

State of Minnesota



Office of the State Auditor

Julie Blaha
State Auditor

Audit Practice Division

Lake County Housing and Redevelopment Authority (A Component Unit of Lake County) Two Harbors, Minnesota

Annual Financial Report and
Management and Compliance Report

Year Ended December 31, 2023

Lake County Housing and Redevelopment Authority

Two Harbors, Minnesota

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Introductory Section

Lake County Housing and Redevelopment Authority
Two Harbors, Minnesota

Organization
December 31, 2023

Commissioners	Term Expires
Richard DeRosier	May 30, 2025
Bob Entzion	May 30, 2025
Paul Iversen	May 30, 2026
Susan Rosette	May 30, 2026
Rick Goutermont	December 31, 2023

Financial Section



Independent Auditor's Report

Board of Commissioners
Lake County Housing and Redevelopment Authority
Two Harbors, Minnesota

Report on the Audit of the Financial Statements

Opinions

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, Minnesota, as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, as listed in the table of contents.

In our opinion, the accompanying 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, 2023, and the respective changes in financial position, and, where applicable, its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter – Correction of Material Misstatement in Previously Issued Financial Statements

As discussed in Note 1 to the financial statements, the previously issued 2022 financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, we:

- exercise professional judgment and maintain professional skepticism throughout the audit;
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, no such opinion is expressed;
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements; and
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

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 part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 25, 2025, 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 solely 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 effectiveness of the Lake County Housing and Redevelopment Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Lake County Housing and Redevelopment Authority's internal control over financial reporting and compliance.

/s/Julie Blaha

Julie Blaha
State Auditor

February 25, 2025

/s/Chad Struss

Chad Struss, CPA
Deputy State Auditor

Basic Financial Statements

Government-Wide Financial Statements

**Lake County Housing and Redevelopment Authority
Two Harbors, Minnesota**

Exhibit 1

**Statement of Net Position
December 31, 2023**

	Governmental Activities	Business-Type Activities	Total
<u>Assets</u>			
Cash and cash equivalents	\$ 490,615	\$ 181,646	\$ 672,261
Delinquent taxes receivable	4,571	-	4,571
Accounts receivable	-	2	2
Internal balances	5,615	(5,615)	-
Restricted assets			
Cash and pooled investments	317,202	19,551	336,753
Capital assets			
Depreciable – net of accumulated depreciation	910	696,193	697,103
Total Assets	\$ 818,913	\$ 891,777	\$ 1,710,690
<u>Liabilities</u>			
Accounts payable	\$ -	\$ 19,232	\$ 19,232
Due to Lake County	34,788	-	34,788
Unearned revenue	-	3,304	3,304
Liabilities payable from restricted assets			
Security deposits payable	-	19,263	19,263
Long-term liabilities			
Due in more than one year	1,505	222,597	224,102
Total Liabilities	\$ 36,293	\$ 264,396	\$ 300,689
<u>Net Position</u>			
Net investment in capital assets	\$ 910	\$ 473,596	\$ 474,506
Restricted for housing	317,202	-	317,202
Unrestricted	464,508	153,785	618,293
Total Net Position	\$ 782,620	\$ 627,381	\$ 1,410,001

**Lake County Housing and Redevelopment Authority
Two Harbors, Minnesota**

Exhibit 2

**Statement of Activities
For the Year Ended December 31, 2023**

	<u>Expenses</u>	<u>Program Revenues Charges for Services</u>	<u>Net (Expense) Revenue and Changes in Net Position</u>		
			<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<u>Functions/Programs</u>					
Governmental activities					
Urban and economic development	\$ 173,341	\$ 4,500	\$ (168,841)	\$ -	\$ (168,841)
Business-type activities					
Housing	375,303	330,626	-	(44,677)	(44,677)
Total	<u>\$ 548,644</u>	<u>\$ 335,126</u>	<u>\$ (168,841)</u>	<u>\$ (44,677)</u>	<u>\$ (213,518)</u>
General Revenues					
Property taxes			\$ 227,740	\$ -	\$ 227,740
Grants and contributions not restricted to specific programs			12,674	-	12,674
Investment earnings			14,955	2,486	17,441
Miscellaneous			810	3,027	3,837
Special Item – Donation of land			<u>(942,198)</u>	<u>-</u>	<u>(942,198)</u>
Total general revenues and special item			<u>\$ (686,019)</u>	<u>\$ 5,513</u>	<u>\$ (680,506)</u>
Change in net position			<u>\$ (854,860)</u>	<u>\$ (39,164)</u>	<u>\$ (894,024)</u>
Net Position – Beginning, as restated (Note 1)			<u>1,637,480</u>	<u>666,545</u>	<u>2,304,025</u>
Net Position – Ending			<u>\$ 782,620</u>	<u>\$ 627,381</u>	<u>\$ 1,410,001</u>

Fund Financial Statements

Governmental Funds

**Lake County Housing and Redevelopment Authority
Two Harbors, Minnesota**

Exhibit 3

**Balance Sheet
Governmental Funds
December 31, 2023**

	<u>General Fund</u>	<u>Local Housing Trust Trust Fund</u>	<u>Total</u>
<u>Assets</u>			
Cash	\$ 478,011	\$ -	\$ 478,011
Cash held with Lake County	12,604	-	12,604
Restricted pooled investments	-	317,202	317,202
Delinquent taxes receivable	4,571	-	4,571
Due from other funds	13,172	-	13,172
Total Assets	\$ 508,358	\$ 317,202	\$ 825,560
<u>Liabilities</u>			
Due to other funds	\$ 7,557	\$ -	\$ 7,557
Due to primary government	34,788	-	34,788
Total Liabilities	\$ 42,345	\$ -	\$ 42,345
<u>Deferred Inflows of Resources</u>			
Unavailable revenue – taxes	\$ 2,665	\$ -	\$ 2,665
<u>Fund Balance</u>			
Restricted for housing	\$ -	\$ 317,202	\$ 317,202
Unassigned	463,348	-	463,348
Total Fund Balance	\$ 463,348	\$ 317,202	\$ 780,550
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	\$ 508,358	\$ 317,202	\$ 825,560

