

STATE OF MINNESOTA

Office of the State Auditor



Patricia Anderson
State Auditor

**CHISAGO COUNTY HOUSING AND
REDEVELOPMENT AUTHORITY
ECONOMIC DEVELOPMENT AUTHORITY
NORTH BRANCH, MINNESOTA**

YEAR ENDED DECEMBER 31, 2005

Description of the Office of the State Auditor

The Office of the State Auditor serves as a watchdog for Minnesota taxpayers by helping to ensure financial integrity, accountability, and cost-effectiveness in local governments throughout the state.

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 250 financial and compliance audits per year and has oversight responsibilities for over 4,300 local units of government throughout the state. The office currently maintains five divisions:

Audit Practice - conducts financial and legal compliance audits for 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 over 700 public pension funds; and

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

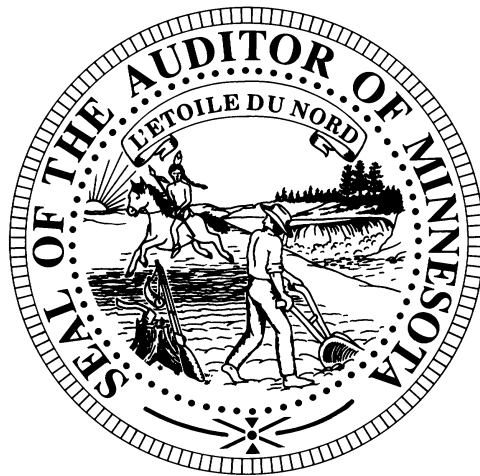
The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employee's Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**CHISAGO COUNTY HOUSING AND
REDEVELOPMENT AUTHORITY
ECONOMIC DEVELOPMENT AUTHORITY
NORTH BRANCH, MINNESOTA**

Year Ended December 31, 2005



**Audit Practice Division
Office of the State Auditor
State of Minnesota**

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**CHISAGO COUNTY HOUSING AND REDEVELOPMENT AUTHORITY
ECONOMIC DEVELOPMENT AUTHORITY
NORTH BRANCH, MINNESOTA**

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**CHISAGO COUNTY HOUSING AND REDEVELOPMENT AUTHORITY
ECONOMIC DEVELOPMENT AUTHORITY
NORTH BRANCH, MINNESOTA**

ORGANIZATION
2005

	<u>Title</u>	<u>Term Expires</u>
Board of Directors		
James Ertz	Chair	May 2006
James Stein	Vice Chair	April 2010
Greg Berg	Director	January 2008
Dean Perry	Director	January 2007
Dave Boniface	Director	May 2007
Executive Officers		
Chris Eng	Executive Director	Indefinite
Lee Olson	Treasurer	December 2006

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STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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PATRICIA ANDERSON
STATE AUDITOR

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Chisago County Housing and Redevelopment Authority
Economic Development Authority

We have audited the accompanying basic financial statements of the Chisago County Housing and Redevelopment Authority Economic Development Authority, a component unit of Chisago County, as of and for the year ended December 31, 2005, as listed in the table of contents. These financial statements are the responsibility of the Chisago County Housing and Redevelopment Authority Economic Development Authority's management. Our responsibility is to express an opinion 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Chisago County Housing and Redevelopment Authority Economic Development Authority as of December 31, 2005, and the changes in financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of

inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that comprise the Chisago County Housing and Redevelopment Authority Economic Development Authority's basic financial statements. The supplementary information listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 25, 2006, on our consideration of Chisago County Housing and Redevelopment Authority Economic Development 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/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: August 25, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**CHISAGO COUNTY HOUSING AND REDEVELOPMENT AUTHORITY
ECONOMIC DEVELOPMENT AUTHORITY
NORTH BRANCH, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2005
(Unaudited)**

As management of the Chisago County Housing and Redevelopment Authority Economic Development Authority (HRA-EDA), we offer readers of the HRA-EDA financial statements this narrative overview and analysis of the financial activities of the HRA-EDA for the fiscal year ended December 31, 2005. We encourage readers to consider the information presented here in conjunction with the HRA-EDA's basic financial statements following this section. All amounts, unless otherwise indicated, are expressed in whole dollars.

FINANCIAL HIGHLIGHTS

- The HRA-EDA's total net assets increased by \$408,195 in 2005. This is attributable primarily to nonoperating activities.
- At the close of 2005, the HRA-EDA's reported net assets were \$1,779,854. There are three components that comprise this balance: capital assets, net of related debt of \$606,380; net assets restricted for land acquisition of \$379,145; and unrestricted net assets of \$794,329. Capital assets, net of related debt, increased by \$274,256. Net assets restricted for land acquisition decreased by \$69,959, and unrestricted net assets increased by \$203,898 in comparison with the prior year. The unrestricted net assets are available for spending at the HRA-EDA's discretion.
- The HRA-EDA's total debt increased by \$321,012, or two percent, from the previous year. The key factor in this increase was the issuance of General Obligation Housing Development Bonds, Series 2005A.

OVERVIEW OF THE FINANCIAL STATEMENTS

This Management's Discussion and Analysis is intended to serve as an introduction to the HRA-EDA's basic financial statements. The financial statements report information about the HRA-EDA using full accrual accounting methods as utilized by similar business activities in the private sector.

The basic financial statements include: a statement of net assets; a statement of revenues, expenses, and changes in net assets; a statement of cash flows; and the notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

The statement of net assets presents information on all of the HRA-EDA's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the HRA-EDA is improving or deteriorating.

The statement of revenues, expenses, and changes in net assets presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows only in future fiscal periods (for example, uncollected taxes and earned but unused vacation leave).

