

# State of Minnesota



## Office of the State Auditor

Julie Blaha  
State Auditor  
Audit Practice Division

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### **Lake County Housing and Redevelopment Authority**

(A Component Unit of Lake County)  
**Two Harbors, Minnesota**

Annual Financial Report and  
Management and Compliance Report

Year Ended December 31, 2024

# Lake County Housing and Redevelopment Authority Two Harbors, Minnesota

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## **Introductory Section**

# Lake County Housing and Redevelopment Authority Two Harbors, Minnesota

## Organization

December 31, 2024

Commissioners	Term Expires
Richard DeRosier	May 30, 2025
Bob Entzion	May 30, 2025
Paul Iversen	May 30, 2026
Susan Rosette	May 30, 2026
Rick Goutermont	December 31, 2024

## **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, 2024, 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, 2024, and the respective changes in financial position, and, where applicable, 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 the 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 Information**

Management is responsible for the other information included in the Annual Financial Report. The other information comprises the Introductory Section but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

## Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 30, 2026, on our consideration of the Lake County Housing and Redevelopment Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Lake County Housing and Redevelopment Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Lake County Housing and Redevelopment Authority's internal control over financial reporting and compliance.

*/s/Julie Blaha*

*/s/Chad Struss*

Julie Blaha  
State Auditor

Chad Struss, CPA  
Deputy State Auditor

January 30, 2026

## **Basic Financial Statements**

## **Government-Wide Financial Statements**

**Exhibit 1**

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

**Statement of Net Position  
December 31, 2024**

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b><u>Assets</u></b>			
Cash and cash equivalents	\$ 373,219	\$ 247,939	\$ 621,158
Delinquent taxes receivable	7,629	-	7,629
Accounts receivable	-	6,665	6,665
Internal balances	26,045	(26,045)	-
Land held for resale	369,720	-	369,720
Restricted assets – Cash and pooled investments	2,165,007	24,196	2,189,203
Capital assets – depreciable – net of accumulated depreciation	758	640,338	641,096
<b>Total Assets</b>	<b>\$ 2,942,378</b>	<b>\$ 893,093</b>	<b>\$ 3,835,471</b>
<b><u>Liabilities</u></b>			
Accounts payable	\$ 16,912	\$ 63,349	\$ 80,261
Due to Lake County	37,536	-	37,536
Unearned revenue	-	2,425	2,425
Liabilities payable from restricted assets			
Security deposits payable	-	24,196	24,196
Long-term liabilities			
Due within one year	4,240	-	4,240
Due in more than one year	-	163,400	163,400
<b>Total Liabilities</b>	<b>\$ 58,688</b>	<b>\$ 253,370</b>	<b>\$ 312,058</b>
<b><u>Net Position</u></b>			
Net investment in capital assets	\$ 758	\$ 476,938	\$ 477,696
Restricted for housing	2,414,935	-	2,414,935
Unrestricted	467,997	162,785	630,782
<b>Total Net Position</b>	<b>\$ 2,883,690</b>	<b>\$ 639,723</b>	<b>\$ 3,523,413</b>

