

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, 2007

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, 2007



**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, 2007

<u>Commissioners</u>	<u>Term Expires</u>
Jon Anderson	May 30, 2011
Richard DeRosier	May 30, 2010
Gordon Klein	May 30, 2013
Tom Lovdahl	May 30, 2011
Dale Moe	May 30, 2010

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

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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, 2007, 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 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, 2007, 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.

The Lake County Housing and Redevelopment Authority has not presented a Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 26, 2008, 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

November 26, 2008

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

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, 2007**

	Governmental Activities	Business-Type Activities	Total
<u>Assets</u>			
Cash	\$ 212,911	\$ 63,659	\$ 276,570
Taxes receivable	6,521	-	6,521
Accounts receivable	118,851	644	119,495
Accrued interest receivable	2,235	-	2,235
Due from Lake County	5,912	-	5,912
Internal balances	6,545	(6,545)	-
Loans receivable	42,962	-	42,962
Restricted assets - cash			
Debt service	-	69,198	69,198
Customer deposits	-	13,639	13,639
Capital assets			
Non-depreciable	-	-	-
Depreciable - net of accumulated depreciation	-	1,381,934	1,381,934
	\$ 395,937	\$ 1,522,529	\$ 1,918,466
<u>Liabilities</u>			
Accounts payable	\$ 620	\$ 3,446	\$ 4,066
Due to Lake County	951,470	-	951,470
Accrued interest payable	-	2,700	2,700
Deferred revenue	-	134	134
Liabilities payable from restricted assets			
Customer deposits payable	-	13,639	13,639
Long-term liabilities			
Due within one year	-	28,000	28,000
Due in more than one year	-	913,508	913,508
	\$ 952,090	\$ 961,427	\$ 1,913,517
<u>Net Assets</u>			
Investment in capital assets - net of related debt	\$ -	\$ 440,426	\$ 440,426
Restricted for debt service	-	69,198	69,198
Unrestricted	(556,153)	51,478	(504,675)
	\$ (556,153)	\$ 561,102	\$ 4,949

**LAKE COUNTY HOUSING AND REDEVELOPMENT AUTHORITY
TWO HARBORS, MINNESOTA**

EXHIBIT 2

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2007**

		<u>Program Revenues</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>		
<u>Expenses</u>	<u>Charges for Services</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>	
<u>Functions/Programs</u>					
Governmental activities					
Urban and economic development	\$ 363,550	\$ -	\$ (363,550)	\$ -	\$ (363,550)
Business-type activities					
Senior housing	180,682	173,827	-	(6,855)	(6,855)
Total	<u>\$ 544,232</u>	<u>\$ 173,827</u>	<u>\$ (363,550)</u>	<u>\$ (6,855)</u>	<u>\$ (370,405)</u>
General Revenues					
Tax increments		\$ 205,018	\$ -	\$ 205,018	
Intergovernmental		4,250	-	4,250	
Investment earnings		10,626	-	10,626	
Miscellaneous		6,343	1,160	7,503	
Total general revenues		<u>\$ 226,237</u>	<u>\$ 1,160</u>	<u>\$ 227,397</u>	
Change in net assets		<u>\$ (137,313)</u>	<u>\$ (5,695)</u>	<u>\$ (143,008)</u>	
Net Assets - Beginning, as restated (Note 2)		<u>(418,840)</u>	<u>566,797</u>	<u>147,957</u>	
Net Assets - Ending		<u>\$ (556,153)</u>	<u>\$ 561,102</u>	<u>\$ 4,949</u>	

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, 2007**

Assets

Cash	\$	173,159
Undistributed cash with Lake County		39,752
Taxes receivable		6,521
Accounts receivable		118,851
Accrued interest receivable		2,235
Due from Lake County		5,912
Due from other funds		6,545
Loans receivable		42,962
		<hr/>
Total Assets	\$	395,937
		<hr/> <hr/>

Liabilities and Fund Balance

Liabilities

Accounts payable	\$	620
Due to Lake County		951,470
Deferred revenue - unavailable		131,285
		<hr/>
Total Liabilities	\$	1,083,375
		<hr/>

