities, and Net Assets or Equity

4. Capital Assets (Continued)

Buildings and structures and equipment of the Authority are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings and structures	25 - 40
Equipment	7

5. Deferred Revenue

All funds and the government-wide financial statements defer revenue for resources that have been received, but not yet earned. Governmental funds also report deferred revenue in connection with receivables for revenues not considered to be available to liquidate liabilities of the current period.

6. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

7. Classification of Net Assets

Net assets in government-wide statements are classified in the following categories:

Invested in capital assets, net of related debt - the amount of net assets representing capital assets net of accumulated depreciation and reduced by outstanding debt attributed to the acquisition, construction, or improvement of the assets.

Restricted net assets - the amount of net assets for which external restrictions have been imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

1. Summary of Significant Accounting Policies

   E. Assets, Liabilities, and Net Assets or Equity

      7. Classification of Net Assets (Continued)

         Unrestricted net assets - the amount of net assets that do not meet the definition of restricted or invested in capital assets, net of related debt.

      8. Classification of Fund Balances

         Beginning in 2011, the Authority implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The standard's objectives are to enhance the usefulness of fund balance information included in the financial report through clearer fund balance classifications that can be consistently applied and to clarify existing governmental fund type definitions.

         Fund balance is divided into five classifications based primarily on the extent to which the Authority is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

         Nonspendable - amounts that cannot be spent because they are not in spendable form, such as fund balance associated with inventories, prepaids, or permanent funds.

         Restricted - amounts that are restricted by external parties such as creditors or imposed by grants, law or legislation.

         Committed - amounts that can be used only for the specific purposes determined by a formal action of the Authority's highest level of decision-making authority; which is the Authority's Board of Commissioners. Fund balance commitments are established, modified, or rescinded by Board action through a Board resolution.

         Assigned - amounts intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount of fund balance that is not restricted or committed.

1. Summary of Significant Accounting Policies

   E. Assets, Liabilities, and Net Assets or Equity

      8. Classification of Fund Balances (Continued)

         Unassigned - the residual classification for the General Fund and includes all spendable amounts not contained in the other fund balance classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted or committed.

         In circumstances where an expenditure is to be made for a purpose for which amounts are available in multiple fund balance classifications, the order in which resources will be expended is as follows: restricted, committed, and then assigned, unless the specific items have been identified in another classification.

         The Authority applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

      9. Use of Estimates

         The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits

The Authority's total deposits are reported as follows:

Government-wide statement of net assets		
Governmental activities		
Cash	$	320,386
Business-type activities		
Cash		16,509
Cash with management company for operations		86,908
Restricted assets		
Debt service		69,197
Cash with management company for security deposits		14,731
Total Cash	$	507,731

The Authority is authorized by Minn. Stat. §§ 118A.02 and 118A.04 to designate a depository for public funds and to invest in certificates of deposit. The Authority is required by Minn. Stat. § 118A.03 to protect Authority deposits with insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit at the close of the financial institution's banking day, not covered by insurance or bonds.

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated "A" or better and revenue obligations rated "AA" or better; irrevocable standby letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral.

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the Authority's deposits may not be returned to it. The Authority does not have a deposit policy for custodial credit risk other than complying with the requirements of Minnesota statues. As of December 31, 2011, the Authority's deposits were not exposed to custodial credit risk.

b. Investments

The Authority may invest in the following type of investments as authorized by Minn. Stat. §§ 118A.04 and 118A.05:

(1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as "high risk" by Minn. Stat. § 118A.04, subd. 6;

(2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;

(3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;

(4) bankers' acceptances of United States banks;

(5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

(6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment.

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities in the possession of an outside party.

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the Authority's investment in a single issuer.

As of and during the year ended December 31, 2011, the Authority did not own any investments that required disclosure regarding interest rate risk, credit risk, custodial credit risk, or concentration of credit risk.

2. Detailed Notes on All Funds

A. Assets (Continued)

2. Loan Receivable

The Authority has a $11,381 loan receivable from the Town of Crystal Bay for the Finland Coop Roofing Project, an unrelated organization. The loan has an interest rate of three percent with annual payments of $1,007 due on January 10 of each year.