The statement of cash flows presents information on the inflows and outflows of cash resulting from operational, financing, and investing activities. This statement presents cash receipt and cash disbursement information without consideration of the earnings event, when an obligation arises, or depreciation of capital assets.

The notes to the financial statements provide required disclosures and additional information that is essential to a full understanding of the data provided.

In addition to the basic financial statements and notes, the HRA-EDA also provides supplementary information on revenues and expenses by program and bond and interest maturities.

FINANCIAL ANALYSIS

Over time, net assets serve as a useful indicator of the HRA-EDA's financial position. The HRA-EDA's assets exceeded liabilities by \$1,779,854 at the close of 2005.

The HRA-EDA has issued debt on behalf of Chisago County. The corresponding asset related to that debt is recorded on the HRA-EDA's books as a lease receivable.

Net Assets

	<u>2005</u>	<u>2004</u>
Assets		
Current and other assets	\$ 12,233,856	\$ 12,136,056
Capital assets	<u>4,847,287</u>	<u>3,688,124</u>
Total Assets	<u>\$ 17,081,143</u>	<u>\$ 15,824,180</u>
Liabilities		
Current and other liabilities	\$ 1,869,619	\$ 1,077,926
Long-term liabilities	<u>13,431,670</u>	<u>13,374,595</u>
Total Liabilities	<u>\$ 15,301,289</u>	<u>\$ 14,452,521</u>
Net Assets		
Capital assets - net of related debt	\$ 606,380	\$ 332,124
Restricted of land acquisition	379,145	449,104
Unrestricted	<u>794,329</u>	<u>590,431</u>
Total Net Assets	<u>\$ 1,779,854</u>	<u>\$ 1,371,659</u>

The HRA-EDA's activities increased net assets by \$408,195, or 30 percent.

Change in Net Assets

	<u>2005</u>	<u>2004</u>
Revenues		
Operating revenue	\$ 370,473	\$ 292,070
Nonoperating revenue	<u>5,766,147</u>	<u>2,313,674</u>
Total Revenues	<u>\$ 6,136,620</u>	<u>\$ 2,605,744</u>
Expenses		
Depreciation expense	\$ 82,251	\$ 55,787
Other operating expenses	458,807	564,875
Nonoperating expense	<u>5,187,367</u>	<u>1,942,033</u>
Total Expenses	<u>\$ 5,728,425</u>	<u>\$ 2,562,695</u>
Increase in Net Assets	\$ 408,195	\$ 43,049
Net Assets - January 1	<u>1,371,659</u>	<u>1,328,610</u>
Net Assets - December 31	<u><u>\$ 1,779,854</u></u>	<u><u>\$ 1,371,659</u></u>

GENERAL TRENDS AND SIGNIFICANT EVENTS

During 2005, the HRA-EDA issued \$2,445,000 of General Obligation Housing Development Bonds (1) for the construction of a senior housing development in Rush City, \$1,095,000; and (2) to advance refund the remaining balance of the Gross Revenue Bonds, Series 1997, for the Southfield Estates townhome development, \$1,350,000.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The HRA-EDA's investment in capital assets totaled \$4,847,287 at December 31, 2005 (net of accumulated depreciation). The investment in capital assets includes land, buildings, construction in process, and equipment. The total increase in the HRA-EDA's investment in capital assets for the year was \$1,159,163, or 31 percent. The major capital asset event in 2005 involved the construction of a senior housing complex in Rush City.

	Capital Assets (Net of Depreciation)	
	2005	2004
Land and land improvements	\$ 243,180	\$ 243,180
Buildings	3,358,813	3,437,779
Furniture and equipment	9,363	7,165
Construction in progress	1,235,931	-
Total	<u>\$ 4,847,287</u>	<u>\$ 3,688,124</u>

Additional information on the HRA-EDA's capital assets can be found in the notes to the financial statements.

Long-Term Debt

At the end of the current fiscal year, the HRA-EDA had total net general obligation (G.O.) bonded debt outstanding of \$14,302,108, which is backed by the full faith and credit of the government.

	Long-Term Debt	
	2005	2004
G.O. Lease Revenue Bonds	\$ 3,395,000	\$ 3,980,000
G.O. Public Project Bonds	6,665,596	6,662,058
G.O. Gross Revenue Bonds	-	1,368,038
G.O. Housing Development Bonds	4,241,512	1,971,000
Total	<u>\$ 14,302,108</u>	<u>\$ 13,981,096</u>

The HRA-EDA's debt related to general obligation bonds increased by \$321,012 (two percent) during the fiscal year, due primarily to the issuance of \$2,445,000 of General Obligation Housing Bonds, \$1,095,000 of which was new debt, and \$1,350,000 of which refunded prior debt. Offsetting scheduled debt payments accounted for most of the remaining changes to outstanding debt.

Minnesota statutes limit the amount of debt that the HRA-EDA may levy to two percent of Chisago County's total market value. As of the end of 2005, the HRA-EDA is well below the two percent debt limit imposed by state statutes.

Additional information on the HRA-EDA's long-term debt can be found in the notes to the financial statements of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

- Chisago County's unemployment rate was 4.6 percent at the end of 2005. The statewide rate was 4.0 percent. The national rate was 5.1 percent.
- Mortgage interest rates have climbed steadily during 2005.
- At the end of 2005, the HRA-EDA set its 2006 revenue and expense budgets.

REQUESTS FOR INFORMATION

This annual financial report is designed to provide a general overview of the HRA-EDA's finances for all those with an interest in the HRA-EDA's finances. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to the Chisago County Housing and Redevelopment Authority-Economic Development Authority, P. O. Box 410, 38883 - 7th Avenue, North Branch, Minnesota 55056.