Exhibit 2

Lake County Housing and Redevelopment Authority  
Two Harbors, Minnesota

Statement of Activities  
For the Year Ended December 31, 2024

	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Functions/Programs</b>						
<b>Governmental activities</b>						
Urban and economic development	\$ 213,584	\$ 5,000	\$ 2,099,218	\$ 1,890,634	\$ -	\$ 1,890,634
<b>Business-type activities</b>						
Housing	633,527	347,177	-	-	(286,350)	(286,350)
<b>Total</b>	<b>\$ 847,111</b>	<b>\$ 352,177</b>	<b>2,099,218</b>	<b>\$ 1,890,634</b>	<b>\$ (286,350)</b>	<b>\$ 1,604,284</b>
<b>General Revenues</b>						
Property taxes				\$ 357,058	\$ -	\$ 357,058
Grants and contributions not restricted to specific programs				18,867	-	18,867
Investment earnings				94,761	2,925	97,686
Miscellaneous				19,750	15,767	35,517
Transfers				(280,000)	280,000	-
<b>Total general revenues and transfers</b>				<b>\$ 210,436</b>	<b>\$ 298,692</b>	<b>\$ 509,128</b>
<b>Change in net position</b>				<b>\$ 2,101,070</b>	<b>\$ 12,342</b>	<b>\$ 2,113,412</b>
<b>Net Position – Beginning</b>				<b>782,620</b>	<b>627,381</b>	<b>1,410,001</b>
<b>Net Position – Ending</b>				<b>\$ 2,883,690</b>	<b>\$ 639,723</b>	<b>\$ 3,523,413</b>

## **Fund Financial Statements**

## **Governmental Funds**

**Exhibit 3**

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

**Balance Sheet  
Governmental Funds  
December 31, 2024**

	<u>General</u>	<u>Local Housing Trust</u>	<u>Total Governmental Funds</u>
<b><u>Assets</u></b>			
Cash	\$ 288,052	\$ 61,243	\$ 349,295
Cash held with Lake County	23,924	-	23,924
Restricted pooled investments	-	2,165,007	2,165,007
Delinquent taxes receivable	7,629	-	7,629
Due from other funds	46,887	-	46,887
Land held for resale	151,420	218,300	369,720
<b>Total Assets</b>	<b>\$ 517,912</b>	<b>\$ 2,444,550</b>	<b>\$ 2,962,462</b>
<b><u>Liabilities</u></b>			
Accounts payable	\$ 582	\$ 16,330	\$ 16,912
Due to other funds	7,557	13,285	20,842
Due to primary government	37,536	-	37,536
<b>Total Liabilities</b>	<b>\$ 45,675</b>	<b>\$ 29,615</b>	<b>\$ 75,290</b>
<b><u>Deferred Inflows of Resources</u></b>			
Unavailable revenue – taxes	\$ 5,583	\$ -	\$ 5,583
<b><u>Fund Balance</u></b>			
Restricted for housing	\$ -	\$ 2,414,935	\$ 2,414,935
Unassigned	466,654	-	466,654
<b>Total Fund Balance</b>	<b>\$ 466,654</b>	<b>\$ 2,414,935</b>	<b>\$ 2,881,589</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balance</b>	<b>\$ 517,912</b>	<b>\$ 2,444,550</b>	<b>\$ 2,962,462</b>

**Exhibit 4**

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

**Reconciliation of Governmental Funds Balance Sheet to the  
Government-Wide Statement of Net Position—Governmental Activities  
December 31, 2024**

<b>Fund balance – governmental funds (Exhibit 3)</b>	<b>\$ 2,881,589</b>
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	758
Long-term assets, other than capital assets, are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.	5,583
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.	
Compensated absences	<u>(4,240)</u>
<b>Net Position of Governmental Activities (Exhibit 1)</b>	<b><u><u>\$ 2,883,690</u></u></b>

**Exhibit 5**

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

**Statement of Revenues, Expenditures, and Changes in Fund Balance  
Governmental Funds  
For the Year Ended December 31, 2024**

