

# STATE OF MINNESOTA

## Office of the State Auditor



**Rebecca Otto**  
**State Auditor**

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

**YEAR ENDED DECEMBER 31, 2006**

## **Description of the Office of the State Auditor**

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

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

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

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

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

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

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

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

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

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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 State Auditor's web site: [www.auditor.state.mn.us](http://www.auditor.state.mn.us).

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

**Year Ended December 31, 2006**



**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  
2006

	<u>Title</u>	<u>Term Expires</u>
<b>Board of Directors</b>		
James Ertz	Chair	May 2011
James Stein	Vice Chair	May 2010
Greg Berg	Director	January 2008
Dean Perry	Director	January 2007
Dave Boniface	Director	May 2007
<b>Executive Officers</b>		
Chris Eng	Executive Director	Indefinite
Lee Olson	Treasurer	January 2010

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA

## OFFICE OF THE STATE AUDITOR

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### 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, 2006, 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, 2006, 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 December 7, 2007, 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/Rebecca Otto*

*/s/Greg Hierlinger*

REBECCA OTTO  
STATE AUDITOR

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

December 7, 2007

## **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, 2006  
(Unaudited)**

As management of the Chisago County Housing and Redevelopment Authority Economic Development Authority (HRA-EDA), we offer readers of the HRA-EDA's financial statements this narrative overview and analysis of the financial activities of the HRA-EDA for the fiscal year ended December 31, 2006. 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 \$863,685 in 2006. This is attributable primarily to nonoperating activities.
- At the close of 2006, the HRA-EDA's reported net assets were \$2,643,539. There are two components that comprise this balance: capital assets, net of related debt of \$1,419,464; and unrestricted net assets of \$1,224,075. Capital assets, net of related debt, increased by \$813,084. The unrestricted net assets are available for spending at the HRA-EDA's discretion.
- The HRA-EDA's total debt increased by \$1,250,392, or nine percent, from the previous year. The key factors in this increase were the issuances of General Obligation Taxable Revenue Bonds, Series 2006A, and a promissory note with Chisago County.

**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 \$2,643,539 at the close of 2006.

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>2006</u>	<u>2005</u>
Assets		
Current and other assets	\$ 12,933,194	\$ 12,233,856
Capital assets	<u>5,562,825</u>	<u>4,847,287</u>
Total Assets	<u>\$ 18,496,019</u>	<u>\$ 17,081,143</u>
Liabilities		
Current and other liabilities	\$ 1,364,201	\$ 1,869,619
Long-term liabilities	<u>14,488,279</u>	<u>13,431,670</u>
Total Liabilities	<u>\$ 15,852,480</u>	<u>\$ 15,301,289</u>

	<u>2006</u>	<u>2005</u>
Net Assets		
Capital assets - net of related debt	\$ 1,419,464	\$ 606,380
Restricted of land acquisition	-	379,145
Unrestricted	<u>1,224,075</u>	<u>794,329</u>
Total Net Assets	<u>\$ 2,643,539</u>	<u>\$ 1,779,854</u>

The HRA-EDA's activities increased net assets by \$863,685, or 49 percent.

#### Change in Net Assets

	<u>2006</u>	<u>2005</u>
Revenues		
Operating revenue	\$ 470,158	\$ 370,473
Nonoperating revenue	<u>1,650,626</u>	<u>5,766,147</u>
Total Revenues	<u>\$ 2,120,784</u>	<u>\$ 6,136,620</u>
Expenses		
Depreciation expense	\$ 110,552	\$ 82,251
Other operating expenses	488,653	458,807
Nonoperating expense	<u>657,894</u>	<u>5,187,367</u>
Total Expenses	<u>\$ 1,257,099</u>	<u>\$ 5,728,425</u>
Increase in Net Assets	\$ 863,685	\$ 408,195
Net Assets - January 1	<u>1,779,854</u>	<u>1,371,659</u>
Net Assets - December 31	<u><u>\$ 2,643,539</u></u>	<u><u>\$ 1,779,854</u></u>

#### GENERAL TRENDS AND SIGNIFICANT EVENTS

During 2006, the HRA-EDA issued (1) \$1,200,000 of Taxable Revenue Bonds and (2) \$1,000,000 of a promissory note, due to Chisago County. Proceeds of both are being used to finance the acquisition of approximately 94 acres of land in the City of North Branch for industrial development by private developers.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

The HRA-EDA's investment in capital assets totaled \$5,562,825 at December 31, 2006 (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 \$715,538, or 15 percent. The major capital asset event in 2006 involved the completion of a senior housing complex in Rush City.