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BASIC FINANCIAL STATEMENTS

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**CHISAGO COUNTY HOUSING AND REDEVELOPMENT AUTHORITY
ECONOMIC DEVELOPMENT AUTHORITY
NORTH BRANCH, MINNESOTA**

**STATEMENT OF NET ASSETS
DECEMBER 31, 2005**

Assets

Current assets

Cash and pooled investments	\$ 1,325,430
Petty cash and change funds	60
Cash with escrow agent	1,945,619
Accounts receivable - net	4,573
Leases receivable - current	855,000
Due from other governments	5,724

Total current assets **\$ 4,136,406**

Noncurrent assets

Advance to other governments	\$ 59,381
Land held for resale	518,497
Deferred debt issuance costs	136,488
Leases receivable - long-term	7,383,084
Capital assets	
Nondepreciable	1,479,111
Depreciable - net	3,368,176

Total noncurrent assets **\$ 12,944,737**

Total Assets **\$ 17,081,143**

Liabilities

Current liabilities

Accounts payable	\$ 11,261
Salaries payable	2,898
Compensated absences payable - current	9,563
Contracts payable	305,491
Accrued interest payable	199,202
Security deposits	21,183
Bonds payable - current	880,000
Due to Chisago County	437,606
Due to other governments	2,415

Total current liabilities **\$ 1,869,619**

Noncurrent liabilities

Compensated absences payable - long-term	\$ 9,562
Bonds payable - long-term	13,422,108

Total noncurrent liabilities **\$ 13,431,670**

Total Liabilities **\$ 15,301,289**

Net Assets

Invested in capital assets - net of related debt	\$ 606,380
Restricted for land acquisition	379,145
Unrestricted	794,329

Total Net Assets **\$ 1,779,854**

**CHISAGO COUNTY HOUSING AND REDEVELOPMENT AUTHORITY
ECONOMIC DEVELOPMENT AUTHORITY
NORTH BRANCH, MINNESOTA**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2005**

Operating Revenues	
Charges for services	\$ 60,079
Rental income	257,998
Other	52,396
	<hr/>
Total Operating Revenues	\$ 370,473
Operating Expenses	
Personal services	\$ 147,204
Professional services	32,370
Contracted services	1,322
General maintenance services	100,083
Administration and fiscal services	5,982
Other services and charges	2,322
Supplies	6,563
Director and staff reimbursed expenses	2,836
Board expenses	3,376
Telephone	2,077
Utilities	49,151
Advertising	29,239
Insurance	28,202
Staff training	1,007
Licenses and dues	842
Postage	839
Miscellaneous	31,783
TIF expenses	11,384
MHFA program expense	2,225
Depreciation	82,251
	<hr/>
Total Operating Expenses	\$ 541,058
Operating Income (Loss)	\$ (170,585)
Nonoperating Revenues (Expenses)	
Property taxes	\$ 505,189
Intergovernmental revenue	4,607,518
Interest income	142,152
Interest on lease receivable	482,670
Miscellaneous revenue	28,618
Intergovernmental expense	(4,521,875)
Interest expense	(665,492)
	<hr/>
Total Nonoperating Revenues (Expenses)	\$ 578,780
Change in Net Assets	\$ 408,195
Net Assets - January 1	1,371,659
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Net Assets - December 31	\$ 1,779,854

**CHISAGO COUNTY HOUSING AND REDEVELOPMENT AUTHORITY
ECONOMIC DEVELOPMENT AUTHORITY
NORTH BRANCH, MINNESOTA**

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2005
Increase (Decrease) in Cash and Cash Equivalents**

Cash Flows from Operating Activities	
Receipts from customers and users	\$ 734,666
Payments to suppliers	(388,454)
Payments to employees	(133,496)
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Net cash provided by (used in) operating activities	\$ 212,716
Cash Flows from Noncapital Financing Activities	
Property tax receipts	\$ 505,189
Intergovernmental receipts	4,607,518
Intergovernmental disbursements	(4,521,875)
Disbursements resulting in leases receivable	(3,304,315)
	<hr/>
Net cash provided by (used in) noncapital financing activities	\$ (2,713,483)
Cash Flows from Capital and Related Financing Activities	
Bond proceeds	\$ 2,293,084
Principal paid on bonds and notes	(1,970,000)
Interest paid on bonds and notes	(679,492)
Purchases of capital assets	(983,473)
	<hr/>
Net cash provided by (used in) capital and related financing activities	\$ (1,339,881)
Cash Flows from Investing Activities	
Acquisition of land held for resale	\$ (253,663)
Investment earnings received	142,152
Interest on lease receivable	482,670
	<hr/>
Net cash provided by (used in) investing activities	\$ 371,159
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (3,469,489)
Cash and Cash Equivalents - January 1	6,740,598
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Cash and Cash Equivalents - December 31	\$ 3,271,109
	<hr/>
Cash and Cash Equivalents - Statement of Net Assets	
Cash and pooled investments	\$ 1,325,430
Petty cash and change funds	60
Cash held with escrow agent	1,945,619
	<hr/>
Total Cash and Cash Equivalents	\$ 3,271,109
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**CHISAGO COUNTY HOUSING AND REDEVELOPMENT AUTHORITY
ECONOMIC DEVELOPMENT AUTHORITY
NORTH BRANCH, MINNESOTA**

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2005
Increase (Decrease) in Cash and Cash Equivalents
(Continued)**

Reconciliation of Operating Income (Loss) to Net Cash Provided by	
(Used in) Operating Activities	
Operating income (loss)	\$ (170,585)
Adjustments to reconcile operating income (loss) to net cash provided by	
(used in) operating activities	
Depreciation expense	\$ 82,251
Miscellaneous nonoperating income	28,618
(Increase) decrease in accounts receivable	89,145
(Increase) decrease in due from other governments	163,572
Increase (decrease) in accounts payable	3,607
Increase (decrease) in salaries payable	1,582
Increase (decrease) in compensated absences payable	12,126
Increase (decrease) in due to other governments	607
Increase (decrease) in security deposits	1,793
	383,301
Total adjustments	\$ 383,301
Net Cash Provided by (Used in) Operating Activities	\$ 212,716