	General	Local Housing Trust	Total Governmental Funds
<b>Revenues</b>			
Property taxes	\$ 354,140	\$ -	\$ 354,140
Intergovernmental	118,085	2,000,000	2,118,085
Investment earnings	7,456	87,305	94,761
Rent	5,000	-	5,000
Miscellaneous	19,250	500	19,750
<b>Total Revenues</b>	<b>\$ 503,931</b>	<b>\$ 2,087,805</b>	<b>\$ 2,591,736</b>
<b>Expenditures</b>			
<b>Current</b>			
<b>Urban and economic development</b>			
Salary and employee benefits	\$ 129,832	\$ -	\$ 129,832
Contracted services	4,938	-	4,938
Meetings	10,869	-	10,869
Administrative services	12,248	-	12,248
Accounting and auditing	22,130	-	22,130
Housing rehabilitation	13,584	-	13,584
Other	17,024	72	17,096
<b>Total Expenditures</b>	<b>\$ 210,625</b>	<b>\$ 72</b>	<b>\$ 210,697</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 293,306</b>	<b>\$ 2,087,733</b>	<b>\$ 2,381,039</b>
<b>Other Financing Sources (Uses)</b>			
Transfers in	\$ -	\$ 10,000	\$ 10,000
Transfers out	(290,000)	-	(290,000)
<b>Total Other Financing Sources (Uses)</b>	<b>\$ (290,000)</b>	<b>\$ 10,000</b>	<b>\$ (280,000)</b>
<b>Net Change in Fund Balance</b>	<b>\$ 3,306</b>	<b>\$ 2,097,733</b>	<b>\$ 2,101,039</b>
<b>Fund Balance – January 1</b>	<b>463,348</b>	<b>317,202</b>	<b>780,550</b>
<b>Fund Balance – December 31</b>	<b>\$ 466,654</b>	<b>\$ 2,414,935</b>	<b>\$ 2,881,589</b>

**Exhibit 6**

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

**Reconciliation of the Statement of Revenues, Expenditures, and  
Changes in Fund Balance of the Governmental Funds to the  
Government-Wide Statement of Activities—Governmental Activities  
For the Year Ended December 31, 2024**

**Net change in fund balance – total governmental funds (Exhibit 5) \$ 2,101,039**

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 revenue between the fund statements and the statement of activities is the increase or decrease in revenue deferred as unavailable.

Deferred inflows of resources – December 31	\$ 5,583
Deferred inflows of resources – January 1	<u>(2,665)</u>

Total adjustment to revenue in the government-wide statements for current year and prior year unavailable revenue	\$ 2,918
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Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Current year depreciation	(152)
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Change in compensated absences	<u>(2,735)</u>
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**Change in Net Position of Governmental Activities (Exhibit 2) \$ 2,101,070**

**Proprietary Funds**

**Enterprise Funds**

Exhibit 7

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

**Statement of Net Position  
Enterprise Funds  
December 31, 2024**

	Silverpointe Apartments	Lakeview Apartments	Total Enterprise Funds
<b>Assets</b>			
<b>Current assets</b>			
Cash	\$ 138,179	\$ 109,760	\$ 247,939
Due from other funds	7,557	-	7,557
Accounts receivable	395	6,270	6,665
<b>Total current assets</b>	<b>\$ 146,131</b>	<b>\$ 116,030</b>	<b>\$ 262,161</b>
<b>Restricted assets</b>			
Cash			
Cash held for security deposits	22,671	1,525	24,196
<b>Noncurrent assets</b>			
Capital assets			
Depreciable – net of accumulated depreciation	640,338	-	640,338
<b>Total Assets</b>	<b>\$ 809,140</b>	<b>\$ 117,555</b>	<b>\$ 926,695</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable	\$ 6,340	\$ 57,009	\$ 63,349
Due to other funds	11,195	22,407	33,602
Unearned revenue	2,425	-	2,425
<b>Total current liabilities</b>	<b>\$ 19,960</b>	<b>\$ 79,416</b>	<b>\$ 99,376</b>
<b>Current liabilities payable from restricted assets</b>			
Security deposits payable	\$ 22,671	\$ 1,525	\$ 24,196
<b>Noncurrent liabilities</b>			
General obligation bonds payable – long-term	\$ 165,000	\$ -	\$ 165,000
Less: unamortized bond premium (discount)	(1,600)	-	(1,600)
<b>Total noncurrent liabilities</b>	<b>\$ 163,400</b>	<b>\$ -</b>	<b>\$ 163,400</b>
<b>Total Liabilities</b>	<b>\$ 206,031</b>	<b>\$ 80,941</b>	<b>\$ 286,972</b>
<b>Net Position</b>			
Net investment in capital assets	\$ 476,938	\$ -	\$ 476,938
Unrestricted	126,171	36,614	162,785
<b>Total Net Position</b>	<b>\$ 603,109</b>	<b>\$ 36,614</b>	<b>\$ 639,723</b>