**Lake County Housing and Redevelopment Authority
Two Harbors, Minnesota**

Exhibit 4

**Reconciliation of Governmental Funds Balance Sheet to the
Government-Wide Statement of Net Position—Governmental Activities
December 31, 2023**

Fund balance – governmental funds (Exhibit 3)	\$ 780,550
Amounts reported for governmental activities in the statement of net position are different because:	
Long-term assets, other than capital assets, are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.	2,665
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	910
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.	
Compensated absences	<u>(1,505)</u>
Net Position of Governmental Activities (Exhibit 1)	<u>\$ 782,620</u>

**Lake County Housing and Redevelopment Authority
Two Harbors, Minnesota**

Exhibit 5

**Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended December 31, 2023**

	General Fund	Local Housing Trust Trust Fund	Total
Revenues			
Property taxes	\$ 227,126	\$ -	\$ 227,126
Intergovernmental	12,674	-	12,674
Investment earnings	378	14,577	14,955
Rent	4,500	-	4,500
Miscellaneous	310	500	810
Total Revenues	\$ 244,988	\$ 15,077	\$ 260,065
Expenditures			
Current			
Urban and economic development			
Salary and employee benefits	\$ 80,071	\$ -	\$ 80,071
Contracted services	19,406	-	19,406
Meetings	13,395	-	13,395
Administrative services	15,373	-	15,373
Housing rehabilitation	32,897	-	32,897
Other	10,542	-	10,542
Total Expenditures	\$ 171,684	\$ -	\$ 171,684
Excess of Revenues Over (Under) Expenditures	\$ 73,304	\$ 15,077	\$ 88,381
Other Financing Sources (Uses)			
Transfers in	\$ -	\$ 200,000	\$ 200,000
Transfers out	(200,000)	-	(200,000)
Total Other Financing Sources (Uses)	\$ (200,000)	\$ 200,000	\$ -
Net Change in Fund Balance	\$ (126,696)	\$ 215,077	\$ 88,381
Fund Balance – January 1	590,044	102,125	692,169
Fund Balance – December 31	\$ 463,348	\$ 317,202	\$ 780,550

**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 Funds to the
Government-Wide Statement of Activities—Governmental Activities
For the Year Ended December 31, 2023**

Net change in fund balance – governmental funds (Exhibit 5)	\$	88,381
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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 inflows of resources – December 31	\$ 2,665	
Deferred inflows of resources – January 1	<u>(2,051)</u>	614

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	(152)
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In the statement of activities, the donation of land is shown as an expense to the Authority, whereas in governmental funds, the donation does not represent the use of current financial resources. Therefore, the change in net position differs from the change in fund balance by the value of the capital asset donated.

(942,198)

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Change in compensated absences	<u>(1,505)</u>
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Change in Net Position of Governmental Activities (Exhibit 2)	\$	<u>(854,860)</u>
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Proprietary Funds

**Lake County Housing and Redevelopment Authority
Two Harbors, Minnesota**

Exhibit 7

**Statement of Net Position
Enterprise Funds
December 31, 2023**

	<u>Silverpointe Apartments</u>	<u>Lakeview Apartments</u>	<u>Total Enterprise Funds</u>
<u>Assets</u>			
Current assets			
Cash	\$ 117,454	\$ 64,192	\$ 181,646
Due from other funds	7,557	-	7,557
Accounts receivable	2	-	2
Total current assets	\$ 125,013	\$ 64,192	\$ 189,205
Restricted assets			
Cash			
Cash with management company for security deposits	19,551	-	19,551
Noncurrent assets			
Capital assets			
Depreciable – net of accumulated depreciation	696,193	-	696,193
Total Assets	\$ 840,757	\$ 64,192	\$ 904,949
<u>Liabilities</u>			
Current liabilities			
Accounts payable	\$ 12,955	\$ 6,277	\$ 19,232
Due to other funds	11,195	1,977	13,172
Unearned revenue	3,304	-	3,304
Total current liabilities	\$ 27,454	\$ 8,254	\$ 35,708
Current liabilities payable from restricted assets			
Security deposits payable	\$ 19,263	\$ -	\$ 19,263
Noncurrent liabilities			
General obligation bonds payable – long-term	\$ 225,000	\$ -	\$ 225,000
Less: unamortized bond premium (discount)	(2,403)	-	(2,403)
Total noncurrent liabilities	\$ 222,597	\$ -	\$ 222,597
Total Liabilities	\$ 269,314	\$ 8,254	\$ 277,568
<u>Net Position</u>			
Net investment in capital assets	\$ 473,596	\$ -	\$ 473,596
Unrestricted	97,847	55,938	153,785
Total Net Position	\$ 571,443	\$ 55,938	\$ 627,381

**Lake County Housing and Redevelopment Authority
Two Harbors, Minnesota**

Exhibit 8

**Statement of Revenues, Expenses, and Changes in Net Position
Enterprise Funds
Year Ended December 31, 2023**

	Silverpointe Apartments	Lakeview Apartments	Total Enterprise Funds
Operating Revenues			
Rental	\$ 235,276	\$ 87,622	\$ 322,898
Parking	7,728	-	7,728
Miscellaneous	3,027	-	3,027
Total Operating Revenues	\$ 246,031	\$ 87,622	\$ 333,653
Operating Expenses			
Other services and charges			
Contracted services	\$ 25,194	\$ -	\$ 25,194
Management fees	14,850	7,200	22,050
Professional fees	475	2,076	2,551
Real estate taxes	9,839	-	9,839
Telephone	1,828	-	1,828
Utilities	42,377	25,236	67,613
Advertising	578	-	578
Insurance	9,600	-	9,600
Repairs and maintenance	29,886	92,105	121,991
Sanitation	15,580	-	15,580
Miscellaneous	2,068	29,135	31,203
Supplies	1,316	90	1,406
Depreciation expense	55,854	-	55,854
Total Operating Expenses	\$ 209,445	\$ 155,842	\$ 365,287
Operating Income (Loss)	\$ 36,586	\$ (68,220)	\$ (31,634)
Nonoperating Revenues (Expenses)			
Investment earnings	\$ 2,486	\$ -	\$ 2,486
Discount on issuance of bonds	(803)	-	(803)
Interest expense	(9,213)	-	(9,213)
Total Nonoperating Revenues (Expenses)	\$ (7,530)	\$ -	\$ (7,530)
Change in Net Position	\$ 29,056	\$ (68,220)	\$ (39,164)
Net Position – January 1	542,387	124,158	666,545
Net Position – December 31	\$ 571,443	\$ 55,938	\$ 627,381