	Capital Assets (Net of Depreciation)	
	2006	2005
Land and land improvements	\$ 243,181	\$ 243,180
Construction in progress	-	1,235,931
Buildings	5,271,361	3,358,813
Furniture and equipment Improvements	11,981 36,302	9,363 -
Total	<u>\$ 5,562,825</u>	<u>\$ 4,847,287</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 \$15,552,500, which is backed by the full faith and credit of the government.

	Long-Term Debt	
	2006	2005
G.O. Lease Revenue Bonds	\$ 2,595,000	\$ 3,395,000
G.O. Public Project Bonds	6,614,138	6,665,596
G.O. Housing Development Bonds	4,143,362	4,241,512
G.O. Taxable Revenue Bonds	1,200,000	-
Note Payable	1,000,000	-
Total	<u>\$ 15,552,500</u>	<u>\$ 14,302,108</u>

The HRA-EDA's debt related to general obligation bonds and notes payable increased by \$1,250,392 (nine percent) during the fiscal year, due primarily to the issuance of (1) \$1,200,000 of Taxable Revenue Bonds and (2) \$1,000,000, a note payable, due to Chisago County. Proceeds of both are for industrial development by private developers. 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 2006, 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**

- Unemployment rates at the end of 2006 were:

Chisago County	5.4 percent
Statewide	4.2 percent
National	4.3 percent

- At the end of 2006, the HRA-EDA set its 2007 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, 2006**

**Assets**

**Current assets**

Cash and pooled investments	\$ 657,556
Petty cash and change funds	60
Cash with escrow agent	1,510,017
Accounts receivable - net	7,505
Leases receivable - current	1,070,000
Due from other governments	63,470

**Total current assets** **\$ 3,308,608**

**Noncurrent assets**

Advance to other governments	\$ 59,381
Land held for resale	2,734,259
Deferred debt issuance costs	130,964
Leases receivable - long-term	6,699,982
Capital assets	
Nondepreciable	243,181
Depreciable - net	5,319,644

**Total noncurrent assets** **\$ 15,187,411**

**Total Assets** **\$ 18,496,019**

**Liabilities**

**Current liabilities**

Accounts payable	\$ 35,685
Salaries payable	1,457
Compensated absences payable - current	12,326
Accrued interest payable	187,414
Security deposits	38,257
Bonds payable - current	1,076,547
Due to other governments	12,515

**Total current liabilities** **\$ 1,364,201**

**Noncurrent liabilities**

Compensated absences payable - long-term	\$ 12,326
Bonds payable - long-term	13,475,953
Notes payable, due to primary government, long-term	1,000,000

**Total noncurrent liabilities** **\$ 14,488,279**

**Total Liabilities** **\$ 15,852,480**

**Net Assets**

Invested in capital assets - net of related debt	\$ 1,419,464
Unrestricted	1,224,075

**Total Net Assets** **\$ 2,643,539**

**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, 2006**

<b>Operating Revenues</b>	
Charges for services	\$ 49,330
Rental income	385,882
Other	34,946
	<hr/>
<b>Total Operating Revenues</b>	<b>\$ 470,158</b>
<b>Operating Expenses</b>	
Personal services	\$ 148,880
Professional services	59,047
Contracted services	984
General maintenance services	54,188
Administration and fiscal services	37,443
Other services and charges	4,573
Supplies	15,808
Director and staff reimbursed expenses	4,100
Board expenses	3,802
Telephone	5,467
Utilities	49,737
Advertising	14,670
Insurance	36,397
Staff training	1,741
Licenses and dues	4,850
Postage	1,106
Miscellaneous	8,162
TIF expenses	11,678
Program expense	26,020
Depreciation	110,552
	<hr/>
<b>Total Operating Expenses</b>	<b>\$ 599,205</b>
<b>Operating Income (Loss)</b>	<b>\$ (129,047)</b>
<b>Nonoperating Revenues (Expenses)</b>	
Property taxes	\$ 583,082
Intergovernmental revenue	498,731
Interest income	95,513
Interest on lease receivable	440,442
Miscellaneous revenue	32,858
Intergovernmental expense	(2,442)
Interest expense	(655,452)
	<hr/>
<b>Total Nonoperating Revenues (Expenses)</b>	<b>\$ 992,732</b>
<b>Change in Net Assets</b>	<b>\$ 863,685</b>
<b>Net Assets - January 1</b>	<b>1,779,854</b>
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<b>Net Assets - December 31</b>	<b>\$ 2,643,539</b>
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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, 2006  
Increase (Decrease) in Cash and Cash Equivalents**