Fund Balance

Reserved for loans receivable	\$	42,962
Unreserved - undesignated		(730,400)
		<hr/>
Total Fund Balance	\$	(687,438)
		<hr/>
Total Liabilities and Fund Balance	\$	395,937
		<hr/> <hr/>

**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, 2007**

Fund balance - governmental fund (Exhibit 3)	\$ (687,438)
Amounts reported for governmental activities in the statement of net assets are different because:	
Long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.	<u>131,285</u>
Net assets of governmental activities (Exhibit 1)	<u><u>\$ (556,153)</u></u>

**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, 2007**

Revenues	
Tax increments	\$ 205,452
Intergovernmental	4,250
Investment earnings	10,626
Miscellaneous	5,955
	<hr/>
Total Revenues	\$ 226,283
Expenditures	
Current	
Urban and economic development	
Meetings	\$ 5,447
Rental units	1,153
Legal	13,867
Accounting and auditing	11,722
Tax increment distributions	287,452
Incubator building	15,237
Other	9,011
	<hr/>
Total Expenditures	\$ 343,889
Change in Fund Balance	\$ (117,606)
Fund Balance - January 1	(569,832)
	<hr/>
Fund Balance - December 31	\$ (687,438)
	<hr/> <hr/>

**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, 2007**

Net change in fund balance - total governmental fund (Exhibit 5) \$ (117,606)

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 (decrease) in revenue deferred as unavailable.

Deferred revenue - December 31	\$	131,285	
Deferred revenue - January 1		<u>(150,992)</u>	<u>(19,707)</u>

Change in net assets of governmental activities (Exhibit 2) \$ (137,313)

**LAKE COUNTY HOUSING AND REDEVELOPMENT AUTHORITY
TWO HARBORS, MINNESOTA**

EXHIBIT 7

**STATEMENT OF FUND NET ASSETS
SILVERPOINTE ENTERPRISE FUND
DECEMBER 31, 2007**

Assets

Current assets

Cash and cash equivalents	\$	63,659
Accounts receivable		644

Total current assets	\$	64,303
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Restricted assets

Cash		
Debt service	\$	69,198
Customer deposits		13,639

Total restricted assets	\$	82,837
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Noncurrent assets

Capital assets		
Depreciable capital assets - net of accumulated depreciation	\$	1,381,934

Total Assets	\$	1,529,074
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Liabilities

Current liabilities

Accounts payable	\$	3,446
Interest payable		2,700
Due to other funds		6,545
Deferred revenue		134
General obligation bonds payable - current		28,000

Total current liabilities	\$	40,825
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Current liabilities payable from restricted assets

Customer deposits payable		13,639
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Noncurrent liabilities

General obligation bonds payable - long term		913,508
--	--	---------

Total Liabilities	\$	967,972
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Net Assets

Invested in capital assets - net of related debt	\$	440,426
Restricted for debt service		69,198
Unrestricted		51,478

Total Net Assets	\$	561,102
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**LAKE COUNTY HOUSING AND REDEVELOPMENT AUTHORITY
TWO HARBORS, MINNESOTA**

EXHIBIT 8

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
SILVERPOINTE ENTERPRISE FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

Operating Revenues	
Rental	\$ 168,842
Parking	4,985
Miscellaneous	<u>1,160</u>
Total Operating Revenues	\$ 174,987
Operating Expenses	
Other services and charges	
Human resources	\$ 16,666
Management fees	10,656
Professional fees	2,730
Real estate taxes	7,511
Travel	190
Telephone	2,312
Utilities	17,353
Advertising	2,102
Insurance	3,225
Repairs and maintenance	21,669
Sanitation	2,061
Bad debts	1,982
Miscellaneous	47
Supplies	3,561
Depreciation expense	<u>46,978</u>
Total Operating Expenses	\$ 139,043
Operating Income (Loss)	\$ 35,944
Nonoperating Revenues (Expenses)	
Interest expense	<u>(41,639)</u>
Change in Net Assets	\$ (5,695)
Net Assets - January 1	<u>566,797</u>
Net Assets - December 31	<u><u>\$ 561,102</u></u>