**Lake County Housing and Redevelopment Authority
Two Harbors, Minnesota**

Exhibit 9

**Statement of Cash Flows
Enterprise Funds
Year Ended December 31, 2023**

	Silverpointe Apartments	Lakeview Apartments	Total Enterprise Funds
Cash Flows from Operating Activities			
Cash received from customers	\$ 249,780	\$ 113,567	\$ 363,347
Cash paid to suppliers	(155,340)	(154,845)	(310,185)
Net cash provided by (used in) operating activities	\$ 94,440	\$ (41,278)	\$ 53,162
Cash Flows from Capital and Related Financing Activities			
Capital asset additions	\$ (18,915)	\$ -	\$ (18,915)
Principal paid on long-term debt	(60,000)	-	(60,000)
Interest paid on long-term debt	(9,213)	-	(9,213)
Net cash provided by (used in) capital and related financing activities	\$ (88,128)	\$ -	\$ (88,128)
Cash Flows from Investing Activities			
Investment earnings	\$ 2,486	\$ -	\$ 2,486
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 8,798	\$ (41,278)	\$ (32,480)
Cash and Cash Equivalents – January 1	128,207	105,470	233,677
Cash and Cash Equivalents – December 31	\$ 137,005	\$ 64,192	\$ 201,197
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities			
Net operating income (loss)	\$ 36,586	\$ (68,220)	\$ (31,634)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities			
Depreciation expense	\$ 55,854	\$ -	\$ 55,854
(Increase) decrease in receivables	2,681	25,945	28,626
Increase (decrease) in accounts payable	(1,526)	997	(529)
Increase (decrease) in unearned revenue	845	-	845
Total adjustments	\$ 57,854	\$ 26,942	\$ 84,796
Net Cash Provided by (Used in) Operating Activities	\$ 94,440	\$ (41,278)	\$ 53,162

Lake County Housing and Redevelopment Authority

Two Harbors, Minnesota

Notes to the Financial Statements

As of and for the Year Ended December 31, 2023

Note 1 – Summary of Significant Accounting Policies

The Lake County Housing and Redevelopment Authority's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as of and for the year ended December 31, 2023. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The Authority has not presented in the financial statements a Management's Discussion and Analysis that the GASB has determined is necessary to supplement, although not required to be part of, the basic financial statements. The accounting policies of the Authority conform with generally accepted accounting principles. The more significant accounting policies established by GAAP and used by the Authority are discussed below.

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.

The Lake County Housing and Redevelopment Authority is considered to be a component unit of Lake County and is included in Lake County's financial statements as a discretely presented component unit.

Basic Financial Statements

Government-Wide Statements

The government-wide financial statements (the statement of net position and the statement of activities) display information about the Lake County Housing and Redevelopment Authority. 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 position, 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 accounting basis with an economic resource focus, which recognizes all long-term assets and receivables as well as long-term debt and obligations.

The Authority's net position is reported in three parts: (1) net investment in capital assets, (2) restricted net position, and (3) unrestricted net position.

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

Lake County Housing and Redevelopment Authority

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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 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.

Fund Financial Statements

The fund financial statements provide information about the Authority's funds. Separate statements for each fund category—governmental and proprietary—are presented. The emphasis of governmental and proprietary fund financial statements is on major individual governmental and enterprise funds, with each displayed as separate columns in the fund financial statements.

The Authority reports the following major governmental funds:

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 Local Housing Trust Special Revenue Fund is used to support the rehabilitation and preservation of existing affordable housing within the County, promote the development of additional affordable housing with the County, and assist individuals with rental and down payment assistance.

The Authority reports the following major enterprise funds:

The Silverpointe Apartments Enterprise Fund is used to account for the operations of a 25-unit 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 similarly 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.

The Lakeview Apartments Enterprise Fund is used to account for the operations of a 14-unit housing facility in Two Harbors, Minnesota. The facility was tax forfeited, and the County established an agreement with the Authority to manage the property beginning in July 2017. Lakeview is operated in a similar fashion to Silverpointe.

Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the full 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

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

Budget

The Authority does not prepare budgets for the General Fund or Local Housing Trust Special Revenue Fund operations. An estimated operating budget is prepared by the management company for the Silverpointe Apartments Enterprise Fund. The budget is prepared on an accrual basis. The budget is approved and can be adjusted by the Board. An estimated operating budget is prepared for the Lakeview Apartments Enterprise Fund. The budget is approved and can be adjusted by the Board.

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

Deposits and Investments

The Authority's cash and cash equivalents consist of savings and checking accounts, cash on hand, and certificates of deposits. Restricted cash and investments are shown separately from cash and cash equivalents.

The Authority invests in an external investment pool, the Minnesota Association of Governments Investing for Counties (MAGIC) Fund, which is created under a joint powers agreement pursuant to Minn. Stat. § 471.59. The investment in the pool is measured at the net asset value (NAV) per share provided by the pool. In 2023, the Authority reported pooled investment earnings of \$14,577.

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 delinquent taxes receivable.

No allowance for uncollectible receivables has been provided because such amounts are not expected to be material.

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Restricted Assets

Certain funds of the Authority are classified as restricted assets on the statement of net position 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.

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 and the proprietary fund financial statements. Capital assets are defined by the Authority 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 or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value.

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.