<b>Cash Flows from Operating Activities</b>	
Receipts from customers and users	\$ 517,158
Payments to suppliers	(619,480)
Payments to employees	(148,596)
	<u>(148,596)</u>
<b>Net cash provided by (used in) operating activities</b>	<b><u>\$ (250,918)</u></b>
<b>Cash Flows from Noncapital Financing Activities</b>	
Property tax receipts	\$ 583,082
Intergovernmental receipts	1,349,311
Intergovernmental disbursements	(503,491)
Disbursements resulting in leases receivable	(386,898)
	<u>(386,898)</u>
<b>Net cash provided by (used in) noncapital financing activities</b>	<b><u>\$ 1,042,004</u></b>
<b>Cash Flows from Capital and Related Financing Activities</b>	
Bonds issued	\$ 1,200,000
Notes issued	1,000,000
Deferred debt issuance costs	5,524
Premium (discount)	(10,392)
Principal paid on bonds and notes	(935,000)
Interest paid on bonds and notes	(667,240)
Purchases of capital assets	(807,647)
	<u>(807,647)</u>
<b>Net cash provided by (used in) capital and related financing activities</b>	<b><u>\$ (214,755)</u></b>
<b>Cash Flows from Investing Activities</b>	
Acquisition of land held for resale	\$ (2,215,762)
Investment earnings received	95,513
Interest on lease receivables	440,442
	<u>440,442</u>
<b>Net cash provided by (used in) investing activities</b>	<b><u>\$ (1,679,807)</u></b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b><u>\$ (1,103,476)</u></b>
<b>Cash and Cash Equivalents at January 1</b>	<b><u>3,271,109</u></b>
<b>Cash and Cash Equivalents at December 31</b>	<b><u><u>\$ 2,167,633</u></u></b>
<b>Cash and Cash Equivalents - Statement of Net Assets</b>	
Cash and pooled investments	\$ 657,556
Petty cash and change funds	60
Cash held with escrow agent	1,510,017
	<u>1,510,017</u>
<b>Total Cash and Cash Equivalents</b>	<b><u><u>\$ 2,167,633</u></u></b>

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

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
Increase (Decrease) in Cash and Cash Equivalents  
(Continued)**

<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities</b>	
<b>Operating income (loss)</b>	<b>\$ <u>(129,047)</u></b>
 <b>Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities</b>	
Depreciation expense	\$ 110,552
Miscellaneous nonoperating income	32,858
Miscellaneous nonoperating expense	(2,442)
(Increase) decrease in accounts receivable	(2,932)
Increase (decrease) in accounts payable	24,424
Increase (decrease) in salaries payable	(1,441)
Increase (decrease) in compensated absences payable	5,527
Increase (decrease) in contracts payable	(305,491)
Increase (decrease) in security deposits	<u>17,074</u>
 <b>Total adjustments</b>	 <b>\$ <u>(121,871)</u></b>
 <b>Net Cash Provided by (Used in) Operating Activities</b>	 <b>\$ <u><u>(250,918)</u></u></b>

**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, 2006

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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**

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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.

Enterprise funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing activities. The principal operating revenues of the HRA-EDA enterprise fund are rental income and charges for services. Operating expenses for the enterprise fund include costs of maintaining rental facilities, general administrative and marketing expenses, and depreciation expense. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

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.

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

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1. Summary of Significant Accounting Policies (Continued)

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.

Pooled investments are reported at their fair value at December 31, 2006, based on market prices. Investment earnings for 2006 were \$95,513.