3. Capital Assets

Capital asset activity for the year ended December 31, 2011, was as follows:

Governmental Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets depreciated				
Equipment	$ 1,866	$ -	$ -	$ 1,866
Less: accumulated depreciation for				
Equipment	534	267	-	801
Governmental Activities Capital Assets, Net	$ 1,332	$ (267)	$ -	$ 1,065

Business-Type Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets depreciated				
Buildings and structures	$ 1,879,117	$ -	$ -	$ 1,879,117
Equipment	5,378	-	-	5,378
Total capital assets depreciated	$ 1,884,495	$ -	$ -	$ 1,884,495
Less: accumulated depreciation for				
Buildings and structures	$ 638,117	$ 46,978	$ -	$ 685,095
Equipment	5,378	-	-	5,378
Total accumulated depreciation	$ 643,495	$ 46,978	$ -	$ 690,473
Business-Type Activities Capital Assets, Net	$ 1,241,000	$ (46,978)	$ -	$ 1,194,022

2. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities		
Urban and economic development	$	267

Business-Type Activities		
Senior housing	$	46,978

B. Liabilities

1. Due to Lake County

Due to Lake County was comprised of these amounts at December 31, 2011:

District Number 2	Blue Water/Superior Shores Project	$	143,088
District Number 3	Cove Point Project		257,315
Total Due to Lake County		$	400,403

Lake County has aided the Lake County Housing and Redevelopment Authority in making the bond payments on the Superior Shores and Cove Point tax increment bonds. For more information regarding the repayment of these bonds by Lake County, see Notes 3.A. and 3.C.

2. Detailed Notes on All Funds

B. Liabilities (Continued)

2. Long-Term Debt

Business-Type Activities

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2011
1996 General Obligation Senior Housing Bonds	2026	Varies	5.00	$ 1,160,642	$ 823,374

3. Debt Service Requirements

Debt service requirements at December 31, 2011, were as follows:

Business-Type Activities

Year Ending December 31	Revenue Bonds Principal	Revenue Bonds Interest
2012	$ 33,218	$ 41,071
2013	35,060	39,230
2014	36,879	37,411
2015	38,793	35,497
2016	40,709	33,581
2017 - 2021	237,971	133,478
2022 - 2026	400,744	61,485
Total	$ 823,374	$ 381,753

4. Changes in Long-Term Liabilities

Business-Type Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable General Obligation Senior Housing Bonds	$ 855,020	$ -	$ 31,646	$ 823,374	$ 33,218

3. Summary of Significant Contingencies and Other Items

A. Tax Increment Financing Districts

The Authority administers the following tax increment financing district established pursuant to Minn. Stat. §§ 469.174-.1791.

District Number 2	Blue Water/Superior Shores Project

The bonds for District Number 2 were general obligation bonds issued by Lake County and paid off in 2009. The County is holding the tax increment district open in order to recover some of the shortfall between tax increment collections and debt service payments that accumulated over the years. The County collects and pays the debt service payments pursuant to the amended Tax Increment Pledge Agreement, and the Authority recognizes the tax increment revenues and tax increment distributions to Lake County in its financial statements.

B. Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; or natural disasters. To manage these risks, the Authority has joined the Minnesota Counties Intergovernmental Trust (MCIT). The Authority retains risk for the deductible portions of the insurance policies. The amounts of these deductibles are considered immaterial to the financial statements. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for the past three fiscal years.

C. Related-Party Transactions - Lake County

The Lake County Housing and Redevelopment Authority is a discretely presented component unit of Lake County. The following are related-party transactions:

SEGOG Property

In June 2005, the Authority's Board passed a resolution authorizing the Authority to enter into an agreement to purchase 70 acres of land from Lake County for $250,000. The property will be used for a housing development to meet the County's housing needs and to assist in fostering economic development in the County. The purchase price of $250,000 will be paid to the County as individual lots are sold in the development. This agreement has not been finalized as of December 31, 2011, and no cash payments have been made.

3. Summary of Significant Contingencies and Other Items

C. Related-Party Transactions - Lake County (Continued)

Tax Increment Shortfalls

Tax increment revenues have not been sufficient to cover bond payments on the Cove Point and Superior Shores tax increment bonds. Lake County has made the bond payments on these bond issues; however, the Lake County Housing and Redevelopment Authority remains obligated to Lake County for these shortfalls. A liability has been set up on the Authority's financial statements in the amount of $400,403.

D. Financial Condition

The General Fund has a deficit fund balance of $77,666 as of December 31, 2011. The Authority's Board is looking into ways to improve its financial condition, including working with other similarly situated parties and the Minnesota Legislature to amend tax increment laws. The Authority is also in discussion with Lake County regarding its current obligations and the availability of alternative revenue sources.