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

Estimated Useful Lives of Capital Assets	
Assets	Years
Buildings and structures	25-40
Equipment	7

Special Item

The Authority donated land for the construction of affordable housing to entice housing development within Lake County. The sale of this land is reported as a special item on the government-wide financial statements because it was sold below market value.

Unearned Revenue

Proprietary funds and the government-wide statements report unearned revenue in connection with resources that have been received but not yet earned.

Compensated Absences

The liability for compensated absences reported in the financial statements consists of unpaid, accumulated vacation balances. The liability is based off the employment resolution which states that when an employee's service is terminated, the employee shall be paid for the number of hours of accumulated unused vacation leave. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. Compensated absences are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the General

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Fund only if they have matured, for example, as a result of employee resignations and retirements. Compensated absences are liquidated by the General Fund.

The Authority determines the current portion, if any, based on anticipated retirements and any activity that occurs within the first few months of the subsequent year. There was no current portion reported at year-end.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents consumption of net assets that applies to a future period(s) and will not be recognized as an outflow of resources (expenditure/expense) until that time. Currently, the Authority has no items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net assets that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Authority has only one type of item that qualifies for reporting in this category, unavailable revenue, which is reported only in the governmental funds balance sheet. These amounts are recognized as an inflow of resources in the period that the amounts become available.

Long-Term Obligations

In the government-wide financial statements and the proprietary 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 position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of applicable bond premiums or discounts. In the government-wide financial statements, \$9,213 of interest expense is reported as a direct housing expense.

Classification of Net Position

Net position in the government-wide and proprietary fund financial statements is classified in the following categories:

Net investment in capital assets – the amount of net position representing capital assets, net of accumulated depreciation, and reduced by outstanding debt attributed to the acquisition, construction, or improvement of the assets.

Restricted net position – the amount of net position 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.

Unrestricted net position – the amount of net position that does not meet the definition of restricted or net investment in capital assets.

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Classification of Fund Balances

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, or are legally or contractually required to be maintained intact, such as fund balance associated with inventories, prepaids, or permanent funds.

Restricted – amounts of fund balance subject to external constraints imposed by creditors (such as through debt covenants), grantors, contributors, laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation.

Committed – amounts that can be used only for the specific purposes determined by a formal action (resolution) 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 Authority for specific purposes that do not meet the criteria to be classified as restricted or committed.

Unassigned – the residual classification for the General Fund; it includes all spendable amounts not contained in the other fund balance classifications.

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.

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, deferred outflows of resources, liabilities, and deferred inflows of resources; 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.

Prior Period Audit Adjustment

The Lake County Housing and Redevelopment Authority recognized a prior period adjustment to record land received to be used for affordable housing prior to January 1, 2023. Beginning net position and capital assets of the governmental activities have been increased by \$942,198 and \$942,200, respectively, to record the receipt of land prior to 2023.

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Note 2 – Budgetary Information

The Authority did not approve a General Fund or Local Housing Trust Special Revenue Fund budget for fiscal year 2023 and, therefore, a budgetary comparison schedule is not presented.

Note 3 – Detailed Notes

Assets

Deposits and Investments

The Authority's total deposits and investments are reported as follows:

Reconciliation of the Authority's Total Cash and Investments to the Basic Financial Statements as of December 31, 2023	
Government-wide statement of net position	
Governmental activities	
Cash	\$ 490,615
Restricted assets	
External investment pool	317,202
Business-type activities	
Cash	181,646
Restricted assets	
Security deposits	<u>19,551</u>
Total Cash and Investments	<u>\$ 1,009,014</u>

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.

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, 2023, the Authority's deposits were not exposed to custodial credit risk.

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[Investments](#)

The following types of investments are generally authorized as available to the Authority 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) time deposits fully insured by the Federal Deposit Insurance Corporation, the National Credit Union Administration, or 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.

The Authority has not adopted a formal investment policy.

[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.

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Fair Value Measurement

The following table presents the Authority's investment balances at December 31, 2023:

Cash and Investment Information as of December 31, 2023

	Carrying (Fair) Value
MAGIC Portfolio	\$ 317,202

MAGIC is a local government investment pool which is quoted at NAV. Lake County invests on behalf of the Authority in this pool for the purpose of the joint investment with other counties to enhance the investment earnings accruing to each member. The Authority's investment in MAGIC currently consists of the MAGIC Portfolio.

MAGIC Portfolio is valued using amortized cost. Shares of the MAGIC Portfolio are available to be redeemed upon proper notice without restrictions under normal operating conditions. There are no limits to the number of redemptions that can be made as long as the Authority has a sufficient number of shares to meet the redemption request. The Fund's Board of Trustees can suspend the right of withdrawal or postpone the date of payment if the Trustees determine that there is an emergency that makes the sale of a Portfolio's securities or determination of its NAV not reasonably practical.

Capital Assets

Capital asset activity for the year ended December 31, 2023, was as follows:

Governmental Activities

Changes in Capital Assets for the Year Ended December 31, 2023

	Beginning Balance, as Restated*	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 942,200	\$ -	\$ 942,200	\$ -
Capital assets depreciated				
Equipment	\$ 2,928	\$ -	\$ -	\$ 2,928
Less: accumulated depreciation for Equipment	1,866	152	-	2,018
Total capital assets depreciated, net	\$ 1,062	\$ (152)	\$ -	\$ 910
Governmental Activities Capital Assets, Net	\$ 943,262	\$ (152)	\$ 942,200	\$ 910

*See Prior Period Audit Adjustment in Note 1.