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 (SEC), but does operate in a manner consistent with Rule 2a-7 prescribed by the SEC pursuant to the Investment Company Act of 1940 (17 C.F.R. § 270.2a-7). 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.

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

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets

2. Capital Assets (Continued)

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

Assets	Years
Buildings	40 - 50
Furniture and equipment	3 - 5
Improvements	5 - 20

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.

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

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1. Summary of Significant Accounting Policies

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

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.

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.

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

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2. Detailed Notes

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

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, 2006, the HRA-EDA’s deposits were not exposed to custodial credit risk.

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;

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

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2. Detailed Notes

A. Assets

1. Deposits and Investments

b. Investments (Continued)

- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) bankers' acceptances of United States banks;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and
- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

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

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, 2006, none of the HRA-EDA's investments were subject to custodial credit risk.

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

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2. Detailed Notes

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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	<u>\$ 1,510,017</u>

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  
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NORTH BRANCH, MINNESOTA**

2. Detailed Notes

A. Assets

1. Deposits and Investments (Continued)

The following table presents the HRA-EDA's deposit and investment balances at December 31, 2006, and information related to credit quality investment risks:

Investment Type	Credit Risk		Carrying (Fair) Value
	Credit Rating	Rating Agency	
First American Treasury Obligations Fund	AAAm	S&P	\$ 1,510,017
MAGIC Fund	N/R	N/A	345
Total investments			\$ 1,510,362
Deposits			657,211
Petty cash			60
Total Cash and Investments			<u>\$ 2,167,633</u>

N/A - Not Applicable  
N/R - Not Rated  
S&P - Standard & Poor's

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:

Year Ending December 31	Principal	Interest
2007	\$ 1,070,000	\$ 414,641
2008	1,120,000	364,511
2009	1,100,000	312,833
2010	245,000	281,759
2011	255,000	271,447
2012 and beyond	5,489,999	2,228,132
Total payments	\$ 9,279,999	<u>\$ 3,873,323</u>
Less: cash with escrow agent	<u>(1,510,017)</u>	
Lease Receivable at December 31, 2006	<u>\$ 7,769,982</u>	

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

2. Detailed Notes

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the year ended December 31, 2006, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land and land improvements	\$ 243,180	\$ 1	\$ -	\$ 243,181
Construction in progress	1,235,931	832,247	2,068,178	-
Total capital assets not depreciated	\$ 1,479,111	\$ 832,248	\$ 2,068,178	\$ 243,181
Capital assets depreciated				
Buildings and structures	\$ 3,660,249	\$ 2,018,000	\$ -	\$ 5,678,249
Furniture and equipment	17,607	6,531	-	24,138
Improvements	-	37,489	-	37,489
Total capital assets depreciated	\$ 3,677,856	\$ 2,062,020	\$ -	\$ 5,739,876
Less: accumulated depreciation for				
Buildings and structures	\$ 301,436	\$ 105,452	\$ -	\$ 406,888
Furniture and equipment	8,244	3,913	-	12,157
Improvements	-	1,187	-	1,187
Total accumulated depreciation	\$ 309,680	\$ 110,552	\$ -	\$ 420,232
Total capital assets depreciated, net	\$ 3,368,176	\$ 1,951,468	\$ -	\$ 5,319,644
Total Capital Assets, Net	\$ 4,847,287	\$ 2,783,716	\$ 2,068,178	\$ 5,562,825

Depreciation expense was charged as follows:

Housing and Economic Development	\$ <u>110,552</u>
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**CHISAGO COUNTY HOUSING AND REDEVELOPMENT AUTHORITY  
ECONOMIC DEVELOPMENT AUTHORITY  
NORTH BRANCH, MINNESOTA**

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2. Detailed Notes (Continued)

B. Liabilities

Long-Term Debt

General Obligation Bonds

The HRA-EDA issues general obligation bonds and promissory notes to provide funds for the acquisition and construction of major capital facilities.

During the year, the HRA-EDA issued Revenue Bonds, Series 2006A. The \$1,200,000 issuance proceeds are being used to finance the acquisition of approximately 94 acres of land in the City of North Branch for industrial development by private developers.