**Exhibit 8**

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

**Statement of Revenues, Expenses, and Changes in Net Position  
Enterprise Funds  
Year Ended December 31, 2024**

	Silverpointe Apartments	Lakeview Apartments	Total Enterprise Funds
<b>Operating Revenues</b>			
Rental	\$ 241,460	\$ 97,989	\$ 339,449
Parking	7,728	-	7,728
Miscellaneous	8,553	7,214	15,767
<b>Total Operating Revenues</b>	<b>\$ 257,741</b>	<b>\$ 105,203</b>	<b>\$ 362,944</b>
<b>Operating Expenses</b>			
Other services and charges			
Contracted services	\$ 24,486	\$ -	\$ 24,486
Management fees	15,367	3,600	18,967
Professional fees	575	1,426	2,001
Real estate taxes	10,015	-	10,015
Telephone	1,849	-	1,849
Utilities	40,993	19,523	60,516
Advertising	150	-	150
Insurance	10,902	-	10,902
Repairs and maintenance	44,475	374,496	418,971
Sanitation	12,930	-	12,930
Miscellaneous	1,683	5,482	7,165
Supplies	1,355	-	1,355
Depreciation expense	55,854	-	55,854
<b>Total Operating Expenses</b>	<b>\$ 220,634</b>	<b>\$ 404,527</b>	<b>\$ 625,161</b>
<b>Operating Income (Loss)</b>	<b>\$ 37,107</b>	<b>\$ (299,324)</b>	<b>\$ (262,217)</b>
<b>Nonoperating Revenues (Expenses)</b>			
Investment earnings	\$ 2,925	\$ -	\$ 2,925
Discount on issuance of bonds	(803)	-	(803)
Interest expense	(7,563)	-	(7,563)
<b>Total Nonoperating Revenues (Expenses)</b>	<b>\$ (5,441)</b>	<b>\$ -</b>	<b>\$ (5,441)</b>
<b>Income (Loss) Before Contributions and Transfers</b>	<b>\$ 31,666</b>	<b>\$ (299,324)</b>	<b>\$ (267,658)</b>
Transfers in	-	280,000	280,000
<b>Change in Net Position</b>	<b>\$ 31,666</b>	<b>\$ (19,324)</b>	<b>\$ 12,342</b>
<b>Net Position – January 1</b>	<b>571,443</b>	<b>55,938</b>	<b>627,381</b>
<b>Net Position – December 31</b>	<b>\$ 603,109</b>	<b>\$ 36,614</b>	<b>\$ 639,723</b>