Lake County Housing and Redevelopment Authority

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

Depreciation Expense Charged to Functions/Programs

Governmental Activities	
Housing	\$ 152

[Business-Type Activities](#)

Changes in Capital Assets for the Year Ended December 31, 2023

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets depreciated				
Buildings and structures	\$ 1,951,232	\$ -	\$ -	\$ 1,951,232
Equipment	51,505	18,915	-	70,420
Total capital assets depreciated	\$ 2,002,737	\$ 18,915	\$ -	\$ 2,021,652
Less: accumulated depreciation for				
Buildings and structures	\$ 1,222,231	\$ 51,253	\$ -	\$ 1,273,484
Equipment	47,375	4,601	-	51,976
Total accumulated depreciation	\$ 1,269,606	\$ 55,854	\$ -	\$ 1,325,460
Business-Type Activities Capital Assets, Net	\$ 733,131	\$ (36,939)	\$ -	\$ 696,192

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

Depreciation Expense Charged to Functions/Programs

Business-Type Activities	
Housing	\$ 55,854

[Interfund Receivables, Payables, and Transfers](#)

[Due To/From Other Funds](#)

The composition of interfund balances as of December 31, 2023, is as follows:

Interfund Balances as of December 31, 2023

Receivable Fund	Payable Fund	Amount	Purpose
General Fund	Silverpointe Apartments Enterprise Fund	\$ 11,195	Reimbursement for services
	Lakeview Apartments Enterprise Fund	1,977	Reimbursement for services
Total due to General Fund		\$ 13,172	
Silverpointe Apartments Enterprise Fund	General Fund	7,557	2012 bond proceeds
Total Due To/From Other Funds		\$ 20,729	

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Interfund Transfers

Interfund transfers for the year ended December 31, 2023, consisted of the following:

Interfund Transfers for the Year Ended December 31, 2023

Transfer to Local Housing Trust Fund from General Fund \$ 200,000 To provide funding to the Local Housing Trust Fund

Liabilities

Long-Term Debt

Business-Type Activities

Bonds Payable as of December 31, 2023

Type of Indebtedness	Final Maturity	Installment Amount	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2023
2012 General Obligation Senior Housing Bonds	2028	Varies	1.00-3.5	<u>\$ 860,000</u>	<u>\$ 225,000</u>

Debt Service Requirements

Debt service requirements at December 31, 2023, were as follows:

Business-Type Activities

Debt Service Requirements as of December 31, 2023

Year Ending December 31	Revenue Bonds	
	Principal	Interest
2024	\$ -	\$ 3,781
2025	60,000	6,588
2026	65,000	4,556
2027	65,000	2,363
2028	35,000	613
Total	<u>\$ 225,000</u>	<u>\$ 17,901</u>

Changes in Long-Term Liabilities

Governmental Activities

Changes in Long-Term Liabilities for the Year Ended December 31, 2023

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated absences	<u>\$ -</u>	<u>\$ 3,582</u>	<u>\$ 2,077</u>	<u>\$ 1,505</u>	<u>\$ -</u>

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Business-Type Activities

Changes in Long-Term Liabilities for the Year Ended December 31, 2023

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
2012 General Obligation Senior Housing Bonds	\$ 285,000	\$ -	\$ 60,000	\$ 225,000	\$ -
Less: unamortized discounts	(3,206)	-	(803)	(2,403)	-
Total	\$ 281,794	\$ -	\$ 59,197	\$ 222,597	\$ -

Note 4 – Summary of Significant Contingencies and Other Items

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. 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.

Conduit Debt

Lakeshore, Inc., and Ecumen Sunrise, LLC, Project

In 2012, the Authority issued Revenue Refunding Bonds, Series 2012, in the amount of \$9,140,000 to refinance and renovate the Scenic Shores Facility in the City of Two Harbors, which is owned by Ecumen Sunrise, LLC. In exchange for the issuance of the bonds, Ecumen Sunrise, LLC, agreed to pay the Authority an administrative fee of \$91,400, one percent of the stated principal amount of the Series 2012 Bonds.

The Authority is not obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the financial statements. The outstanding balance at December 31, 2023, is \$3,229,219.

Management and Compliance Section



**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***

Independent Auditor's Report

Board of Commissioners
Lake County Housing and Redevelopment Authority
Two Harbors, Minnesota

We have audited, 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, 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, Minnesota, as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated February 25, 2025.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Lake County Housing and Redevelopment Authority's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our 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 material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not 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 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 a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the entity'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 2023-002 and 2023-003 to be material weaknesses.

A significant deficiency is a deficiency, or a 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 2023-001 and 2023-004 through 2023-007 to be significant deficiencies.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Lake County Housing and Redevelopment Authority's financial statements are free from 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 financial statements. 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

In connection with our audit, we noted that the Lake County Housing and Redevelopment Authority failed to comply with the provisions of the miscellaneous provisions section of the *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, insofar as they relate to accounting matters, as described in the Schedule of Findings and Recommendations as item 2023-008. Also, in connection with our audit, nothing came to our attention that caused us to believe that the Lake County Housing and Redevelopment Authority failed to comply with the provisions of the contracting – bid laws, depositories of public funds and public investments, conflicts of interest, and claims and disbursements sections of the *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Authority's noncompliance with the above referenced provisions, insofar as they relate to accounting matters. Additionally, we tested for compliance with the authority to issue public debt.

Lake County Housing and Redevelopment Authority's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Lake County Housing and Redevelopment Authority's response to the findings identified in our audit and described in the accompanying Schedule of Findings and Recommendations and Corrective Action Plan. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and compliance, and the provisions of the *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions* and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

/s/Julie Blaha

Julie Blaha
State Auditor

February 25, 2025

/s/Chad Struss

Chad Struss, CPA
Deputy State Auditor

Lake County Housing and Redevelopment Authority

Two Harbors, Minnesota

Schedule of Findings and Recommendations For the Year Ended December 31, 2023

Section I – Financial Statement Findings

2023-001 Segregation of Duties

Prior Year Finding Number: 2022-001

Year of Finding Origination: 1998

Type of Finding: Internal Control Over Financial Reporting

Severity of Deficiency: Significant Deficiency

Criteria: Management is responsible for establishing and maintaining internal control. To protect the Lake County Housing and Redevelopment Authority's assets, proper segregation of the recordkeeping, custody, and authorization functions should be in place. Where management decides segregation of duties may not be cost effective, compensating controls should be in place.