General obligation bonds currently outstanding are as follows:

Bonds

\$1,200,000 Taxable Revenue Bonds, Series 2006A, due in semiannual installments of \$6,547 to \$873,219 through 2017; interest of 7.75 percent fixed for five years, then reset to the then current Wall Street Journal prime rate minus 0.5 percent for the remaining five years.	\$ 1,200,000
\$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.	2,375,000
\$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.	6,685,000
\$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.	1,965,000
\$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.	2,595,000
Total bonds	\$ 14,820,000
Less: unamortized discount	(267,500)
Total Bonds Payable	\$ 14,552,500

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

2. Detailed Notes

B. Liabilities

Long-Term Debt (Continued)

Note Payable, Due to Primary Government

During the year, the HRA-EDA issued a Note Payable due to Chisago County. The proceeds are being used to finance the acquisition of approximately 94 acres of land in the City of North Branch for industrial development by private developers. The note payable is due either within 90 days of demand by Chisago County or 2026, whichever occurs first.

Notes currently outstanding are as follows:

Notes

\$1,000,000 Demand Promissory Note, due in semiannual interest installments of \$33,750 through 2026, principal due the earlier of 90 days after receipt of demand for payment or 2026.

\$ 1,000,000

Annual debt service requirements to maturity are as follows:

Year Ending December 31	General Obligation Bonds		Notes - Demand Promissory		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 1,076,547	\$ 563,393	\$ -	\$ 67,500	\$ 1,076,547	\$ 630,893
2008	1,225,455	647,469	-	67,500	1,225,455	714,969
2009	1,232,749	590,652	-	67,500	1,232,749	658,152
2010	389,972	553,450	-	67,500	389,972	620,950
2011	407,374	536,411	-	67,500	407,374	603,911
2012 - 2016	2,364,684	2,386,841	-	337,500	2,364,684	2,724,341
2017 - 2021	3,583,219	1,495,275	-	337,500	3,583,219	1,832,775
2022 - 2026	3,225,000	714,785	1,000,000	337,500	4,225,000	1,052,285
2027 - 2031	800,000	226,590	-	-	800,000	226,590
2032 - 2035	515,000	41,158	-	-	515,000	41,158
Total	<u>\$ 14,820,000</u>	<u>\$ 7,756,024</u>	<u>\$ 1,000,000</u>	<u>\$ 1,350,000</u>	<u>\$ 15,820,000</u>	<u>\$ 9,106,024</u>

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

2. Detailed Notes

B. Liabilities

Long-Term Debt (Continued)

Changes in Long-Term Liabilities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
General obligation lease revenue	\$ 3,395,000	\$ -	\$ 800,000	\$ 2,595,000	\$ 845,000
General obligation development	4,445,000	-	105,000	4,340,000	-
General obligation public project	6,740,000	-	55,000	6,685,000	225,000
General obligation revenue bonds	-	1,200,000	-	1,200,000	6,547
Note - demand promissory	-	1,000,000	-	1,000,000	-
Compensated absences	19,125	11,808	6,281	24,652	12,326
Less: discount	(277,892)	-	(10,392)	(267,500)	(10,392)
Long-Term Liabilities	<u>\$ 14,321,233</u>	<u>\$ 2,211,808</u>	<u>\$ 955,889</u>	<u>\$ 15,577,152</u>	<u>\$ 1,078,481</u>

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, 2006, was \$111,807.

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

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3. Other Information

B. Defined Contribution Plan (Continued)

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:

	2006 Contributions	Percent of Covered Payroll
Employer	\$ 5,590	5%
Employee	-	-

As of December 31, 2006, and for the year then ended, the SEP held no securities issued by the HRA-EDA or other related parties.

C. Contingencies

1. The HRA-EDA partnered with the City of Rush City to construct two townhomes (four units). The HRA-EDA and Rush City will be reimbursed for their respective shares of construction costs upon the sales. The HRA-EDA Board is considering bids received for the construction of two additional townhomes, which could include financing through the issuance of bonds.
2. The HRA-EDA and the City of Rush City are currently in a dispute with a construction manager hired to oversee construction of a senior apartment building and community center in Rush City. Mediation to date has been unsuccessful.