**LAKE COUNTY HOUSING AND REDEVELOPMENT AUTHORITY
TWO HARBORS, MINNESOTA**

EXHIBIT 9

**STATEMENT OF CASH FLOWS
SILVERPOINTE ENTERPRISE FUND
YEAR ENDED DECEMBER 31, 2007**

Cash Flows from Operating Activities	
Cash received from customers	\$ 174,783
Cash paid to suppliers	<u>(103,610)</u>
Net cash provided by (used for) operating activities	<u>\$ 71,173</u>
Cash Flows from Capital and Related Financing Activities	
Principal paid on long-term debt	\$ (29,182)
Interest paid on long-term debt	<u>(42,139)</u>
Net cash provided by (used for) capital and related financing activities	<u>\$ (71,321)</u>
Net Increase (Decrease) in Cash	\$ (148)
Cash and Cash Equivalents - January 1, 2007	<u>63,807</u>
Cash and Cash Equivalents- December 31, 2007	<u><u>\$ 63,659</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities	
Net operating income (loss)	<u>\$ 35,944</u>
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities	
Depreciation expense	\$ 46,978
(Increase) decrease in accounts receivable	(138)
Increase (decrease) in accounts payable	(1,618)
Increase (decrease) in interfund payable	(9,875)
Increase (decrease) in deferred revenue	(66)
Increase (decrease) in accrued expenses	<u>(52)</u>
Net Cash Provided by (Used for) Operating Activities	<u><u>\$ 71,173</u></u>
Noncash Investing, Capital, and Financing Activities	
Increase in cash held for security deposits	\$ 638

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**LAKE COUNTY HOUSING AND REDEVELOPMENT AUTHORITY
TWO HARBORS, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2007**

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, 2007. 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 - 469.047. 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.

**LAKE COUNTY HOUSING AND REDEVELOPMENT AUTHORITY
TWO HARBORS, MINNESOTA**

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.

**LAKE COUNTY HOUSING AND REDEVELOPMENT AUTHORITY
TWO HARBORS, MINNESOTA**

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.

**LAKE COUNTY HOUSING AND REDEVELOPMENT AUTHORITY
TWO HARBORS, MINNESOTA**

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, and certificates of deposit, and do not include restricted accounts.

**LAKE COUNTY HOUSING AND REDEVELOPMENT AUTHORITY
TWO HARBORS, MINNESOTA**

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 increments, 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.

LAKE COUNTY HOUSING AND REDEVELOPMENT AUTHORITY
TWO HARBORS, MINNESOTA

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:

<u>Assets</u>	<u>Years</u>
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. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

LAKE COUNTY HOUSING AND REDEVELOPMENT AUTHORITY
TWO HARBORS, MINNESOTA

1. Summary of Significant Accounting Policies

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

8. 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. Adjustments and Reconciliations

Prior Period Adjustment

In 2007, the Lake County Housing and Redevelopment Authority was carrying \$28,601 in capitalized expenditures regarding a Post Office Relocation Study relating to land that was sold in 2005. These capitalized expenditures were removed from the Authority's financial statements as a prior period restatement of capital assets and beginning net assets.

It was also determined in 2007 that the Jail and the General Obligation Jail Lease Revenue Bonds should have been accounted for as part of Lake County's financial information rather than as assets and liabilities of the Authority. The carrying value of the jail and the debt information relating to the bonds were removed from the Authority's financial statements as a prior period restatement of capital assets, long-term debt, and beginning net assets.

Net Assets - January 1, 2007, as previously reported	\$ 347,312
Restatement	
Land - Post office relocation expenditures	(28,601)
Jail - Original cost, less accumulated depreciation	(895,845)
General Obligation Jail Lease Revenue Bonds - Principal and interest accrual	<u>158,294</u>
Net Assets - January 1, 2007, as restated	<u>\$ (418,840)</u>

**LAKE COUNTY HOUSING AND REDEVELOPMENT AUTHORITY
TWO HARBORS, MINNESOTA**

3. 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	\$ 212,911
Business-type activities	
Cash	63,659
Restricted assets	
Debt service	69,198
Customer deposits	<u>13,639</u>
 Total Cash	 <u>\$ 359,407</u>

Minn. Stat. §§ 118A.02 and 118A.04 authorize the Authority to designate a depository for public funds and to invest in certificates of deposit. Minn. Stat. § 118A.03 requires that all Authority deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit plus accrued interest 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.

