

State of Minnesota



Office of the State Auditor

Julie Blaha
State Auditor

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

Year Ended December 31, 2022

Description of the Office of the State Auditor

The Office of the State Auditor (OSA) helps ensure financial integrity and accountability in local government financial activities. The OSA is the constitutional office that oversees more than \$40 billion in annual financial activity by local governments and approximately \$20 billion of federal funding financial activity.

The OSA performs around 90 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office maintains the following seven divisions:

- **Audit Practice:** Helps ensure fiscal integrity by conducting financial and compliance audits of local governments and the federal compliance audit of the State of Minnesota.
- **Constitution:** Connects with the public via external communication, media relations, legislative coordination, and public engagements for the State Auditor.

This division also supports the State Auditor's service on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, the Minnesota Historical Society, and the Rural Finance Authority Board.

- **Government Information:** Collects, analyzes, and shares local government financial data to assist in policy and spending decisions; administers and supports financial tools including the Small Cities and Towns Accounting System (CTAS) software and infrastructure comparison tools.
- **Legal/Special Investigations:** Provides legal analysis and counsel to the OSA and responds to outside inquiries about Minnesota local law relevant to local government finances; investigates local government financial records in response to specific allegations of theft, embezzlement, or unlawful use of public funds or property.
- **Operations:** Ensures the office runs efficiently by providing fiscal management and technology support to the office.
- **Pension:** Analyzes investment, financial, and actuarial reporting for Minnesota's local public pension plans and monitors pension plan operations.
- **Tax Increment Financing (TIF):** Promotes compliance and accountability in local governments' use of tax increment financing through education, reporting, and compliance reviews.

This document can be made available in alternative formats upon request. Call 651-296-2551 [voice] or 1-800-627-3529 [relay service] for assistance or visit the Office of the State Auditor's website:

www.osa.state.mn.us

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

Year Ended December 31, 2022



Office of the State Auditor

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

Lake County Housing and Redevelopment Authority Two Harbors, Minnesota

Table of Contents

	<u>Exhibit</u>	<u>Page</u>
Introductory Section		
Organization		1
Financial Section		
Independent Auditor’s Report		2
Basic Financial Statements		
Government-Wide Financial Statements		
Statement of Net Position	1	4
Statement of Activities	2	5
Fund Financial Statements		
Governmental Funds		
Balance Sheet—Governmental Funds	3	6
Reconciliation of Governmental Funds Balance Sheet to the Government-Wide Statement of Net Position—Governmental Activities	4	7
Statement of Revenues, Expenditures, and Changes in Fund Balances—Governmental Funds	5	8
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of the Governmental Funds to the Government-Wide Statement of Activities—Governmental Activities	6	9
Proprietary Funds		
Enterprise Funds		
Statement of Fund Net Position	7	10
Statement of Revenues, Expenses, and Changes in Fund Net Position	8	11
Statement of Cash Flows	9	12
Notes to the Financial Statements		13
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 <i>Government Auditing Standards</i>		23
Schedule of Findings and Recommendations		25
Corrective Action Plan		28
Summary Schedule of Prior Audit Findings		30

Introductory Section

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

Organization
December 31, 2022

<u>Commissioners</u>	<u>Term Expires</u>
Richard DeRosier	May 30, 2025
Bob Entzion	May 30, 2025
Paul Iversen	May 30, 2026
Susan Rosette	May 30, 2023
Tom Lovdahl	May 30, 2026

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, 2022, 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, 2022, 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.

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 December 19, 2023, on our consideration of the 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 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 Authority's internal control over financial reporting and compliance.