**CHISAGO COUNTY HOUSING AND REDEVELOPMENT AUTHORITY
ECONOMIC DEVELOPMENT AUTHORITY
NORTH BRANCH, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2005

1. Summary of Significant Accounting Policies

The Chisago County Housing and Redevelopment Authority Economic Development Authority's (HRA-EDA) financial statements are prepared in accordance with generally accepted accounting principles (GAAP). 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 HRA-EDA has the option to apply FASB pronouncements issued after that date, the HRA-EDA has chosen not to do so. The more significant accounting policies established in GAAP and used by the HRA-EDA are discussed below.

A. Financial Reporting Entity

The Chisago County Housing and Redevelopment Authority was established in 1988, with the powers, duties, and privileges granted by Minn. Stat. ch. 469. In 2000, the Authority adopted economic development powers, as granted by Minn. Stat. ch. 469, and changed its name to the Chisago County Housing and Redevelopment Authority Economic Development Authority.

The HRA-EDA is governed by a five-member Board appointed by the Chisago County Board of Commissioners. A Commissioner of the County Board acts in an advisory capacity to the HRA-EDA Board. The HRA-EDA Board is organized with a Chair and Vice Chair. The Treasurer of the HRA-EDA Board is appointed by the Chisago County Board of Commissioners for an indefinite term. The Executive Director of the HRA-EDA is appointed by the HRA-EDA Board for an indefinite term.

The HRA-EDA is considered to be a component unit of Chisago County according to the criteria for defining the reporting entity, as established by GASB Statement No. 14, *The Financial Reporting Entity*. The HRA-EDA's activities, in relation to the activities of the County, are such that exclusion from the County's financial statements would cause such statements to be incomplete.

**CHISAGO COUNTY HOUSING AND REDEVELOPMENT AUTHORITY
ECONOMIC DEVELOPMENT AUTHORITY
NORTH BRANCH, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

B. Basic Financial Statements

The financial statements of the HRA-EDA are combined into a single enterprise fund and are intended to present only the activity of the HRA-EDA. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises--where the intent of the governing body is that the costs (expenses, including depreciation) of providing services to the general public on a continuing basis be financed or recovered primarily through user charges.

C. Measurement Focus and Basis of Accounting

The 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.

Property taxes and interest associated with the current fiscal period are all considered susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered measurable and available only when cash is received by the HRA-EDA.

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

D. Assets, Liabilities, and Net Assets

1. Deposits and Investments

The HRA-EDA's cash and pooled investments are considered to be cash and cash equivalents. The HRA-EDA has defined cash and cash equivalents to include cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

**CHISAGO COUNTY HOUSING AND REDEVELOPMENT AUTHORITY
ECONOMIC DEVELOPMENT AUTHORITY
NORTH BRANCH, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets

1. Deposits and Investments (Continued)

Pooled investments are reported at their fair value at December 31, 2005, based on market prices.

The HRA-EDA 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 MAGIC Fund is not registered with the Securities and Exchange Commission, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Therefore, the fair value of the County's position in the pool is the same as the value of the pool shares.

2. Capital Assets

Capital assets, which include land and land improvements, buildings and structures, and furniture and equipment are reported in the basic financial statements. Capital assets are defined by the HRA-EDA as assets with an initial individual cost of more than \$500 and an estimated useful life of three years or more. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at their estimated fair value on the date donated. 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. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets of the HRA-EDA are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40 - 50
Furniture and equipment	3 - 5

**CHISAGO COUNTY HOUSING AND REDEVELOPMENT AUTHORITY
ECONOMIC DEVELOPMENT AUTHORITY
NORTH BRANCH, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets (Continued)

3. Compensated Absences

It is the HRA-EDA's policy to permit employees to accumulate earned but unused vacation, compensatory time, and sick pay benefits. Unused vacation, compensatory time, and vested sick leave are paid to employees upon termination. Unvested sick leave is available to employees in the event of illness-related absences and is not paid to employees upon termination. The statement of net assets reports both current and noncurrent portions of compensated absences using full accrual accounting. The amounts are split equally between current and noncurrent.

4. Long-Term Obligations

Long-term debt and other long-term obligations are reported as liabilities on the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

5. Net Assets

Equity (assets less liabilities) of the HRA-EDA is referred to as net assets. Net assets consist of three elements: (1) invested in capital assets, net of related debt; (2) restricted, which can occur from creditors, grantors, or laws; and (3) unrestricted, which is neither restricted for any specific purpose nor invested in capital assets.

6. 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.

**CHISAGO COUNTY HOUSING AND REDEVELOPMENT AUTHORITY
ECONOMIC DEVELOPMENT AUTHORITY
NORTH BRANCH, MINNESOTA**

2. Detailed Notes

A. Assets

1. Deposits and Investments

a. Deposits

Minn. Stat. §§ 118A.02 and 118A.04 authorize the HRA-EDA to deposit its cash and to invest in certificates of deposit in financial institutions designated by the HRA-EDA Treasurer. Minn Stat. § 118A.03 requires that all HRA-EDA 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, 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 HRA-EDA's deposits may not be returned to it. The HRA-EDA does not have a policy for custodial credit risk. As of December 31, 2005, the HRA-EDA's deposits were not exposed to custodial credit risk.