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

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3. Other Information (Continued)

D. Related Parties

1. A Board member is owner/operator of an insurance agency that provides insurance coverage to the HRA-EDA.
2. A Board member is vice president of a bank awarded a portion of the HRA-EDA's bond issuance in 2006. The total issue was \$1,200,000 at 7.75 percent for the first five years, then reset to the current Wall Street Journal prime rate minus 0.5 percent for the remaining five years.
3. The HRA-EDA has partnered with the City of Rush City to develop senior townhomes for sale within the City. A Board member has an interest in a real estate company which is selling the townhomes.
4. A Board member has an interest in a bank with which the HRA-EDA maintains bank accounts.

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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, 2006**

	<u>General Operations</u>	<u>Bayview Apartments</u>	<u>Countryside Apartments</u>	<u>Southfield Estates</u>	<u>Total</u>
<b>Operating Revenues</b>					
Charges for services	\$ 49,330	\$ -	\$ -	\$ -	\$ 49,330
Rental income	5,580	128,064	68,071	184,167	385,882
Other	22,718	2,671	1,483	8,074	34,946
<b>Total Operating Revenues</b>	<b>\$ 77,628</b>	<b>\$ 130,735</b>	<b>\$ 69,554</b>	<b>\$ 192,241</b>	<b>\$ 470,158</b>
<b>Operating Expenses</b>					
Personal services	\$ 148,880	\$ -	\$ -	\$ -	\$ 148,880
Professional services	58,897	-	-	150	59,047
Contracted services	-	-	-	984	984
General maintenance services	667	19,156	3,737	30,628	54,188
Administration and fiscal services	14,150	-	8,486	14,807	37,443
Other services and charges	1,993	2,580	-	-	4,573
Supplies	3,345	5,014	2,850	4,599	15,808
Director and staff reimbursed expenses	4,100	-	-	-	4,100
Board expenses	3,802	-	-	-	3,802
Telephone	3,152	722	1,254	339	5,467
Utilities	3,361	25,059	12,979	8,338	49,737
Advertising	10,863	2,212	780	815	14,670
Insurance	3,049	10,280	9,070	13,998	36,397
Staff training	1,741	-	-	-	1,741
Licenses and dues	4,485	365	-	-	4,850
Postage	1,106	-	-	-	1,106
Miscellaneous	2,099	281	2,165	3,617	8,162
TIF expenses	11,678	-	-	-	11,678
Program expense	26,020	-	-	-	26,020
Depreciation	4,510	78,125	27,046	871	110,552
<b>Total Operating Expenses</b>	<b>\$ 307,898</b>	<b>\$ 143,794</b>	<b>\$ 68,367</b>	<b>\$ 79,146</b>	<b>\$ 599,205</b>
<b>Operating Income (Loss)</b>	<b>\$ (230,270)</b>	<b>\$ (13,059)</b>	<b>\$ 1,187</b>	<b>\$ 113,095</b>	<b>\$ (129,047)</b>
<b>Nonoperating Revenues (Expenses)</b>					
Property taxes	\$ 583,082	\$ -	\$ -	\$ -	\$ 583,082
Intergovernmental revenue	498,731	-	-	-	498,731
Interest income	88,405	151	6,612	345	95,513
Interest on lease receivable	440,442	-	-	-	440,442
Miscellaneous revenue	7,858	-	-	25,000	32,858
Intergovernmental expense	(2,442)	-	-	-	(2,442)
Interest expense	(453,373)	(95,708)	(49,225)	(57,146)	(655,452)
<b>Total Nonoperating Revenues (Expenses)</b>	<b>\$ 1,162,703</b>	<b>\$ (95,557)</b>	<b>\$ (42,613)</b>	<b>\$ (31,801)</b>	<b>\$ 992,732</b>
<b>Change in Net Assets</b>	<b>\$ 932,433</b>	<b>\$ (108,616)</b>	<b>\$ (41,426)</b>	<b>\$ 81,294</b>	<b>\$ 863,685</b>

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

Schedule 2

**BOND AND NOTE AND INTEREST MATURITIES  
DECEMBER 31, 2006**

Issue	Due Date	Interest Rate (%)	Principal Amount Due	Interest Due	Total Principal and Interest Due
\$3,795,000 Lease Revenue Bonds, Series 1997	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
<b>Total</b>			<b>\$ 2,595,000</b>	<b>\$ 187,953</b>	<b>\$ 2,782,953</b>
\$2,000,000 Housing Development Bonds, Series 2003C	2007	3.25	-	\$ 46,276	\$ 46,276
	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	
<b>Total</b>			<b>\$ 1,965,000</b>	<b>\$ 1,566,135</b>	<b>\$ 3,531,135</b>
\$6,740,000 Public Project Revenue Bonds Library Lease Obligation, Series 2004A	2007	4.10	\$ 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	