**Exhibit 9**

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

**Statement of Cash Flows  
Enterprise Funds  
Year Ended December 31, 2024**

	Silverpointe Apartments	Lakeview Apartments	Total Enterprise Funds
<b>Cash Flows from Operating Activities</b>			
Cash received from customers	\$ 259,878	\$ 100,458	\$ 360,336
Cash paid to suppliers	(171,395)	(333,365)	(504,760)
<b>Net cash provided by (used in) operating activities</b>	<b>\$ 88,483</b>	<b>\$ (232,907)</b>	<b>\$ (144,424)</b>
<b>Cash Flows from Capital and Related Financing Activities</b>			
Principal paid on long-term debt	\$ (60,000)	\$ -	\$ (60,000)
Interest paid on long-term debt	(7,563)	-	(7,563)
Transfers in from General Fund	-	280,000	280,000
<b>Net cash provided by (used in) capital and related financing activities</b>	<b>\$ (67,563)</b>	<b>\$ 280,000</b>	<b>\$ 212,437</b>
<b>Cash Flows from Investing Activities</b>			
Investment earnings	\$ 2,925	\$ -	\$ 2,925
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>\$ 23,845</b>	<b>\$ 47,093</b>	<b>\$ 70,938</b>
<b>Cash and Cash Equivalents – January 1</b>	<b>137,005</b>	<b>64,192</b>	<b>201,197</b>
<b>Cash and Cash Equivalents – December 31</b>	<b>\$ 160,850</b>	<b>\$ 111,285</b>	<b>\$ 272,135</b>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities</b>			
<b>Net operating income (loss)</b>	<b>\$ 37,107</b>	<b>\$ (299,324)</b>	<b>\$ (262,217)</b>
<b>Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities</b>			
Depreciation expense	\$ 55,854	\$ -	\$ 55,854
(Increase) decrease in receivables	(393)	(6,270)	(6,663)
Increase (decrease) in accounts payable	(6,615)	50,732	44,117
Increase (decrease) in due from other funds	-	20,430	20,430
Increase (decrease) in security deposits payable	3,409	1,525	4,934
Increase (decrease) in unearned revenue	(879)	-	(879)
<b>Total adjustments</b>	<b>\$ 51,376</b>	<b>\$ 66,417</b>	<b>\$ 117,793</b>
<b>Net Cash Provided by (Used in) Operating Activities</b>	<b>\$ 88,483</b>	<b>\$ (232,907)</b>	<b>\$ (144,424)</b>

# Lake County Housing and Redevelopment Authority

## Two Harbors, Minnesota

### Notes to the Financial Statements

As of and for the Year Ended December 31, 2024

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#### 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, 2024. 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 are those clearly identifiable with a specific function or activity. Program revenues include: (1) fees, fines, and

# Lake County Housing and Redevelopment Authority

## Two Harbors, Minnesota

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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. The Authority does not allocate indirect expenses to functions within the financial statements.

### 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 Lake 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

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

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or incidental activities.

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

### Budget

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

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

#### Deposits and Investments

The Authority's cash and cash equivalents consist of savings and checking accounts, cash on hand, and certificates of deposits. Restricted cash and investments are shown separately from cash and cash equivalents. In 2024, the Authority reported investment earnings of \$97,686.

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

#### 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.

# Lake County Housing and Redevelopment Authority

## Two Harbors, Minnesota

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### Restricted Assets

Certain funds of the Authority are classified as restricted assets on the statement of net position because the restriction is either imposed by law through constitutional provisions or enabling legislation, or imposed externally by creditors, grantors, contributors, or laws or regulations of other governments. Therefore, their use is limited by applicable laws and regulations.

### Land Held for Resale

Land held for resale consists of land or buildings that will be used for the construction or rehabilitation of buildings to provide low-income housing to residents of Lake County at a reasonable cost. The value of the land held for resale is recorded at the costs to purchase and make improvements to the property.

### 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.

Additions, improvements, and other capital outlays that significantly extend the useful life or increase capacity of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

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

#### Estimated Useful Lives of Capital Assets

Assets	Years
Buildings and structures	25-40
Equipment	7

### Unearned Revenue

The financial statements report unearned revenue in connection with resources that have been received but not yet earned.

### Compensated Absences

The liability for compensated absences is reported in the government-wide financial statements. The leave consists of unpaid, accumulated vacation and sick leave balances that is attributable to the services already rendered, it accumulates, and it is more likely than not to be used or settled through cash or noncash means. A liability for these amounts is reported in the General Fund only if they have matured, for example, as a result of employee resignations and retirements.

The government-wide statement of net position reports compensated absences as a current liability only, because there is no noncurrent portion at this time. The current portion is an amount based on a trend analysis of current usage of vacation and sick leave.