4. Joint Ventures

In 2008, the Lake County Housing and Redevelopment Authority entered into a joint powers agreement with the Cook County/Grand Marais Joint Economic Development Authority, pursuant to Minn. Stat. § 471.59, for the purpose of preserving the existing housing market, encouraging new housing construction, and providing housing opportunities to the residents of Lake and Cook Counties. The power of each party will be exercised jointly under this agreement with the assistance of a housing coordinator to be retained by both parties. The Lake County Housing and Redevelopment Authority is the fiscal agent, and all the financial information is included as part of the Lake County Housing and Redevelopment Authority's financial statements. During 2011, this joint venture was dissolved.

5. Subsequent Events

On April 12, 2012, the Authority issued $860,000 of Housing Development General Obligation bonds to refund the outstanding maturities of the Silver Bay Senior Housing Bonds of 1996.

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LAKE COUNTY HOUSING AND REDEVELOPMENT AUTHORITY
TWO HARBORS, MINNESOTA

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2011

I. FINDINGS RELATED TO FINANCIAL STATEMENTS AUDITED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

98-1 Internal Controls/Segregation of Duties

Criteria: Management is responsible for establishing and maintaining internal control. This responsibility includes the internal control over the various accounting cycles, the fair presentation of the financial statements and related notes, and the accuracy and completeness of all financial records and related information. Also, management is responsible for controls over the period-end financial reporting process, including controls over procedures used to enter transaction totals in the general ledger; initiate, authorize, record, and process journal entries into the general ledger; and record recurring and nonrecurring adjustments to the financial statements. Adequate segregation of duties is a key internal control in an organization's accounting system.

Condition: Due to the limited number of personnel, segregation of accounting duties necessary to ensure adequate internal accounting control is not possible.

Context: The size of the Lake County Housing and Redevelopment Authority and its structure limits the internal control that management can design and implement into the organization. Without proper segregation of duties, errors or irregularities may not be detected timely.

Effect: Inadequate segregation of duties could adversely affect the Authority's ability to detect misstatements in a timely manner by personnel in the normal course of performing their assigned functions.

Cause: The size of the Authority and its staffing limits the internal control that management can design and implement into the organization. Management has also requested that we prepare the annual financial statements and related notes. This arrangement is not unusual for an organization the size of the Lake County Housing and Redevelopment Authority. This decision was based on the availability of the Authority's contracted staff and the cost benefit of using our expertise.

Recommendation: Management should be aware that segregation of duties is not adequate from an internal control point of view. We recommend the Board of Commissioners and management be mindful that limited staffing causes inherent risks in safeguarding the Authority's assets and the proper reporting of its financial activity. We recommend the Board of Commissioners and management continue to implement oversight procedures and monitor those procedures to determine if they are still effective internal controls.

<u>Client's Response</u>:

The Board will continue to keep a close eye on it.

08-1 <u>Board Approval of Invoices/Expenditures - Internal Controls</u>

Criteria: Board approval of claims to be paid is a key internal control over expenditures. This approval is documented by listing approved claims in the Board minutes.

Condition: During expenditure testing, we noted the Authority was not properly documenting in the Board minutes the approval of all claims to be paid.

Context: Three invoices totaling $20,347, tested as part of our expenditures review, were not listed in the Board minutes as approved.

Effect: Without documentation in the minutes that these claims were approved by the Board, we are unable to determine if these expenditures were authorized.

Cause: There was a lack of documentation of invoices approved for payment by the Board.

Recommendation: We recommend the Board review internal controls relating to expenditures, implement oversight procedures, and monitor these procedures to make sure that the internal controls relating to expenditures and revenues are properly followed.

<u>Client's Response</u>:

The Board will be sure all claims are approved before checks are signed.

ITEMS ARISING THIS YEAR

11-1 Bank Reconciliations

Criteria: Reconciliations are control activities which involve the comparison of two sets of related records or balances from different sources. Effective reconciliations identify differences between the records or balances. When differences are found, one should then investigate why the differences exist and resolve the differences in a timely manner. Documentation resolving the differences should be retained.

Condition: The client did not have year-end bank reconciliations available for us to review during the course of the audit.

Context: Performing complete and timely bank reconciliations is a control designed to detect errors and irregularities in time to allow any bank errors to be corrected.

Effect: Untimely reporting of account coding problems or other bank errors could result in a loss of Authority funds.

Cause: The Authority was unaware that reconciliations were not saved automatically by its accounting software and that it was required to print off the reconciliations immediately after completion.

Recommendation: We recommend that the Authority retain documentation showing that it is performing the reconciliations in a timely and effective manner.

Client's Response:

The Board will work with Lisa to make sure they are done right.