**LAKE COUNTY HOUSING AND REDEVELOPMENT AUTHORITY
TWO HARBORS, MINNESOTA**

3. 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. As of December 31, 2007, \$61,382 of the Authority's book balance of \$359,407 was exposed to custodial credit risk. These deposits are held in a trust account by the property manager of the Authority's rental units. The trust accounts are in the property manager's name and hold funds for multiple properties managed by the company. The account balances of each property are tracked internally by the property manager. Although the accounts are covered by FDIC insurance, it is not possible to determine the amount of FDIC coverage which is available to cover each property's individual balance.

Uninsured and uncollateralized	<u>\$ 61,382</u>
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b. Investments

Minn. Stat. §§ 118A.04 and 118A.05 generally authorize the following types of investments as available to the Authority:

- (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;

**LAKE COUNTY HOUSING AND REDEVELOPMENT AUTHORITY
TWO HARBORS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

- (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
- (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.

**LAKE COUNTY HOUSING AND REDEVELOPMENT AUTHORITY
TWO HARBORS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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 that are 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, 2007, 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. Receivables

Receivables as of December 31, 2007, for the Authority's governmental activities are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	\$ 6,521	\$ -
Accounts receivable	118,851	-
Accrued interest	2,235	-
Due from Lake County	5,912	-
Loans receivable	42,962	-
Total Governmental Activities	\$ 176,481	\$ -

**LAKE COUNTY HOUSING AND REDEVELOPMENT AUTHORITY
TWO HARBORS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

3. Loan Receivable

The Authority has a \$42,962 loan receivable from North Shore Business Enterprise Center, Inc., an unrelated nonprofit organization. The loan is without interest. Annual principal payments of \$28,000 and \$27,000 were due on September 1, 2006, and September 1, 2007, respectively. However, no payment was received in 2006, and only \$12,038 was received in 2007.

4. Capital Assets

Capital asset activity for the year ended December 31, 2007, was as follows:

Business-Type Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets depreciated				
Buildings and structures	\$ 1,879,117	\$ -	\$ -	\$ 1,879,117
Equipment	3,911	-	-	3,911
Total capital assets depreciated	<u>\$ 1,883,028</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,883,028</u>
Less: accumulated depreciation for				
Buildings and structures	\$ 450,205	\$ 46,978	\$ -	\$ 497,183
Equipment	3,911	-	-	3,911
Total accumulated depreciation	<u>\$ 454,116</u>	<u>\$ 46,978</u>	<u>\$ -</u>	<u>\$ 501,094</u>
Business-Type Activities Capital Assets, Net	<u>\$ 1,428,912</u>	<u>\$ (46,978)</u>	<u>\$ -</u>	<u>\$ 1,381,934</u>

Depreciation expense of \$46,978 was charged to senior housing.

**LAKE COUNTY HOUSING AND REDEVELOPMENT AUTHORITY
TWO HARBORS, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2007, is as follows:

Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
General Fund	Silverpointe Enterprise Fund	\$ 6,545

The General Fund pays for insurance and accounting expenses. A portion of the expense is then reimbursed by the Silverpointe Enterprise Fund. The amount payable at year-end is the insurance and accounting allocation for 2007.

C. Liabilities

1. Due to Lake County

Due to Lake County was comprised of these amounts at December 31, 2007:

District Number 2	Blue Water/Superior Shores Project	\$ 694,155
District Number 3	Cove Point Project	257,315
Total Due to Lake County		\$ 951,470

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 4.A. and 4.C.