/s/Julie Blaha

Julie Blaha
State Auditor

/s/Chad Struss

Chad Struss, CPA
Deputy State Auditor

December 19, 2023

Basic Financial Statements

Government-Wide Financial Statements

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

Exhibit 1

**Statement of Net Position
December 31, 2022**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<u>Assets</u>			
Cash and cash equivalents	\$ 589,976	\$ 214,276	\$ 804,252
Delinquent taxes receivable	2,714	-	2,714
Accounts receivable	-	28,629	28,629
Internal balances	5,615	(5,615)	-
Restricted assets			
Cash	102,125	19,401	121,526
Capital assets			
Depreciable – net of accumulated depreciation	1,062	733,131	734,193
Total Assets	<u>\$ 701,492</u>	<u>\$ 989,822</u>	<u>\$ 1,691,314</u>
<u>Liabilities</u>			
Accounts payable	\$ -	\$ 19,983	\$ 19,983
Due to Lake County	6,210	-	6,210
Unearned revenue	-	2,459	2,459
Liabilities payable from restricted assets			
Security deposits payable	-	19,041	19,041
Long-term liabilities			
Due in more than one year	-	281,794	281,794
Total Liabilities	<u>\$ 6,210</u>	<u>\$ 323,277</u>	<u>\$ 329,487</u>
<u>Net Position</u>			
Net investment in capital assets	\$ 1,062	\$ 451,337	\$ 452,399
Restricted for Housing	102,125	-	102,125
Unrestricted	592,095	215,208	807,303
Total Net Position	<u>\$ 695,282</u>	<u>\$ 666,545</u>	<u>\$ 1,361,827</u>

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

Exhibit 2

**Statement of Activities
For the Year Ended December 31, 2022**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>	<u>Net (Expense) Revenue and Changes in Net Position</u>		
		<u>Charges for Services</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Governmental activities					
Urban and economic development	\$ 188,072	\$ 4,500	\$ (183,572)	\$ -	\$ (183,572)
Business-type activities					
Housing	321,498	329,844	-	8,346	8,346
Total	\$ 509,570	\$ 334,344	\$ (183,572)	\$ 8,346	\$ (175,226)
General Revenues					
Property taxes			\$ 113,810	\$ -	\$ 113,810
Grants and contributions not restricted to specific programs			6,528	-	6,528
Investment earnings			2,319	223	2,542
Miscellaneous			10,692	14,978	25,670
Total general revenues and transfers			\$ 133,349	\$ 15,201	\$ 148,550
Change in net position			\$ (50,223)	\$ 23,547	\$ (26,676)
Net Position – Beginning			745,505	642,998	1,388,503
Net Position – Ending			\$ 695,282	\$ 666,545	\$ 1,361,827

Fund Financial Statements

Governmental Funds

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

Exhibit 3

**Balance Sheet
Governmental Funds
December 31, 2022**

	General Fund	Local Housing Trust Fund	Total
<u>Assets</u>			
Cash	\$ 583,456	\$ -	\$ 583,456
Cash held with Lake County	6,520	-	6,520
Restricted cash	-	102,125	102,125
Delinquent taxes receivable	2,714	-	2,714
Due from other funds	13,172	-	13,172
Total Assets	\$ 605,862	\$ 102,125	\$ 707,987
<u>Liabilities</u>			
Due to other funds	\$ 7,557	\$ -	\$ 7,557
Due to primary government	6,210	-	6,210
Total Liabilities	\$ 13,767	\$ -	\$ 13,767
<u>Deferred Inflows of Resources</u>			
Unavailable revenue – taxes	2,051	-	2,051
<u>Fund Balance</u>			
Restricted for Housing	\$ -	\$ 102,125	\$ 102,125
Unassigned	590,044	-	590,044
Total Fund Balance	\$ 590,044	\$ 102,125	\$ 692,169
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	\$ 605,862	\$ 102,125	\$ 707,987

**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, 2022**

Fund balance – governmental funds (Exhibit 3)	\$ 692,169
Amounts reported for governmental activities in the statement of net position are different because:	
Long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.	2,051
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	<u>1,062</u>
Net Position of Governmental Activities (Exhibit 1)	<u>\$ 695,282</u>