**CHISAGO COUNTY HOUSING AND REDEVELOPMENT AUTHORITY
ECONOMIC DEVELOPMENT AUTHORITY
NORTH BRANCH, MINNESOTA**

2. Detailed Notes

A. Assets

1. Deposits and Investments (Continued)

b. Investments

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

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as “high risk” by Minn. Stat. § 118A.04, subd. 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) bankers’ acceptances of United States banks;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and
- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

The HRA-EDA does not have additional policies for the investment risks described below beyond complying with the requirements of Minnesota statutes.

**CHISAGO COUNTY HOUSING AND REDEVELOPMENT AUTHORITY
ECONOMIC DEVELOPMENT AUTHORITY
NORTH BRANCH, MINNESOTA**

2. Detailed Notes

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 an investment or collateral securities that are in the possession of an outside party.

At December 31, 2005, none of the HRA-EDA's investments were subject to custodial credit risk.

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the HRA-EDA's investment in a single issuer. Investments in any one issuer that represent five percent or more of the HRA-EDA's investments are as follows:

<u>Issuer</u>	<u>Reported Amount</u>
First American Treasury Obligations Fund	\$ 1,896,915
MAGIC Fund	775,192

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.

**CHISAGO COUNTY HOUSING AND REDEVELOPMENT AUTHORITY
ECONOMIC DEVELOPMENT AUTHORITY
NORTH BRANCH, MINNESOTA**

2. Detailed Notes

A. Assets

1. Deposits and Investments

b. Investments (Continued)

The following table presents the HRA-EDA's investment balances at December 31, 2005, and information related to credit quality investment risks:

Investment Type	Credit Risk		Carrying (Fair) Value
	Credit Rating	Rating Agency	
Investment pools/mutual funds			
First American Treasury Obligations Fund	AAAm	S&P	\$ 1,896,915
MAGIC Fund	N/R	N/A	775,192
Total investment pools/mutual funds			\$ 2,672,107
Certificates of deposit	N/A	N/A	531,844
Total investments			\$ 3,203,951
Deposits			67,098
Petty cash			60
Total Cash and Investments			\$ 3,271,109

N/A - Not Applicable
N/R - Not Rated
S&P - Standard & Poors

2. Receivables

Other than a long-term lease receivable, the HRA-EDA did not have any receivables scheduled to be collected beyond one year. The lease receivable is based on certain bonds payable. The receivable is reduced by the amount of cash with the escrow agent. The following is a schedule of bond payments upon which the lease receivable is based:

**CHISAGO COUNTY HOUSING AND REDEVELOPMENT AUTHORITY
ECONOMIC DEVELOPMENT AUTHORITY
NORTH BRANCH, MINNESOTA**

2. Detailed Notes

A. Assets

2. Receivables (Continued)

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 855,000	\$ 458,596
2007	1,070,000	414,641
2008	1,120,000	364,511
2009	1,100,000	312,833
2010	245,000	281,759
2011 and beyond	<u>5,745,000</u>	<u>2,499,579</u>
Total payments	\$ 10,135,000	<u>\$ 4,331,919</u>
Less: cash with escrow agent	<u>(1,896,916)</u>	
Lease Receivable at December 31, 2005	<u>\$ 8,238,084</u>	

3. Capital Assets

Capital asset activity for the year ended December 31, 2005, was as follows:

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Business-Type Activities				
Capital assets not depreciated				
Land and land improvements	\$ 243,180	\$ -	\$ -	\$ 243,180
Construction in progress	<u>-</u>	<u>1,235,931</u>	<u>-</u>	<u>1,235,931</u>
Total capital assets not depreciated	<u>\$ 243,180</u>	<u>\$ 1,235,931</u>	<u>\$ -</u>	<u>\$ 1,479,111</u>
Capital assets depreciated				
Buildings and structures	\$ 3,660,249	\$ -	\$ -	\$ 3,660,249
Furniture and equipment	<u>12,124</u>	<u>5,483</u>	<u>-</u>	<u>17,607</u>
Total capital assets depreciated	<u>\$ 3,672,373</u>	<u>\$ 5,483</u>	<u>\$ -</u>	<u>\$ 3,677,856</u>
Less: accumulated depreciation				
Buildings and structures	\$ 222,470	\$ 78,966	\$ -	\$ 301,436
Furniture and equipment	<u>4,959</u>	<u>3,285</u>	<u>-</u>	<u>8,244</u>
Total accumulated depreciation	<u>\$ 227,429</u>	<u>\$ 82,251</u>	<u>\$ -</u>	<u>\$ 309,680</u>
Total capital assets depreciated, net	<u>\$ 3,444,944</u>	<u>\$ (76,768)</u>	<u>\$ -</u>	<u>\$ 3,368,176</u>
Total Capital Assets, Net	<u>\$ 3,688,124</u>	<u>\$ 1,159,163</u>	<u>\$ -</u>	<u>\$ 4,847,287</u>

**CHISAGO COUNTY HOUSING AND REDEVELOPMENT AUTHORITY
ECONOMIC DEVELOPMENT AUTHORITY
NORTH BRANCH, MINNESOTA**

2. Detailed Notes

A. Assets

3. Capital Assets (Continued)

Depreciation expense was charged as follows:

Housing and Economic Development	<u>\$ 82,251</u>
----------------------------------	------------------

B. Liabilities

1. Long-Term Debt

General Obligation Bonds

The HRA-EDA issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. The original amount of bonds issued in prior years was \$15,230,000.

During the year, the HRA-EDA issued General Obligation Housing Development Bonds, Series 2005A. The \$2,445,000 issuance proceeds are being used to construct a senior housing center in Rush City and to advance refund the remaining balance of the Gross Revenue Bonds, Series 1997. The amount used for the senior housing project was \$1,095,000, and the amount used for refunding the Series 1997 revenue bonds was \$1,350,000.