# Lake County Housing and Redevelopment Authority

## Two Harbors, Minnesota

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### Deferred Outflows/Inflows of Resources

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

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net assets that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Authority has only one type of item that qualifies for reporting in this category, unavailable revenue, which is reported only in the governmental funds balance sheet and is associated with revenue received after the period of availability. 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, \$7,563 of interest expense is reported as a direct housing expense.

### Classification of Net Position

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

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

Restricted net position – the amount of net position for which external restrictions have been imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

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

# Lake County Housing and Redevelopment Authority

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### Classification of Fund Balances

Fund balance is divided into five classifications based primarily on the extent to which the Authority is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable – amounts that cannot be spent because they are not in spendable form, or are legally or contractually required to be maintained intact, such as fund balance associated with inventories, prepaids, or permanent funds.

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

Committed – amounts that can be used only for the specific purposes determined by a formal action (resolution) of the Authority's highest level of decision-making authority, which is the Authority's Board of Commissioners. Fund balance commitments are established, modified, or rescinded by Board action through a Board resolution.

Assigned – amounts intended to be used by the Authority for specific purposes that do not meet the criteria to be classified as restricted or committed.

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

The Authority applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources; and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### Note 2 – Budgetary Information

The Authority did not approve a General Fund or Local Housing Trust Special Revenue Fund budget for fiscal year 2024 and, therefore, a budgetary comparison schedule is not presented.

# Lake County Housing and Redevelopment Authority

## Two Harbors, Minnesota

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### Note 3 – Detailed Notes

#### Assets

#### Deposits and Investments

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

#### Reconciliation of the Authority’s Total Cash and Investments to the Basic Financial Statements as of December 31, 2024

Basic Financial Statement Accounts	Governmental Activities	Business- Type Activities	Total
Cash	\$ 373,219	\$ 247,939	\$ 621,158
Restricted assets – external investment pool	2,165,007	-	2,165,007
Restricted assets – security deposits	-	24,196	24,196
<b>Total</b>	<b>\$ 2,538,226</b>	<b>\$ 272,135</b>	<b>\$ 2,810,361</b>

The Authority is authorized by Minn. Stat. §§ 118A.02 and 118A.04 to designate a depository for public funds and to invest in certificates of deposit. The Authority is required by Minn. Stat. § 118A.03 to protect Authority deposits with insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit at the close of the financial institution’s banking day, not covered by insurance or bonds.

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated “A” or better and revenue obligations rated “AA” or better; irrevocable standby letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral.

#### Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the Authority’s deposits may not be returned to it. The Authority does not have a deposit policy for custodial credit risk. As of December 31, 2024, the Authority’s deposits were not exposed to custodial credit risk.

#### Investments

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

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as “high risk” by Minn. Stat. § 118A.04, subd. 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;

# Lake County Housing and Redevelopment Authority

## Two Harbors, Minnesota

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

The Authority has not adopted a formal investment policy.

### Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment.

### Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

### Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities in the possession of an outside party.

### Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the Authority's investment in a single issuer.

### Fair Value Measurement

The following table presents the Authority's investment balances at December 31, 2024:

#### Investment Information as of December 31, 2024

Investment Type	Carrying (Fair) Value
MAGIC Portfolio	\$ 2,165,007

MAGIC is a local government investment pool which is quoted at net asset value. Lake County invests on behalf of the Authority in this pool for the purpose of the joint investment with other counties to enhance the investment

# Lake County Housing and Redevelopment Authority

## Two Harbors, Minnesota

earnings accruing to each member. The Authority's investments in MAGIC currently consists of the MAGIC Portfolio.