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

Exhibit 5

**Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2022**

	General Fund	Local Housing Trust Fund	Total
Revenues			
Property taxes	\$ 113,779	\$ -	\$ 113,779
Intergovernmental	6,528	-	6,528
Investment earnings	194	2,125	2,319
Rent	4,500	-	4,500
Miscellaneous	10,692	-	10,692
	\$ 135,693	\$ 2,125	\$ 137,818
Total Revenues			
Expenditures			
Current			
Urban and economic development			
Salary and employee benefits	\$ 6,210	\$ -	\$ 6,210
Contracted services	33,041	-	33,041
Meetings	10,001	-	10,001
Administrative services	10,800	-	10,800
Accounting and auditing	35,293	-	35,293
Housing rehabilitation	70,224	-	70,224
Other	23,565	-	23,565
	\$ 189,134	\$ -	\$ 189,134
Total Expenditures			
Excess of Revenues Over (Under) Expenditures	\$ (53,441)	\$ 2,125	\$ (51,316)
Other Financing Sources (Uses)			
Transfers in	\$ -	\$ 100,000	\$ 100,000
Transfers out	(100,000)	-	(100,000)
	\$ (100,000)	\$ 100,000	\$ -
Total Other Financing Sources (Uses)			
Net Change in Fund Balance	\$ (153,441)	\$ 102,125	\$ (51,316)
Fund Balance – January 1	743,485	-	743,485
Fund Balance – December 31	\$ 590,044	\$ 102,125	\$ 692,169

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

Exhibit 6

**Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balances of the Governmental Funds to the
Government-Wide Statement of Activities—Governmental Activities
For the Year Ended December 31, 2022**

Net change in fund balance – governmental funds (Exhibit 5)	\$	(51,316)
---	----	----------

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	\$	2,051	
Deferred inflows of resources – January 1		<u>(2,020)</u>	31

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.

Expenditures for general capital assets	\$	<u>1,062</u>
---	----	--------------

Change in Net Position of Governmental Activities (Exhibit 2)	\$	<u><u>(50,223)</u></u>
--	-----------	-------------------------------

Proprietary Funds

Enterprise Funds

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

Exhibit 7

**Statement of Fund Net Position
Enterprise Funds
December 31, 2022**

	<u>Silverpointe Apartments</u>	<u>Lakeview Apartments</u>	<u>Total Enterprise Funds</u>
<u>Assets</u>			
Current assets			
Cash	\$ 108,806	\$ 105,470	\$ 214,276
Due from other funds	7,557	-	7,557
Accounts receivable	2,684	25,945	28,629
Total current assets	\$ 119,047	\$ 131,415	\$ 250,462
Restricted assets			
Cash			
Cash with management company for security deposits	19,401	-	19,401
Noncurrent assets			
Capital assets			
Depreciable – net of accumulated depreciation	733,131	-	733,131
Total Assets	\$ 871,579	\$ 131,415	\$ 1,002,994
<u>Liabilities</u>			
Current liabilities			
Accounts payable	\$ 14,703	\$ 5,280	\$ 19,983
Due to other funds	11,195	1,977	13,172
Unearned revenue	2,459	-	2,459
Total current liabilities	\$ 28,357	\$ 7,257	\$ 35,614
Current liabilities payable from restricted assets			
Security deposits payable	\$ 19,041	\$ -	\$ 19,041
Noncurrent liabilities			
General obligation bonds payable – long-term	\$ 285,000	\$ -	\$ 285,000
Less: unamortized bond premium (discount)	(3,206)	-	(3,206)
Total noncurrent liabilities	\$ 281,794	\$ -	\$ 281,794
Total Liabilities	\$ 329,192	\$ 7,257	\$ 336,449
<u>Net Position</u>			
Net investment in capital assets	\$ 451,337	\$ -	\$ 451,337
Unrestricted	91,050	124,158	215,208
Total Net Position	\$ 542,387	\$ 124,158	\$ 666,545