Condition: The Lake County Housing and Redevelopment Authority has one person who is responsible for all accounting functions, including billing; collecting, recording, and depositing receipts; processing payments and creating checks; recording journal entries; and maintaining sole access to the general ledger.

Context: Due to the limited number of personnel within the Authority, segregation of the accounting functions necessary to ensure adequate internal accounting control is not possible. This is not unusual in operations the size of the Authority; however, management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an accounting point of view.

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

Cause: The size of the Authority and its staffing limits the internal control that management can design and implement into the organization.

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.

View of Responsible Official: Concur

2023-002 Prior Period Adjustment

Prior Year Finding Number: N/A

Year of Finding Origination: 2023

Type of Finding: Internal Control Over Financial Reporting

Severity of Deficiency: Material Weakness

Criteria: 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 of the financial statements on a timely basis. One indication of a

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material weakness in internal control is the restatement of previously issued financial statements to reflect the correction of misstatements due to error.

Condition: A prior period adjustment was identified that resulted in significant changes to the Lake County Housing and Redevelopment Authority's financial statements.

Context: The need for prior period adjustments can raise doubts as to the accuracy of the Lake County Housing and Redevelopment Authority's financial information being presented.

Effect: The January 1, 2023, net position and capital assets of the governmental activities have been increased by \$942,198 and \$942,200, respectively, to record the receipt of land received prior to 2023.

Cause: Lake County essentially donated the land to the Lake County Housing and Redevelopment Authority for \$2 with the intent for the Authority to donate the land to other entities within the County for housing projects. Due to the Authority not intending to keep this land, the Authority did not record it in the accounting records.

Recommendation: We recommend those responsible for the Lake County Housing and Redevelopment Authority's year-end financial statement preparation review the financial statement closing procedures, trial balance, and journal entries in detail to ensure the Authority's financial statements are fairly presented in accordance with generally accepted accounting principles.

View of Responsible Official: Concur

2023-003 Audit Adjustments

Prior Year Finding Number: 2022-002

Year of Finding Origination: 2011

Type of Finding: Internal Control Over Financial Reporting

Severity of Deficiency: Material Weakness

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. Auditing standards define a material weakness as a deficiency, or a 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: Material audit adjustments were identified that resulted in significant changes to the Authority's 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. These adjustments were found in the audit; however, independent external auditors cannot be considered part of the Authority's internal control.

Effect: The following material audit adjustments were reviewed and approved by management and are reflected in the financial statements.

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Governmental Activities

- Capital assets – land decreased by \$942,200, special item – donation of land increased by \$942,198, and cash increased by \$2 to record the donation of land for housing projects within Lake County.

General Fund

- Cash decreased by \$250,000 and transfers out increased by \$250,000 to eliminate the recording of the bank transfer of money from the savings to the checking account. Moving the money from the savings to the checking account had been classified as a transfer to another fund rather than movement within the fund to another cash account.
- Cash increased by \$200,000 and transfers out decreased by \$200,000 to correct the recording of the purchase of two certificates of deposit. The purchase of the certificates of deposit had been classified as a transfer to another fund rather than movement within the fund to a new cash account.
- Due to other governments and payroll expenditures increased by \$32,795 for fourth quarter payroll costs initially paid by Lake County.

Lakeview Enterprise Fund

- Accounts payable and expenses increased by \$6,277 to record additional liabilities related to repairs and maintenance services not previously recorded.
- Cash decreased by \$7,400 and expenses increased by \$7,400 to record checks that were both debited and credited to the cash account.

Silverpointe Apartments Enterprise Fund

- Accumulated depreciation and depreciation expense increased by \$55,854 to record annual depreciation.

Cause: The Authority informed us that, due to its limited staff, the Authority does not have the time to ensure that it has made all material adjustments.

Recommendation: We recommend that 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.

View of Responsible Official: Concur

2023-004 Accounting Policies and Procedures Manual

Prior Year Finding Number: N/A

Year of Finding Origination: 2023

Type of Finding: Internal Control Over Financial Reporting

Severity of Deficiency: Significant Deficiency

Criteria: Management is responsible for developing and monitoring its internal controls over the accounting cycles and the systems used for financial reporting. Although other methods might suffice, this documentation is

Lake County Housing and Redevelopment Authority

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traditionally in the form of an accounting policies and procedures manual. This manual should document the accounting policies and procedures that make up the Authority's internal control system.

Condition: The Lake County Housing and Redevelopment Authority does not have an accounting policies and procedures manual that documents the Authority's policies and procedures over cash and investments; revenues/receivables; expenditures or expenses/payables, including travel expenses; capital assets and depreciation; debt; and fund balance and net position.

Context: An accounting policies and procedures manual will enhance personnel's understanding of their role and function in the internal control system, establish responsibilities, provide guidance, improve efficiency and consistency of transaction processing, and improve compliance with established policies.

Effect: Without a comprehensive written policies and procedures manual clearly identifying the Authority's policies and procedures, potential misunderstandings or abusive practices may occur.

Cause: The Authority consists of a Board of Commissioners, various independent contractors, and an Executive Director. The Authority informed us that, due to the limited staffing, it has not completed a policies and procedures manual.

Recommendation: We recommend the Authority prepare an accounting policies and procedures manual documenting the Authority's processes. These policies should be reviewed and approved by the Authority's Board of Commissioners.

View of Responsible Official: Concur

2023-005 Due to Other Funds and Due from Other Funds

Prior Year Finding Number: N/A

Year of Finding Origination: 2023

Type of Finding: Internal Control Over Financial Reporting

Severity of Deficiency: Significant Deficiency

Criteria: When due to other funds/due from other funds are recorded, there is an expectation that the funds will be repaid to the respective fund in a timely manner. Per Governmental Accounting Standards Board (GASB) Codification 1800.102a (1), if repayment is not expected within a reasonable time, the interfund balances should be reduced and the amount that is not expected to be repaid should be reported as a transfer from the fund that made the loan to the fund that received the loan.

Condition: At December 31, 2023, the Authority's recorded interfund receivables and payables have not been repaid in a timely manner.