The refunding portion's net proceeds of \$1,294,400 were provided to an escrow agent (trustee) to purchase an irrevocable trust to pay all remaining debt service on the bonds and to call in the outstanding bonds on their call date of January 1, 2007. The original bonds of \$1,450,000 were issued for the construction of the Southfield Estates housing project. As a result of this transaction, the bonds to be called are in substance defeased, and the liability for these bonds has been removed from the financial statements. The outstanding amount of the defeased debt was \$1,360,000 at December 31, 2005. The refunding reduced cash flows required for debt service of the Series 1997 bonds by \$301,795 over the next

**CHISAGO COUNTY HOUSING AND REDEVELOPMENT AUTHORITY
ECONOMIC DEVELOPMENT AUTHORITY
NORTH BRANCH, MINNESOTA**

2. Detailed Notes

B. Liabilities

1. Long-Term Debt

General Obligation Bonds (Continued)

29 years. The refunding resulted in an economic gain of \$166,635. These bonds vary in length of time and amounts of principal maturing each year. General obligation bonds currently outstanding are as follows:

	Amount
\$2,445,000 Public General Obligation Housing Development Bonds, Series 2005A, due in annual installments of \$25,000 to \$145,000 through 2035; interest from 3.50 to 4.38 percent.	\$ 2,445,000
\$6,740,000 Public Project Revenue Bonds, Series 2004A, due in annual installments of \$55,000 to \$510,000 through 2026; interest from 3.95 to 5.15 percent.	6,740,000
\$2,000,000 Housing Development Bonds, Series 2003, due in annual installments ranging from \$35,000 to \$135,000 through 2033; interest from 3.25 to 5.00 percent.	2,000,000
\$3,795,000 Housing and Redevelopment Authority Lease Revenue Bonds, Series 1997, due in annual installments of \$200,000 to \$890,000 through 2009; interest from 4.50 to 4.90 percent.	3,395,000
Total General Obligation Bonds	\$ 14,580,000

**CHISAGO COUNTY HOUSING AND REDEVELOPMENT AUTHORITY
ECONOMIC DEVELOPMENT AUTHORITY
NORTH BRANCH, MINNESOTA**

2. Detailed Notes

B. Liabilities

1. Long-Term Debt

General Obligation Bonds (Continued)

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending December 31	Principal	Interest
2006	\$ 880,000	\$ 593,361
2007	1,150,000	606,799
2008	1,200,000	553,914
2009	1,205,000	499,391
2010	360,000	464,412
2011 - 2015	2,065,000	2,084,742
2016 - 2020	2,590,000	1,574,854
2021 - 2025	3,315,000	874,183
2026 - 2030	1,125,000	274,946
2031 - 2035	690,000	70,750
Total	<u>\$ 14,580,000</u>	<u>\$ 7,597,352</u>

Changes in Long-Term Liabilities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
General obligation lease revenue	\$ 3,980,000	\$ -	\$ 585,000	\$ 3,395,000	\$ 800,000
General obligation gross revenue	1,385,000	-	1,385,000	-	-
General obligation development	2,000,000	2,445,000	-	4,445,000	25,000
General obligation public project	6,740,000	-	-	6,740,000	55,000
Compensated absences	6,999	19,630	7,504	19,125	9,563
Less: discount	(123,904)	(175,494)	(21,506)	(277,892)	(10,392)
Long-Term Liabilities	<u>\$ 13,988,095</u>	<u>\$ 2,289,136</u>	<u>\$ 1,955,998</u>	<u>\$ 14,321,233</u>	<u>\$ 879,171</u>

**CHISAGO COUNTY HOUSING AND REDEVELOPMENT AUTHORITY
ECONOMIC DEVELOPMENT AUTHORITY
NORTH BRANCH, MINNESOTA**

3. Other Information

A. Risk Management

The HRA-EDA is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters for which the HRA-EDA carries commercial insurance. There were no significant reductions in insurance from the previous year or settlements in excess of insurance for any of the past three years.

B. Defined Contribution Plan

HRA-EDA employees participate in a Simplified Employee Pension (SEP) plan, a defined contribution plan, established under section 408(k) of the Internal Revenue Code. The plan is administered by Union Bank and Trust Company. The payroll for employees covered by the SEP for the year ended December 31, 2005, was \$106,634.

The HRA-EDA establishes plan provisions and contribution requirements. Employees are eligible to participate when they have been employed six months and are at least 18 years of age. The HRA-EDA is required to contribute five percent of each participant's salary and the employee may elect to contribute up to five percent. HRA-EDA contributions fully vest after three years of employment. Benefits depend solely on amounts contributed plus related investment earnings.

Contributions were as follows:

	2005 Contributions	Percent of Covered Payroll
Employer	\$ 5,329	5%
Employee	-	-

As of December 31, 2005, and for the year then ended, the SEP held no securities issued by the HRA-EDA or other related parties.

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SUPPLEMENTARY INFORMATION

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**CHISAGO COUNTY HOUSING AND REDEVELOPMENT AUTHORITY
ECONOMIC DEVELOPMENT AUTHORITY
NORTH BRANCH, MINNESOTA**