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

Exhibit 8

**Statement of Revenues, Expenses, and Changes in Fund Net Position
Enterprise Funds
Year Ended December 31, 2022**

	<u>Silverpointe Apartments</u>	<u>Lakeview Apartments</u>	<u>Total Enterprise Funds</u>
Operating Revenues			
Rental	\$ 231,363	\$ 90,753	\$ 322,116
Parking	7,728	-	7,728
Miscellaneous	14,978	-	14,978
Total Operating Revenues	<u>\$ 254,069</u>	<u>\$ 90,753</u>	<u>\$ 344,822</u>
Operating Expenses			
Other services and charges			
Contracted services	\$ 23,075	\$ -	\$ 23,075
Management fees	14,577	6,600	21,177
Professional fees	11	1,356	1,367
Real estate taxes	10,000	-	10,000
Telephone	2,388	-	2,388
Utilities	45,475	16,100	61,575
Advertising	159	-	159
Insurance	7,837	-	7,837
Repairs and maintenance	54,253	53,691	107,944
Sanitation	13,037	-	13,037
Miscellaneous	1,829	3,792	5,621
Supplies	991	-	991
Depreciation expense	54,661	-	54,661
Total Operating Expenses	<u>\$ 228,293</u>	<u>\$ 81,539</u>	<u>\$ 309,832</u>
Operating Income (Loss)	<u>\$ 25,776</u>	<u>\$ 9,214</u>	<u>\$ 34,990</u>
Nonoperating Revenues (Expenses)			
Investment earnings	\$ 223	\$ -	\$ 223
Discount on issuance of bonds	(803)	-	(803)
Interest expense	(10,863)	-	(10,863)
Total Nonoperating Revenues (Expenses)	<u>\$ (11,443)</u>	<u>\$ -</u>	<u>\$ (11,443)</u>
Change in Net Position	<u>\$ 14,333</u>	<u>\$ 9,214</u>	<u>\$ 23,547</u>
Net Position – January 1	<u>528,054</u>	<u>114,944</u>	<u>642,998</u>
Net Position – December 31	<u>\$ 542,387</u>	<u>\$ 124,158</u>	<u>\$ 666,545</u>

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

Exhibit 9

**Statement of Cash Flows
Enterprise Funds
Year Ended December 31, 2022**

	<u>Silverpointe Apartments</u>	<u>Lakeview Apartments</u>	<u>Total Enterprise Funds</u>
Cash Flows from Operating Activities			
Cash received from customers	\$ 254,157	\$ 89,618	\$ 343,775
Cash paid to suppliers	(161,768)	(76,259)	(238,027)
Net cash provided by (used in) operating activities	\$ 92,389	\$ 13,359	\$ 105,748
Cash Flows from Capital and Related Financing Activities			
Principal paid on long-term debt	\$ (60,000)	\$ -	\$ (60,000)
Interest paid on long-term debt	(10,863)	-	(10,863)
Net cash provided by (used in) capital and related financing activities	\$ (70,863)	\$ -	\$ (70,863)
Cash Flows from Investing Activities			
Investment earnings	\$ 223	\$ -	\$ 223
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 21,749	\$ 13,359	\$ 35,108
Cash and Cash Equivalents – January 1	106,458	92,111	198,569
Cash and Cash Equivalents – December 31	\$ 128,207	\$ 105,470	\$ 233,677
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities			
Net operating income (loss)	\$ 25,776	\$ 9,214	\$ 34,990
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities			
Depreciation expense	\$ 54,661	\$ -	\$ 54,661
(Increase) decrease in receivables	(2,488)	(1,135)	(3,623)
Increase (decrease) in accounts payable	12,300	5,280	17,580
Increase (decrease) in unearned revenue	2,140	-	2,140
Total adjustments	\$ 66,613	\$ 4,145	\$ 70,758
Net Cash Provided by (Used in) Operating Activities	\$ 92,389	\$ 13,359	\$ 105,748

Lake County Housing and Redevelopment Authority

Two Harbors, Minnesota

Notes to the Financial Statements
As of and for the Year Ended December 31, 2022

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, 2022. 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

Two Harbors, Minnesota

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

Cash and Cash Equivalents

The Authority's cash and cash equivalents consist of savings and checking accounts, cash on hand, and money market funds. Restricted cash is shown separately from cash and cash equivalents.

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.

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.

Lake County Housing and Redevelopment Authority

Two Harbors, Minnesota

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:

<u>Assets</u>	<u>Years</u>
Buildings and structures	25-40
Equipment	7

Unearned Revenue

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

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 then. 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, \$10,863 of interest expense is reported as a direct housing expense.

Lake County Housing and Redevelopment Authority

Two Harbors, Minnesota

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.

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.

Lake County Housing and Redevelopment Authority

Two Harbors, Minnesota

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.

Note 2 – Budgetary Information

The Authority did not approve a General Fund or Local Housing Trust Special Revenue Fund budget for fiscal year 2022 and, therefore, a budgetary comparison schedule is not presented.

Note 3 – Detailed Notes

Assets

Deposits

The Authority's total deposits are reported as follows:

Reconciliation of the Authority's Total Cash and Investments to the Basic Financial Statements as of December 31, 2022

Government-wide statement of net position	
Governmental activities	
Cash	\$ 589,976
Restricted assets	
Cash	102,125
Business-type activities	
Cash	214,276
Restricted assets	
Security deposits	<u>19,401</u>
Total Cash	<u>\$ 925,778</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.