Context: Interfund receivables and payables are recorded for the following prior years' transactions:

- The General Fund paid the insurance costs for the Silverpointe Apartments Enterprise Fund of \$5,234 in 2012 and \$5,961 in 2013.
- The General Fund received bond proceeds of \$7,557 when the Authority refinanced the Silverpointe Apartments mortgage in 2012.

Lake County Housing and Redevelopment Authority Two Harbors, Minnesota

- The General Fund paid \$1,977 for Lakeview Apartments expenditures related to director expenses, mileage, and administration costs.

Effect: There may be balances recorded as due to other funds/due from other funds on the financial statements that do not meet GASB's criteria for interfund balances.

Cause: The Authority informed us that, due to its limited staff, the Authority does not have the time to ensure that all prior year activity in accounts is properly followed up on.

Recommendation: We recommend the Authority periodically review the amounts in the due to other funds/due from other funds to make a determination on whether or not these funds will be repaid to the respective fund, and, if so, when this will occur.

View of Responsible Official: Concur

2023-006 Reconciliation of Rent Revenue Lakeview Apartment Fund

Prior Year Finding Number: N/A

Year of Finding Origination: 2023

Type of Finding: Internal Control Over Financial Reporting

Severity of Deficiency: Significant Deficiency

Criteria: Reconciliations are control activities designed to provide reasonable assurance that errors will be detected in a timely manner. Effective reconciliations account for differences between records or balances and include investigating why differences exist and resolving them in a timely manner. The Authority should perform a reconciliation between the records of those collecting the Lakeview Apartment rents and the records of those recording them in the general ledger.

Condition: The Authority does not have procedures in place to reconcile the detailed Lakeview Apartment rents collected based on the rent revenue tracking sheet to the general ledger. During a review of the 2023 rent recorded in the general ledger, \$2,460 was not recorded on the rent revenue tracking sheet.

Context: The rents recorded in the general ledger are based on the deposits from the monthly bank statements and are recorded by a separate individual from the one who is collecting rents and tracking the rents on the rent revenue tracking sheet.

Effect: When accounting records are not reconciled on a regular basis, there is an increased risk that errors or irregularities will not be detected in a timely manner.

Cause: The Authority has new staff that was unaware of the entirety of the reconciliation process.

Recommendation: We recommend the Authority implement procedures to reconcile the rents collected to the general ledger and bank statements in a timely manner.

View of Responsible Official: Concur

Lake County Housing and Redevelopment Authority

Two Harbors, Minnesota

2023-007 Check Signing Procedures

Prior Year Finding Number: N/A

Year of Finding Origination: 2023

Type of Finding: Internal Control Over Financial Reporting

Severity of Deficiency: Significant Deficiency

Criteria: The Authority's bylaws require checks and other orders to be signed by both the Secretary and another Commissioner, except as otherwise authorized by resolution of the Authority.

Condition: During 2023, payments made for the Lakeview Apartments Enterprise Fund only included one authorizing signature.

Context: Commissioners review disbursements subsequent to payment at monthly Board meetings. There has not been authorization by resolution to allow for less than two authorized signers for payments made for the Lakeview Apartments Enterprise Fund.

Effect: Allowing checks to be signed by one signer instead of two increases the likelihood that the Authority may make an inappropriate payment. The Authority is not following its bylaws.

Cause: The Authority was unable to obtain a second signature in a timely manner.

Recommendation: We recommend the Authority review its check signing procedures and follow its bylaws.

View of Responsible Official: Acknowledge

Section II – Other Findings and Recommendations

2023-008 Use of Public Funds

Prior Year Finding Number: N/A

Year of Finding Origination: 2023

Type of Finding: Minnesota Legal Compliance

Criteria: In general, a public entity must have express or implied statutory (or charter) authority to make an expenditure. In addition, the expenditure must be made for a public purpose. See Minn. Const., art. X, § 1 ("Taxes shall be levied and collected for public purposes."); *Visina v. Freeman*, 89 N.W.2d 635 (1958) (courts generally construe "public purpose" to mean "such an activity as will serve as a benefit to the community as a body and which, at the same time, is directly related to the functions of government"); *Tousley v. Leach*, 180 Minn. 293, 230 N.W. 788 (1930) (public funds may be used by a public entity if the purpose is a public one for which tax money may be used, there is authority to make the expenditure, and the use is genuine).

Condition: In June 2023, the Authority's Board approved and paid a two percent increase to an independent contractor's hourly rate for past work performed, retroactive to the year 2018.

Context: A contract payment beyond the agreed-upon rate, including for services on a contract, does not meet the definition of public purpose.

The retroactive pay to the independent contractor totaled \$4,945.

Lake County Housing and Redevelopment Authority Two Harbors, Minnesota

Effect: Authority funds were used for expenditures that either do not meet a public purpose or a purpose for which the Authority does not have statutory authority.

Cause: The Authority was unaware of Minnesota public purpose requirements.

Recommendation: We recommend that the Authority discontinue the practice of spending public funds for unauthorized items, such as retroactive pay increases, that do not meet a public purpose. Additionally, the Board should negotiate annual contract agreements with long-term contractors where hourly rates and roles are defined. If new responsibilities are added during the year, an addendum should be added to the agreement.

View of Responsible Official: Acknowledge



Housing Redevelopment Authority

Matthew Johnson, Director

Board Members

Richard DeRosier, Chair

Paul Iversen, Vice Chair

Susan Rosette, Secretary

Robert Entzion, Treasurer

Rick Goutermont, Commissioner

Representation of the Lake County Housing and Redevelopment Authority (LCHRA)

Corrective Action Plan For the Year Ended December 31, 2023

Finding Number: 2023-001

Finding Title: Segregation of Duties

Name of Contact Person Responsible for Corrective Action:

Richard DeRosier, Chair

Corrective Action Planned:

Fully mitigating this concern is not likely due to the size of the LCHRA (one full-time employee). Regardless, the LCHRA will attempt to 'do better' by purchasing QuickBooks online so multiple LCHRA representatives can see the financial statements.