11-2 Audit Adjustments

Criteria: A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or personnel in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements of the financial statements on a timely basis. Statement on Auditing Standards 115 defines a material weakness as a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected, on a timely basis.

Condition: During our audit, we identified seven material adjustments that resulted in significant changes to the Authority's financial statements. These audit adjustments were necessary to record prior year book entries not made, correct cash and revenues for a certificate of deposit cashed out, correct overstatement of revenues and expenditures for transfers between cash accounts, record tax increments received, adjust amount due to Lake County, and make reclassification entries to revenues and expenditures as necessary. Audit adjustments were also necessary to adjust modified accrual financial statements to the accrual basis for the government-wide financial statements.

Context: The inability to make accrual adjustments or to detect significant misstatements in the financial statements increases the likelihood that the financial statements would not be fairly presented.

Effect: Audit adjustments were necessary to properly record assets, liabilities, revenue, and expenditures on the modified accrual and full accrual basis.

Cause: The Authority's personnel do not have the time or the expertise to prepare all of the information necessary to provide accurate financial statements.

Recommendation: We recommend that the Authority personnel review the trial balances and journal entries in detail to ensure all transactions have been properly recorded to be presented in the financial statements.

Client's Response:

The Board will review financials quarterly to assure they are done properly.

PREVIOUSLY REPORTED ITEMS RESOLVED

Timely Deposits (10-1)

In the previous year, testing showed that two receivables were not deposited in a timely manner by the Lake County Housing and Redevelopment Authority.

Resolution

Testing performed in the current year did not reveal any deposits that were not deposited in a timely manner.

Backup Policy and Procedure (10-2)

In the prior year, the Lake County Housing and Redevelopment Authority did not have a backup policy and procedures in place to prevent the loss of information which occurred when the client's QuickBooks crashed, losing the general ledger.

Resolution

The Authority has contracted with a computer service provider to provide backup services.

II. OTHER FINDINGS AND RECOMMENDATIONS

MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

06-2 Collection of Accounts Receivable

Criteria: Receivables should be presented only if it is reasonably certain that they will be collected in the future.

Condition: The Authority has an outstanding receivable from a developer who has not made any payments to date.

Context: The receivable from the developer is for $118,851.

Effect: The Authority may have a receivable on its financial statements that is not collectible and may have to be written off.

Cause: Delay in collecting this receivable has made it more difficult to pursue collection in the current year.

Recommendation: We recommend the Board make attempts to collect this receivable. A bill should be sent out for this receivable that has not yet been billed. If it is determined by the Board that this receivable is not collectible, the receivable should be written off.

Client's Response:

Work is in progress to resolve this.

PREVIOUSLY REPORTED ITEM RESOLVED

Financial Condition (03-1)

In prior years, the financial condition of the Authority was deteriorating, and it was questionable as to how long the Authority would continue to be a going concern because of its inability to meet its obligations as they come due. The General Fund's fund balance had steadily decreased from a positive $829,048 at December 31, 1997, to a negative $315,724 at December 31, 2010. This was due to a decrease in tax increments received caused by class rate changes and the fiscal disparity tax which led to a shortfall between tax increment collections and debt service payments.

Resolution

The Authority's financial condition has improved due to the repayment of the bonds associated with the tax increments and the ability to hold the tax increment district open in order to recover some of the shortfall between tax increment collections and debt service payments that accumulated over the years.

REBECCA OTTO
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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Commissioners
Lake County Housing and
Redevelopment Authority

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of the Lake County Housing and Redevelopment Authority, a component unit of Lake County, as of and for the year ended December 31, 2011, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated November 8, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Lake County Housing and Redevelopment Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Recommendations, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Recommendations as items 98-1 and 11-2 to be material weaknesses.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Recommendations as items 08-1 and 11-1 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Lake County Housing and Redevelopment Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Minnesota Legal Compliance

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions* contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our study included all of the listed categories, except that we did not test for compliance in contracting and bidding because the Lake County Housing and Redevelopment Authority did not enter into any applicable contracts.

The results of our tests indicate that for the items tested, the Lake County Housing and Redevelopment Authority complied with the material terms and conditions of applicable legal provisions.

Also included in the Schedule of Findings and Recommendations is a management practices comment. We believe this recommendation and information to be of benefit to the Authority, and it is reported for that purpose.

The Lake County Housing and Redevelopment Authority's written responses to the internal control and management practices findings identified in our audit have been included in the Schedule of Findings and Recommendations. We did not audit the Authority's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of Commissioners, management, and others within the Lake County Housing and Redevelopment Authority and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

November 8, 2012