**LAKE COUNTY HOUSING AND REDEVELOPMENT AUTHORITY
TWO HARBORS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

2. Long-Term Debt

Business-Type Activities

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amounts</u>	<u>Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2007</u>
1996 General Obligation Senior Housing Bonds	2028	Varies	3.92	\$ 1,160,642	\$ 941,508

3. Debt Service Requirements

Debt service requirements at December 31, 2007, were as follows:

Business-Type Activities

<u>Year Ending December 31</u>	<u>Revenue Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2008	\$ 28,000	\$ 46,443
2009	29,272	45,018
2010	30,769	43,521
2011	32,343	41,947
2012	33,998	40,292
2013 - 2017	197,931	173,518
2018 - 2022	254,016	117,433
2023 - 2027	325,994	45,455
2028	9,185	52
Total	\$ 941,508	\$ 553,679

**LAKE COUNTY HOUSING AND REDEVELOPMENT AUTHORITY
TWO HARBORS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

4. Changes in Long-Term Liabilities

Business-Type Activities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds payable General Obligation Senior Housing Bonds	\$ 970,690	\$ -	\$ 29,182	\$ 941,508	\$ 28,000

4. Summary of Significant Contingencies and Other Items

A. Tax Increment Financing Districts

The Authority administers the following tax increment financing districts established pursuant to Minn. Stat. §§ 469.174 - 469.1791.

District Number 2	Blue Water/Superior Shores Project
District Number 3	Cove Point Project
District Number 4	Incubator Building Project

The bonds for District Nos. 2 and 3 are general obligation bonds issued by Lake County and are included in the Lake County financial statements. The bonds do not constitute a debt of the Authority. 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.

In 2007, the Authority decertified the tax increment financing District Number 3 - Cove Point Project and District Number 4 - Incubator Building Project.

**LAKE COUNTY HOUSING AND REDEVELOPMENT AUTHORITY
TWO HARBORS, MINNESOTA**

4. Summary of Significant Contingencies and Other Items (Continued)

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 Insurance 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 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, 2007, and no cash payments have been made.

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 \$951,470.

LAKE COUNTY HOUSING AND REDEVELOPMENT AUTHORITY
TWO HARBORS, MINNESOTA

4. Summary of Significant Contingencies and Other Items (Continued)

D. Tax Increment Assistance

The Lake County Housing and Redevelopment Authority is committed to provide tax increment assistance pursuant to the Northshore Business Enterprise Center development agreement. The assistance is provided in the form of an annual tax rebate to the developer. The annual tax rebate is contingent upon payment of annual property taxes by the developer. The assistance for the project is limited in amount based on both the scope of the project and the life of the tax increment district. The tax increment assistance does not result in debt proceeds and does not meet the definition of debt.

E. Conduit Debt Obligation

The Lake County Housing and Redevelopment Authority has issued Health Care Facilities Revenue Bonds, Series 2000, originally issued for \$5,000,000 in May 2000, and refinanced in October 2003 for \$4,108,000, to provide financial assistance to First Plan of Minnesota to construct two medical clinics. The bonds are secured by the property financed through a loan agreement and are payable solely from the revenues of First Plan of Minnesota. Neither the Authority nor the state is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as a liability in the accompanying financial statements.

F. Financial Condition

The Authority's expenses, including required payments to Lake County pursuant to bond obligations, exceed current tax increment financing and other revenues. This has resulted in a deficit fund balance of \$687,438 as of December 31, 2007, for the General Fund. This continuing condition has also resulted in a deficit balance of unrestricted net assets. Under current agreements and regulations, it appears the financial condition of the Authority will continue to deteriorate. 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.

**LAKE COUNTY HOUSING AND REDEVELOPMENT AUTHORITY
TWO HARBORS, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

F. Financial Condition (Continued)

The ability of the Authority to continue as a going concern is dependent on its ability to generate additional revenues and/or limit its current debt obligations to provide sufficient net cash flow to fund its daily and long-term obligations. The financial statements do not include any adjustments that might be necessary if the Authority is unable to continue as a going concern.

5. Subsequent Events

In 2008, the Lake County Housing and Redevelopment Authority entered into a joint powers agreement with 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.