Anticipated Completion Date:

Due to the size of this organization, this finding will not likely be fully be mitigated. The LCHRA is researching changing to a different system, by either partnering with the County and/or purchasing the online version of QuickBooks, a decision will be made by July 1, 2025.

Finding Number: 2023-002

Finding Title: Prior Period Adjustment

Name of Contact Person Responsible for Corrective Action:

Richard DeRosier, Chair

Corrective Action Planned:

As a partial mitigation step, the Executive Director will continue to review all payments made through the Park State Bank account to ensure the payments were authorized. The LCHRA Board is also discussing options to collaborate with Lake County in addition to purchasing the online version of QuickBooks so that multiple people can review the trial balance and journal entries.

Anticipated Completion Date:

The LCHRA is researching changing to a different system, by either partnering with the County and/or purchasing the online version of QuickBooks, a decision will be made by July 1, 2025.

Finding Number: 2023-003

Finding Title: Audit Adjustments

Name of Contact Person Responsible for Corrective Action:

Richard DeRosier, Chair

Corrective Action Planned:

As a partial mitigation step, the Executive Director will continue to review all payments made through the Park State Bank account to ensure the payments were authorized. The LCHRA Board is also discussing options to collaborate with Lake County in addition to purchasing the online version of QuickBooks so that multiple people can review the trial balance and journal entries.

Anticipated Completion Date:

The LCHRA is researching changing to a different system, by either partnering with the County and/or purchasing the online version of QuickBooks, a decision will be made by July 1, 2025.

Finding Number: 2023-004

Finding Title: Accounting Policies and Procedures Manual

Name of Contact Person Responsible for Corrective Action:

Matthew Johnson, Executive Director

Corrective Action Planned:

Adopt a LCHRA policies and procedures manual similar to Lake County.

Anticipated Completion Date:

December 31, 2025

Finding Number: 2023-005

Finding Title: Due to Other Funds and Due From Other Funds

Name of Contact Person Responsible for Corrective Action:

Richard DeRosier, Chair

Corrective Action Planned:

The LCHRA will periodically review the amounts in the due to other funds/due from other funds in order to make a determination on whether or not these funds will be repaid to the respective fund, and, if so, when this will occur.

Anticipated Completion Date:

By April 1, 2025, and as needed thereafter.

Finding Number: 2023-006

Finding Title: Reconciliation of Rent Revenue Lakeview Apartment Fund

Name of Contact Person Responsible for Corrective Action:

Matthew Johnson, Executive Director

Corrective Action Planned:

Implement procedures to reconcile the rents collected to the general ledger and bank statements.

Anticipated Completion Date:

Quarterly beginning in 2025.

Finding Number: 2023-007

Finding Title: Check Signing Procedures

Name of Contact Person Responsible for Corrective Action:

Richard DeRosier, Chair

Corrective Action Planned:

Adopt/update new bylaws.

Anticipated Completion Date:

July 1, 2025

Finding Number: 2023-008

Finding Title: Use of Public Funds

Name of Contact Person Responsible for Corrective Action:

Richard DeRosier, Chair

Corrective Action Planned:

The LCHRA will continue to review bank statements to ensure payments aren't made for unauthorized items that do not meet a public purpose.

Anticipated Completion Date:

February 20, 2025



Housing Redevelopment Authority

Matthew Johnson, Director

Board Members

Richard DeRosier, Chair

Paul Iversen, Vice Chair

Susan Rosette, Secretary

Robert Entzion, Treasurer

Rick Goutermont, Commissioner

Representation of Lake County Housing and Redevelopment Authority (LCHRA)

Summary Schedule of Prior Audit Findings
For the Year Ended December 31, 2023

Finding Number: 2022-001

Year of Finding Origination: 1998

Finding Title: Segregation of Duties

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

Summary of Corrective Action Previously Reported: Due to the size of the Authority and limited personnel, segregation of accounting duties necessary is not possible. The HRA Board Treasurer and Executive Director will review the trial balance and journal entries as provided by the Executive Assistant on a quarterly basis.

Status: Not Corrected.

Corrective action taken was significantly different than the action previously reported.

The LCHRA did not find a meaningful way to review the trial balance. As a partial mitigation step, the Executive Director reviewed all debts made to the Park State Bank fund balances to ensure they were authorized. It is not likely that due to the limited number of personnel, this finding will be fully mitigated. The LCHRA Board is discussing options to collaborate with Lake County in a shared accounting position, in addition to purchasing the online version of QuickBooks so that multiple people can review the trial balance and journal entries.

Finding Number: 2022-002
Year of Finding Origination: 2011
Finding Title: Audit Adjustments

Summary of Condition: Material audit adjustments were identified that resulted in significant changes to the Authority's financial statements.

Summary of Corrective Action Previously Reported: Detailed monthly reconciliations will take place. The HRA Board Treasurer and Executive Director will review the trial balance and journal entries as provided by the Executive Assistant on a quarterly basis.

Status: Not Corrected.

Corrective action taken was significantly different than the action previously reported.

The LCHRA did not find a meaningful way to review the trial balance. As a partial mitigation step, the Executive Director reviewed all debts made to the Park State Bank fund balances to ensure they were authorized. The LCHRA Board is discussing options to collaborate with Lake County for a shared accounting position, in addition to purchasing the online version of QuickBooks so that multiple people can review the trial balance and journal entries.

Finding Number: 2022-003
Year of Finding Origination: 2022
Finding Title: Duplicate Payment to Contractor

Summary of Condition: Hours charged for cleaning at the Lakeview Apartments on certain days in 2022 were claimed on two separate claim sheets submitted for payment, resulting in a contractor being paid twice.

Summary of Corrective Action Previously Reported: Contracts have been implemented outlining the Scope of Services and payment arrangements. All claims must be signed and submitted by the 5th of the month in order to be paid at the next HRA Board meeting (2nd Wednesday of each month). Both the Executive Director and the Executive Assistant examine each claim prior to Board approval.

Status: Fully Corrected. Corrective action was taken.