Lake County Housing and Redevelopment Authority

Two Harbors, Minnesota

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, 2022, the Authority's deposits were not exposed to custodial credit risk.

Capital Assets

Capital asset activity for the year ended December 31, 2022, was as follows:

Governmental Activities

Changes in Capital Assets for the Year Ended December 31, 2022

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets depreciated				
Equipment	\$ 1,866	\$ 1,062	\$ -	\$ 2,928
Less: accumulated depreciation for				
Equipment	\$ 1,866	\$ -	\$ -	\$ 1,866
Governmental Activities Capital Assets, Net	\$ -	\$ 1,062	\$ -	\$ 1,062

Business-Type Activities

Changes in Capital Assets for the Year Ended December 31, 2022

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets depreciated				
Buildings and structures	\$ 1,951,232	\$ -	\$ -	\$ 1,951,232
Equipment	51,505	-	-	51,505
Total capital assets depreciated	\$ 2,002,737	\$ -	\$ -	\$ 2,002,737
Less: accumulated depreciation for				
Buildings and structures	\$ 1,170,978	\$ 51,253	\$ -	\$ 1,222,231
Equipment	43,967	3,408	-	47,375
Total accumulated depreciation	\$ 1,214,945	\$ 54,661	\$ -	\$ 1,269,606
Business-Type Activities Capital Assets, Net	\$ 787,792	\$ (54,661)	\$ -	\$ 733,131

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

Depreciation Expense Charged to Functions/Programs

Business-Type Activities	
Housing	<u>\$ 54,661</u>

Lake County Housing and Redevelopment Authority

Two Harbors, Minnesota

Interfund Receivables, Payables, and Transfers

Due To/From Other Funds

The composition of interfund balances as of December 31, 2022, is as follows:

Interfund Balances as of December 31, 2022				
Receivable Fund	Payable Fund	Amount	Purpose	
General Fund	Silverpointe Apartments	\$ 11,195	Reimbursement for services	
	Lakeview Apartments	1,977	Reimbursement for services	
Total due to General Fund		\$ 13,172		
Silverpointe Apartments	General	\$ 7,557	2012 bond proceeds	
Total Due To/From Other Funds		<u>\$ 20,729</u>		

Interfund Transfers

Interfund transfers for the year ended December 31, 2022, consisted of the following:

Interfund Transfers for the Year Ended December 31, 2022

Transfer to Local Housing Trust Fund from General Fund \$ 100,000 To establish the Local Housing Trust Fund

Liabilities

Long-Term Debt

Business-Type Activities

Bonds Payable as of December 31, 2022

Type of Indebtedness	Final Maturity	Installment Amount	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2022
2012 General Obligation Senior Housing Bonds	2028	Varies	1.00-3.5	\$ 860,000	\$ 285,000

Lake County Housing and Redevelopment Authority

Two Harbors, Minnesota

Debt Service Requirements

Debt service requirements at December 31, 2022, were as follows:

Business-Type Activities

Debt Service Requirements as of December 31, 2022

Year Ending December 31	Revenue Bonds	
	Principal	Interest
2023	\$ -	\$ -
2024	60,000	8,388
2025	60,000	6,588
2026	65,000	4,556
2027	65,000	2,363
2028	35,000	613
Total	<u>\$ 285,000</u>	<u>\$ 22,508</u>

Changes in Long-Term Liabilities

Business-Type Activities

Changes in Long-Term Liabilities for the Year Ended December 31, 2022

	Beginning Balance	Additions	Reduction s	Ending Balance	Due Within One Year
Bonds payable					
2012 General Obligation Senior Housing Bonds	\$ 345,000	\$ -	\$ 60,000	\$ 285,000	\$ -
Less: unamortized discounts	(4,009)	-	(803)	(3,206)	-
Total	<u>\$ 340,991</u>	<u>\$ -</u>	<u>\$ 59,197</u>	<u>\$ 281,794</u>	<u>\$ -</u>

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

Lake County Housing and Redevelopment Authority Two Harbors, Minnesota

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, 2022, is \$3,388,454.

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, 2022, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated December 19, 2023.