Schedule 1

**SCHEDULE OF REVENUES AND EXPENSES BY PROGRAM
FOR THE YEAR ENDED DECEMBER 31, 2005**

	General Operations	Bayview Apartments	Southfield Estates	Total
Operating Revenues				
Charges for services	\$ 60,079	\$ -	\$ -	\$ 60,079
Rental income	6,975	77,364	173,659	257,998
Other	6,822	42,544	3,030	52,396
Total Operating Revenues	\$ 73,876	\$ 119,908	\$ 176,689	\$ 370,473
Operating Expenses				
Personal services	\$ 147,204	\$ -	\$ -	\$ 147,204
Professional services	15,392	14,582	2,396	32,370
Contracted services	-	377	945	1,322
General maintenance services	1,007	2,226	96,850	100,083
Administration and fiscal services	-	-	5,982	5,982
Other services and charges	-	-	2,322	2,322
Supplies	2,616	1,214	2,733	6,563
Director and staff reimbursed expenses	2,836	-	-	2,836
Board expenses	3,376	-	-	3,376
Telephone	1,887	190	-	2,077
Utilities	3,300	23,739	22,112	49,151
Advertising	16,505	10,690	2,044	29,239
Insurance	3,819	10,555	13,828	28,202
Staff training	1,007	-	-	1,007
Licenses and dues	842	-	-	842
Postage	839	-	-	839
Miscellaneous	245	873	30,665	31,783
TIF expenses	11,384	-	-	11,384
MHFA program expense	2,225	-	-	2,225
Depreciation	4,643	50,489	27,119	82,251
Total Operating Expenses	\$ 219,127	\$ 114,935	\$ 206,996	\$ 541,058
Operating Income (Loss)	\$ (145,251)	\$ 4,973	\$ (30,307)	\$ (170,585)
Nonoperating Revenues (Expenses)				
Property taxes	\$ 505,189	\$ -	\$ -	\$ 505,189
Intergovernmental revenue	4,607,518	-	-	4,607,518
Interest income	137,731	1,845	2,576	142,152
Interest on lease receivable	482,670	-	-	482,670
Miscellaneous revenue	-	-	28,618	28,618
Intergovernmental expense	(4,521,875)	-	-	(4,521,875)
Interest expense	(484,967)	(93,690)	(86,835)	(665,492)
Total Nonoperating Revenues (Expenses)	\$ 726,266	\$ (91,845)	\$ (55,641)	\$ 578,780
Change in Net Assets	\$ 581,015	\$ (86,872)	\$ (85,948)	\$ 408,195

**CHISAGO COUNTY HOUSING AND REDEVELOPMENT AUTHORITY
ECONOMIC DEVELOPMENT AUTHORITY
NORTH BRANCH, MINNESOTA**

Schedule 2

**BOND AND INTEREST MATURITIES
DECEMBER 31, 2005**

<u>Bond Issue</u>	<u>Due Date</u>	<u>Interest Rate (%)</u>	<u>Principal Amount Due</u>	<u>Interest Due</u>	<u>Total Principal and Interest Due</u>
\$3,795,000 Lease Revenue Bonds, Series 1997	2006	4.60	\$ 800,000	\$ 142,085	\$ 942,085
	2007	4.70	845,000	103,828	948,828
	2008	4.70	890,000	63,055	953,055
	2009	4.90	860,000	21,070	881,070
Total			\$ 3,395,000	\$ 330,038	\$ 3,725,038
\$2,000,000 Housing Development Bonds, Series 2003C	2006	3.25	\$ -	\$ 93,690	\$ 93,690
	2007	3.25	35,000	93,121	128,121
	2008	3.50	35,000	91,940	126,940
	2009	3.75	35,000	90,671	125,671
	2010	4.00	40,000	89,215	129,215
	2011	4.00	45,000	87,515	132,515
	2012	4.00	45,000	85,715	130,715
	2013	4.20	50,000	83,765	133,765
	2014	4.20	50,000	81,665	131,665
	2015	4.20	55,000	79,460	134,460
	2016	4.20	55,000	77,150	132,150
	2017	4.40	60,000	74,675	134,675
	2018	4.40	60,000	72,035	132,035
	2019	4.40	65,000	69,285	134,285
	2020	4.70	70,000	66,210	136,210
	2021	4.70	70,000	62,920	132,920
	2022	4.70	75,000	59,513	134,513
	2023	5.00	80,000	55,750	135,750
	2024	5.00	85,000	51,625	136,625
	2025	5.00	90,000	47,250	137,250
2026	5.00	90,000	42,750	132,750	
2027	5.00	95,000	38,125	133,125	
2028	5.00	105,000	33,125	138,125	
2029	5.00	110,000	27,750	137,750	
2030	5.00	115,000	22,125	137,125	
2031	5.00	120,000	16,250	136,250	
2032	5.00	130,000	10,000	140,000	
2033	5.00	135,000	3,375	138,375	
Total			\$ 2,000,000	\$ 1,706,670	\$ 3,706,670

**CHISAGO COUNTY HOUSING AND REDEVELOPMENT AUTHORITY
ECONOMIC DEVELOPMENT AUTHORITY
NORTH BRANCH, MINNESOTA**

**Schedule 2
(Continued)**

**BOND AND INTEREST MATURITIES
DECEMBER 31, 2005**

Bond Issue	Due Date	Interest Rate (%)	Principal Amount Due	Interest Due	Total Principal and Interest Due
\$6,740,000 Public Project Revenue Bonds Library Lease Obligation, Series 2004A	2006	4.10	\$ 55,000	\$ 316,511	\$ 371,511
	2007	4.13	225,000	310,813	535,813
	2008	4.13	230,000	301,456	531,456
	2009	4.13	240,000	291,763	531,763
	2010	4.13	245,000	281,759	526,759
	2011	4.13	255,000	271,447	526,447
	2012	4.15	270,000	260,585	530,585
	2013	4.20	280,000	249,102	529,102
	2014	4.40	295,000	236,733	531,733
	2015	4.50	305,000	223,380	528,380
	2016	4.60	320,000	209,158	529,158
	2017	4.75	335,000	193,841	528,841
	2018	5.00	355,000	177,010	532,010
	2019	5.00	375,000	158,760	533,760
	2020	5.00	390,000	139,635	529,635
	2021	5.00	410,000	119,635	529,635
	2022	5.00	435,000	98,510	533,510
	2023	5.05	460,000	76,020	536,020
	2024	5.05	485,000	52,159	537,159
	2025	5.15	510,000	26,780	536,780
2026	5.15	265,000	6,824	271,824	
Total			\$ 6,740,000	\$ 4,001,881	\$ 10,741,881