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

### Capital Assets

Capital asset activity for the year ended December 31, 2024, was as follows:

### Governmental Activities

#### Changes in Capital Assets for the Year Ended December 31, 2024

Capital Assets – Governmental Activities	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets depreciated				
Equipment	\$ 2,928	\$ -	\$ -	\$ 2,928
Less: accumulated depreciation for				
Equipment	2,018	152	-	2,170
Total Governmental Activities Capital Assets, Net	<u>\$ 910</u>	<u>\$ (152)</u>	<u>\$ -</u>	<u>\$ 758</u>

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

#### Depreciation Expense Charged to Functions/Programs

Governmental Activities – Depreciation	Amount
Urban and economic development	<u>\$ 152</u>

# Lake County Housing and Redevelopment Authority

## Two Harbors, Minnesota

### Business-Type Activities

#### Changes in Capital Assets for the Year Ended December 31, 2024

Capital Assets – Business-Type Activities	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets depreciated				
Buildings and structures	\$ 1,951,232	\$ -	\$ -	\$ 1,951,232
Equipment	70,420	-	-	70,420
<b>Total capital assets depreciated</b>	<b>\$ 2,021,652</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2,021,652</b>
Less: accumulated depreciation for				
Buildings and structures	\$ 1,273,484	\$ 51,252	\$ -	\$ 1,324,736
Equipment	51,976	4,602	-	56,578
<b>Total accumulated depreciation</b>	<b>\$ 1,325,460</b>	<b>\$ 55,854</b>	<b>\$ -</b>	<b>\$ 1,381,314</b>
<b>Business-Type Activities Capital Assets, Net</b>	<b>\$ 696,192</b>	<b>\$ (55,854)</b>	<b>\$ -</b>	<b>\$ 640,338</b>

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

#### Depreciation Expense Charged to Functions/Programs

Business-Type Activities – Depreciation	Amount
Housing	<u>\$ 55,854</u>

### Interfund Receivables, Payables, and Transfers

#### Due To/From Other Funds

The composition of interfund balances as of December 31, 2024, is as follows:

#### Interfund Balances as of December 31, 2024

Receivable Fund	Payable Fund	Amount	Purpose
General Fund	Silverpointe Apartments Enterprise Fund	\$ 11,195	Reimbursement for services
General Fund	Lakeview Apartments Enterprise Fund	22,407	Reimbursement for services
General Fund	Local Housing Trust Fund	<u>13,285</u>	Reimbursement for single family home construction costs
<b>Total due to General Fund</b>		<b>\$ 46,887</b>	
Silverpointe Apartments Enterprise Fund	General Fund	<u>7,557</u>	2012 bond proceeds
<b>Total Due To/From Other Funds</b>		<b>\$ 54,444</b>	

# Lake County Housing and Redevelopment Authority

## Two Harbors, Minnesota

### Interfund Transfers

Interfund transfers for the year ended December 31, 2024, consisted of the following:

#### Interfund Transfers for the Year Ended December 31, 2024

Transfers Between Funds	Amount	Purpose
Transfer to Local Housing Trust Special Revenue Fund from General Fund	\$ 10,000	To provide funding to the Local Housing Trust Special Revenue Fund
Transfer to Lakeview Apartments Enterprise Fund from General Fund	<u>280,000</u>	To provide funding to assist with the rehabilitation of the Lakeview Apartment Building
Total interfund transfers	<u>\$ 290,000</u>	

### Liabilities

#### Due to Lake County

The General Fund reports a Due to Lake County of \$37,536 for fourth quarter payroll costs. Lake County processes the Authority Director's payroll and is reimbursed by the Authority on a quarterly basis.