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

*Schedule 2  
(Continued)*

**BOND AND NOTE AND INTEREST MATURITIES  
DECEMBER 31, 2006**

<u>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>
\$6,740,000 Public Project Revenue Bonds Library Lease Obligation, Series 2004A (Continued)	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
<b>Total</b>			<b>\$ 6,685,000</b>	<b>\$ 3,685,370</b>	<b>\$ 10,370,370</b>
\$2,445,000 Housing Development Bonds, Series 2005A	2007	3.50	\$ -	\$ 49,519	\$ 49,519
	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	81,400	176,400
	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	
<b>Total</b>			<b>\$ 2,375,000</b>	<b>\$ 1,478,169</b>	<b>\$ 3,853,169</b>

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

*Schedule 2*  
*(Continued)*

**BOND AND NOTE AND INTEREST MATURITIES  
DECEMBER 31, 2006**

<u>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>
\$1,200,000 Taxable Revenue Bonds, Series 2006A	2007	7.75	\$ 6,547	\$ 52,958	\$ 59,505
	2008	7.75	25,455	93,555	119,010
	2009	7.75	27,749	91,261	119,010
	2010	7.75	29,972	89,038	119,010
	2011	7.75	32,374	86,637	119,011
	2012	7.75	34,739	84,271	119,010
	2013	7.75	37,751	81,260	119,011
	2014	7.75	40,775	78,235	119,010
	2015	7.75	44,042	74,968	119,010
	2016	7.75	47,377	71,633	119,010
	2017	7.75	873,219	34,581	907,800
<b>Total</b>			<b>\$ 1,200,000</b>	<b>\$ 838,397</b>	<b>\$ 2,038,397</b>
\$1,000,000 Note Payable, due to primary government	2007	6.75	-	\$ 67,500	\$ 67,500
	2008	6.75	-	67,500	67,500
	2009	6.75	-	67,500	67,500
	2010	6.75	-	67,500	67,500
	2011	6.75	-	67,500	67,500
	2012	6.75	-	67,500	67,500
	2013	6.75	-	67,500	67,500
	2014	6.75	-	67,500	67,500
	2015	6.75	-	67,500	67,500
	2016	6.75	-	67,500	67,500
	2017	6.75	-	67,500	67,500
	2018	6.75	-	67,500	67,500
	2019	6.75	-	67,500	67,500
	2020	6.75	-	67,500	67,500
	2021	6.75	-	67,500	67,500
	2022	6.75	-	67,500	67,500
2023	6.75	-	67,500	67,500	
2024	6.75	-	67,500	67,500	
2025	6.75	-	67,500	67,500	
2026	6.75	1,000,000	67,500	1,067,500	
<b>Total</b>			<b>\$ 1,000,000</b>	<b>\$ 1,350,000</b>	<b>\$ 2,350,000</b>
<b>Total All Bonds and Notes</b>			<b>\$ 15,820,000</b>	<b>\$ 9,106,024</b>	<b>\$ 24,926,024</b>



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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, 2006**

**I. INTERNAL CONTROL**

**PREVIOUSLY REPORTED ITEM NOT RESOLVED**

**05-1 Cash Disbursement Process**

Our previous report noted that the Chisago County Housing and Redevelopment Authority Economic Development Authority's (HRA-EDA) cash disbursement process did not include initials or signatures by anyone on invoices to indicate they had been reviewed prior to payment. Our current review of invoices found the same condition present. This condition weakens internal control over the approval process.