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 an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be 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 that we consider to be a material weakness 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 deficiency described in the accompanying Schedule of Findings and Recommendations as item 2022-002 to be a material weakness.

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 2022-001 and 2022-003 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, 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, claims and disbursements, and miscellaneous provisions sections 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. 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 internal control findings identified in our audit and described in the accompanying 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, 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

December 19, 2023

/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, 2022

Financial Statement Findings

2022-001 Segregation of Duties

Prior Year Finding Number: 2021-001

Repeat Finding Since: 1998

Type of Finding: Internal Control Over Financial Reporting

Severity of Deficiency: Significant Deficiency

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

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

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

Effect: Inadequate segregation of duties could adversely affect the 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

2022-002 Audit Adjustments

Prior Year Finding Number: 2021-002

Repeat Finding Since: 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

Lake County Housing and Redevelopment Authority

Two Harbors, Minnesota

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.

Lakeview Apartments Enterprise Fund

- Accounts payable and expenses increased by \$5,280 to record current year payables related to repairs and maintenance services.

Silverpointe Apartments Enterprise Fund

- Accumulated depreciation and depreciation expense increased by \$54,661 to record annual depreciation.

Cause: Due to its limited staff, the Authority does not have the time to ensure that all material adjustments have been made.

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

2022-003 Duplicate Payment to Contractor

Prior Year Finding Number: N/A

Repeat Finding Since: N/A

Type of Finding: Internal Control Over Financial Reporting

Severity of Deficiency: Significant Deficiency

Criteria: The Authority is responsible for developing internal controls to prevent duplication of payments.

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.

Context: The Authority contracts with individuals for cleaning the Lakeview Apartments. Contractors are responsible for submitting claim sheets for reimbursement. Authority staff are responsible for reviewing claim sheets prior to payment.

Lake County Housing and Redevelopment Authority Two Harbors, Minnesota

Effect: The Contractor was overpaid \$1,776 in public funds.

Cause: Claim sheets were submitted months apart and the duplication of dates was not noticed.

Recommendation: We recommend that the Authority review controls in place and implement procedures to prevent duplication of payments, including requiring timely submission of claim sheets.

View of Responsible Official: Acknowledge



Housing Redevelopment Authority

Matthew Johnson, Director

Board Members

Richard DeRosier, Chair

Susan Rosette, Secretary

Robert Entzion, Treasurer

Rick Goutermont, Commissioner

Paul Iverson

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

Corrective Action Plan

For the Year Ended December 31, 2022

Finding Number: 2022-001

Finding Title: Segregation of Duties

Name of Contact Person Responsible for Corrective Action:

Matthew Johnson, Executive Director

Corrective Action Planned:

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.

Anticipated Completion Date:

1/3/2024

Finding Number: 2022-002
Finding Title: Audit Adjustments

Name of Contact Person Responsible for Corrective Action:

Matthew Johnson, Executive Director

Corrective Action Planned:

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.

Anticipated Completion Date:

1/3/2024

Finding Number: 2022-003
Finding Title: Duplicate Payment to Contractor

Name of Contact Person Responsible for Corrective Action:

Matthew Johnson, Executive Director

Corrective Action Planned:

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.

Anticipated Completion Date:

1/3/2024



Housing Redevelopment Authority

Matthew Johnson, Director

Board Members

Richard DeRosier, Chair

Susan Rosette, Secretary

Robert Entzion, Treasurer

Rick Goutermont, Commissioner

Paul Iverson

Representation of Lake County Housing and Redevelopment Authority

Two Harbors, Minnesota

Summary Schedule of Prior Audit Findings

For the Year Ended December 31, 2022

Finding Number: 2021-001

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. A Board Member 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 not significantly different than the action previously reported. The HRA Board did, however, make the commitment by the end of 2022 to hiring the organization's first Executive Director to help resolve issues similar to this one moving forward.

Finding Number: 2021-002

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. The adjustments were reviewed and approved by the Authority and are properly reflected in the financial statements.

Summary of Corrective Action Previously Reported: Detailed monthly reconciliations will take place. A Board Member 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 not significantly different than the action previously reported. The HRA Board did, however, make the commitment by the end of 2022 to hiring the organization's first Executive Director to help resolve issues similar to this one moving forward.