In 2008, Lake County was awarded a \$671,576 United States Department of Housing and Urban Development federal grant under the Community Development Block Grant program through the Minnesota Department of Employment and Economic Development to be administered by the Lake County Housing and Redevelopment Authority. The funds are to be used for the rehabilitation of homes in Lake and Cook Counties. Lake County also expects to receive an additional \$553,436 in other funds to aid in the rehabilitation of these homes.

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**LAKE COUNTY HOUSING AND REDEVELOPMENT AUTHORITY
TWO HARBORS, MINNESOTA**

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2007**

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

PREVIOUSLY REPORTED ITEM NOT RESOLVED

98-1 Internal Control/Segregation of Duties

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. Adequate segregation of duties is a key internal control in an organization's accounting system. The Lake County Housing and Redevelopment Authority has no employees. Operations are handled by the governing board and a contracted attorney, rental manager, and accountant. The size of the Authority and its structure limits the internal control that management can design and implement into the organization. Management should be aware that segregation of duties is not adequate from an internal control point of view.

Management is responsible for 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.

Management has 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.

During our audit, we proposed material adjustments to convert the Authority's financial records to the financial statements as reported. These included adjustments to record and correct prior year entries, correct duplicate deposit entries, adjust taxes receivable, record debt service and tax increment collection transactions, adjust other receivables, record prior period adjustments, and adjust modified accrual basis financial statements to the accrual basis for the government-wide financial statements.

We recommend the Lake County Housing and Redevelopment Authority Board 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 continue to implement oversight procedures and monitor those procedures to determine if they are still effective internal controls.

II. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM RESOLVED

Notification of Decertification of TIF District (06-1)

The Authority was not notifying the Lake County Auditor/Treasurer when a Tax Increment Financing (TIF) District should be decertified by filing a confirmation of Decertified TIF District form with the County Auditor/Treasurer.

Resolution

The Authority filed a confirmation of Decertified TIF District form with the Lake County Auditor/Treasurer for the decertification of the Cove Point Tax Increment District #3 and the Incubator Building Tax Increment Financing District #4.

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

03-1 Financial Condition

The Authority's financial statements are prepared based on the assumption that the Authority will continue as a going concern in the future. As a result of the Authority's current financial condition, it is questionable how long the Authority will continue to be a going concern because of its inability to meet its obligations as they come due.

The General Fund's fund balance has steadily decreased from a positive \$829,048 at December 31, 1997, to a negative \$687,438 at December 31, 2007. This is a result of tax increment revenues decreasing from \$501,092 in 1998 to \$205,452 in 2007. Class rate changes and the fiscal disparity tax have decreased the amount of tax increments collected. Future tax increment collections will likely not be sufficient to fund future debt service.

We recommend the Authority develop a formal plan that would outline how the Authority intends to improve its current financial condition. The Authority may wish to consider liquidating certain assets, restructuring existing debt, reducing expenditures, and obtaining other sources of revenue.

06-2

Collection of Accounts Receivable

The Lake County Housing and Redevelopment Authority has outstanding receivables which have not been collected. A receivable from a developer totaling \$118,851 has had no payments made to date. An outstanding receivable from Lake County totaling \$5,912 has not yet been billed or received. There is also a potential receivable from First Plan for bond fees that has not been billed or received.

We recommend the Lake County Housing and Redevelopment Authority Board make attempts to collect these receivables. Bills should be sent out for receivables that have not yet been billed. If it is determined by the Board that these receivables are not collectible, they should be written off.

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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, 2007, and have issued our report thereon dated November 26, 2008. 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

In planning and performing our audit, we considered the Lake County Housing and Redevelopment 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 of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control. We considered the deficiency described in the accompanying Schedule of Findings and Recommendations as item 98-1 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Lake County Housing and Redevelopment Authority's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider item 98-1 to be a material weakness.

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 Local Government*, 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 Local Government* 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 are management practices comments. We believe these recommendations to be of benefit to the Authority, and they are reported for that purpose.

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

/s/Greg Hierlinger

REBECCA OTTO
STATE AUDITOR

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

November 26, 2008