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

**Client's Response:**

*All invoices are processed for payment by the Office Administrator, a vendor sheet is attached, filled out with the date the invoice is received, as well as payment date and check number. At the monthly HRA-EDA Board meeting, bills are approved for payment and stated so in the Board Minutes. Vendor sheets, with invoices attached, have always been signed after Board approval. Last year the HRA-EDA instituted dating the vendor sheets, with invoices attached, with the Board approval date.*

*All future invoices will now be reviewed, approved for payment, initialed and dated, by the Executive Director, then processed for payment by the Office Administrator.*

ITEMS ARISING THIS YEAR

06-1 Segregation of Duties

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

Client's Response:

*The HRA-EDA Board is aware that segregation of the accounting functions necessary to ensure adequate internal accounting control is not possible due to the number of staff. The HRA-EDA Board reviews the revenues and expenditures at their monthly meetings.*

06-2 Accounting Policies and Procedures

The HRA-EDA does not have a comprehensive manual of accounting policies and procedures. Written policies and procedures should exist to set forth requirements to account for such matters as:

- receipt and deposit of funds,
- purchase of goods and services,
- contracting practices,
- approval and payment of bills,
- accounting for mileage, meals, and travel expenses,
- accounting for payroll activities,
- accounting for capital assets,
- investment practices and restrictions, and
- annual financial reporting practices.

Written policies and procedures should exist to ensure that the HRA-EDA's practices are followed as intended by the Board and management. A formalized manual will also provide guidance for future staff.

We recommend a policies and procedures manual be developed for the HRA-EDA's accounting practices and that it be adopted by the Board.

Client's Response:

*The HRA-EDA is in the process of developing for Board approval a policy and procedure manual. The following policies have been approved:*

*Meal Reimbursement Policy*  
*Travel/Mileage Reimbursement Policy*  
*Conflict of Interest*  
*Contract Bid Policy*  
*Petty Cash Policy*

06-3 Oversight of Management Company

The HRA-EDA retains a management company to oversee operations of its apartment complexes. The management company is located in Mankato and administers financial as well as operational matters for the HRA-EDA. Our review of these practices caused us to conclude that the HRA-EDA management should have more involvement in financial matters affecting the apartment complexes. Involvement could include such matters as verification of rent collections, approval of bills, and maintaining an awareness of occupancy levels. We believe too much responsibility has been given to the management company, and the HRA-EDA should exercise more oversight over the financial practices performed by the company. We also note that the management company does not have formal audits performed of the funds it is managing for the HRA-EDA. Additional audit time was incurred by us to examine practices of the management company.

We recommend that the HRA-EDA Board and management revise current procedures involving oversight of the management company. We recommend that procedures be implemented to verify the amount of rent being recorded, compare rent collections with bank deposits, and approve bills prior to payment. Analyzing occupancy levels will also help ensure that all rent funds are being deposited correctly. The HRA-EDA should also consider requiring the management company to have annual audits that address administration of HRA-EDA funds.

Client's Response:

*The HRA-EDA Board will review the current procedures involving oversight of the management company and make recommendations at an upcoming meeting. Currently, monthly financial statements and occupancy levels are received from the management company and reviewed by the Office Administrator.*

**II. OTHER FINDINGS AND RECOMMENDATIONS**

MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

05-2 Security Interest in Pledged Collateral

Our previous report noted that 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). In our current audit, we found that the HRA-EDA had acquired documentation to comply with the FIRREA. However, the documentation does not state that upon default, the financial institution shall release the collateral to the HRA-EDA, as required by Minn. Stat. § 118A.03, subd. 4.

We recommend the perfected security interest documents be modified to comply with Minnesota statutes pertaining to the release of collateral to the HRA-EDA.

Client's Response:

*The HRA-EDA will receive documentation from its banking institution which states that upon default, the financial institution shall release the collateral to the HRA-EDA, as required by Minn. Stat. § 118A.03, subd. 4.*



REBECCA OTTO  
STATE AUDITOR

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

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

We have audited the basic 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, 2006, and have issued our report thereon dated December 7, 2007. 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 as a basis for designing our auditing procedures 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 HRA-EDA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the HRA-EDA's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the HRA-EDA's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the HRA-EDA's financial statements that is more than inconsequential will not be prevented or detected by the HRA-EDA's internal control. We considered the deficiencies described in the accompanying Schedule of Findings and Recommendations as items 05-1 and 06-1 through 06-3 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the HRA-EDA's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe none of the significant deficiencies described above is 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.

The HRA-EDA's written responses to the significant deficiencies and legal compliance finding identified in our audit have not been subjected to any auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

December 7, 2007