**CHISAGO COUNTY HOUSING AND REDEVELOPMENT AUTHORITY
ECONOMIC DEVELOPMENT AUTHORITY
NORTH BRANCH, MINNESOTA**

Schedule 2
(Continued)

**BOND AND INTEREST MATURITIES
DECEMBER 31, 2005**

<u>Bond Issue</u>	<u>Due Date</u>	<u>Interest Rate (%)</u>	<u>Principal Amount Due</u>	<u>Interest Due</u>	<u>Total Principal and Interest Due</u>
\$2,445,000 Housing Development Bonds, Series 2005A	2006	3.50	\$ 25,000	\$ 41,075	\$ 66,075
	2007	3.50	45,000	99,038	144,038
	2008	3.50	45,000	97,463	142,463
	2009	3.50	70,000	95,888	165,888
	2010	3.50	75,000	93,438	168,438
	2011	3.50	75,000	90,813	165,813
	2012	3.75	80,000	88,188	168,188
	2013	3.75	80,000	85,188	165,188
	2014	3.75	85,000	82,188	167,188
	2015	4.00	95,000	79,000	174,000
	2016	4.00	95,000	75,200	170,200
	2017	4.00	95,000	71,400	166,400
	2018	4.00	100,000	67,600	167,600
	2019	4.10	105,000	63,600	168,600
	2020	4.10	110,000	59,295	169,295
	2021	4.20	110,000	54,785	164,785
	2022	4.20	120,000	50,165	170,165
	2023	4.35	125,000	45,125	170,125
	2024	4.35	125,000	39,688	164,688
	2025	4.35	135,000	34,250	169,250
	2026	4.35	145,000	28,378	173,378
	2027	4.35	45,000	22,070	67,070
	2028	4.35	50,000	20,113	70,113
	2029	4.38	50,000	17,938	67,938
	2030	4.38	55,000	15,750	70,750
	2031	4.38	55,000	13,344	68,344
	2032	4.38	60,000	10,938	70,938
	2033	4.38	60,000	8,313	68,313
	2034	4.38	65,000	5,688	70,688
	2035	4.38	65,000	2,844	67,844
Total			\$ 2,445,000	\$ 1,558,763	\$ 4,003,763
Total All Bonds			\$ 14,580,000	\$ 7,597,352	\$ 22,177,352

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**CHISAGO COUNTY HOUSING AND REDEVELOPMENT AUTHORITY
ECONOMIC DEVELOPMENT AUTHORITY
NORTH BRANCH, MINNESOTA**

Schedule 3

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2005

I. INTERNAL CONTROL

ITEM ARISING THIS YEAR

05-1 Cash Disbursement Process

Our review of the Chisago County Housing and Redevelopment Authority Economic Development Authority's (HRA-EDA) cash disbursement process found several instances in which there were no initials or signatures by anyone on invoices to indicate they had been reviewed prior to payments. This condition weakens internal control over the approval process.

We recommend that all vendor invoices be initialed and dated as approved for payment by an authorized individual.

Client's Response:

All invoices are reviewed and processed for payment upon receipt by the office manager. A vendor sheet is filled out with the date the bill is received, date of check, and check number. At the monthly HRA-EDA Board meeting, bills are approved for payment, and stated so in the Board Minutes. After Board approval, all approved vendor sheets will be signed in the signature box provided on the vendor sheets and dated.

II. OTHER FINDINGS AND RECOMMENDATIONS

MINNESOTA LEGAL COMPLIANCE

ITEM ARISING THIS YEAR

05-2 Security Interest in Pledged Collateral

The HRA-EDA did not have documentation that it had a perfected security interest in pledged collateral in compliance with the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA). A 1992 U.S. Court of Appeals decision stated that

Schedule 3
(Continued)

if a municipality fails to perfect a security interest under federal law, its right to such collateral in the event of default is not enforceable. To obtain an enforceable security interest in the collateral, the following is required:

- the assignment of collateral must be in writing (required by Minn. Stat. § 118A.03, subd.4);
- the assignment must be approved by the depository's Board of Directors or loan committee; and
- the assignment of collateral must be continuous from the time of execution.

We recommend the HRA-EDA require its depository to comply with the FIRREA and to provide proof of its compliance in the form of a board or committee resolution to the HRA-EDA. Specific securities pledged at the time of the resolution should be provided to the HRA-EDA.

Client's Response:

The HRA-EDA receives and keeps on file, statements from its depository with regards to its pledged securities. Account balances are periodically reviewed to ensure correct levels of pledged securities. The HRA-EDA requested and received for the year 2006 a Certificate of Adoption of Director's Resolution of pledged securities from our depository, and will continue to do so annually.



STATE OF MINNESOTA
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PATRICIA ANDERSON
STATE AUDITOR

**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 Directors
Chisago County Housing and Redevelopment Authority
Economic Development Authority

We have audited the financial statements of the Chisago County Housing and Redevelopment Authority Economic Development Authority (HRA-EDA), a component unit of Chisago County, as of and for the year ended December 31, 2005, and have issued our report thereon dated August 25, 2006. 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 HRA-EDA's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the HRA-EDA's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying Schedule of Findings and Recommendations as item 05-1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal

course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition indicated above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the HRA-EDA'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 six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our study included all of the listed categories.

The results of our tests indicate that, for the items tested, the HRA-EDA complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Recommendations as item 05-2.

This report is intended solely for the information and use of the Board of Directors and management and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: August 25, 2006