#### Long-Term Debt

#### Business-Type Activities

#### Bonds Payable as of December 31, 2024

Type of Indebtedness	Final Maturity	Installment Amount	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2024
2012 General Obligation Senior Housing Bonds	2028	Varies	1.00-3.5	\$ 860,000	<u>\$ 165,000</u>

#### Debt Service Requirements

Debt service requirements at December 31, 2024, were as follows:

#### Business-Type Activities

#### Debt Service Requirements as of December 31, 2024 Revenue Bonds

Year Ending December 31	Principal	Interest
2025	\$ -	\$ 6,588
2026	65,000	4,556
2027	65,000	2,363
2028	<u>35,000</u>	613
Total	<u>\$ 165,000</u>	<u>\$ 14,120</u>

# Lake County Housing and Redevelopment Authority

## Two Harbors, Minnesota

### Changes in Long-Term Liabilities

#### Governmental Activities

#### Changes in Long-Term Liabilities for the Year Ended December 31, 2024

Long-Term Liabilities – Governmental Activities	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated absences	\$ 1,505	\$ 10,252	\$ (7,517)	\$ 4,240	\$ 4,240

#### Business-Type Activities

#### Changes in Long-Term Liabilities for the Year Ended December 31, 2024

Long-Term Liabilities – Business-Type Activities	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
2012 General Obligation Senior Housing Bonds	\$ 225,000	\$ -	\$ (60,000)	\$ 165,000	\$ -
Less: unamortized discounts	(2,403)	-	803	(1,600)	-
Total	\$ 222,597	\$ -	\$ (59,197)	\$ 163,400	\$ -

### Note 4 – Summary of Significant Contingencies and Other Items

#### Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; or natural disasters. To manage these risks, the Authority has joined the Minnesota Counties Intergovernmental Trust. The Authority retains risk for the deductible portions of the insurance policies. The amounts of these deductibles are considered immaterial to the financial statements. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for the past three fiscal years.

#### Conduit Debt

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

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

The Authority is not obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the financial statements. The outstanding balance at December 31, 2024, is \$3,062,421.

## **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 the 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, 2024, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated January 30, 2026.

### 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Recommendations, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control over financial reporting* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Recommendations as items 2024-002, 2024-006, 2024-007, 2024-009, and 2024-010 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Recommendations as items 2024-001, 2024-003 through 2024-005, and 2024-008 to be significant deficiencies.

## Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Lake County Housing and Redevelopment Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## Minnesota Legal Compliance

In connection with our audit, we noted that the Lake County Housing and Redevelopment Authority failed to comply with the provisions of the contracting – bid laws section of the *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, insofar as they relate to accounting matters, as described in the Schedule of Findings and Recommendations as item 2024-011 and an other matter reported as item 2024-012. Also, in connection with our audit, nothing came to our attention that caused us to believe that the Authority failed to comply with the provisions of the 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*, 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.

## Other Items

Included in the Schedule of Findings and Recommendations is a management practice comment. We believe this recommendation and information to be of benefit to the Authority, and it is reported for that purpose.

## Lake County Housing and Redevelopment Authority's Response to Findings

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

## Purpose of This Report

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

*Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

*/s/Julie Blaha*

Julie Blaha  
State Auditor

January 30, 2026

*/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, 2024

### Section I – Financial Statement Findings

**2024-001**      Segregation of Duties

**Prior Year Finding Number:** 2023-001

**Year of Finding Origination:** 1998

**Type of Finding:** Internal Control Over Financial Reporting

**Severity of Deficiency:** Significant Deficiency

**Criteria:** Management is responsible for establishing and maintaining internal control. Adequate segregation of duties is a key internal control in preventing and detecting errors or irregularities. To protect the Lake County Housing and Redevelopment Authority's assets, proper segregation of the record-keeping, custody, and authorization functions should be in place. Where management decides segregation of duties may not be cost effective, compensating controls should be in place.

**Condition:** The Lake County Housing and Redevelopment Authority has one individual responsible for performing bank reconciliations; collecting, recording, and depositing receipts; creating checks and recording the disbursements; recording journal entries; and maintaining sole access to the general ledger. There is another individual who has access to bank accounts, creates checks, and approves payments; and collects rent deposits, maintains the record of payment, and monitors any delinquent accounts.

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

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

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

**Recommendation:** Management should be aware that segregation of duties is not adequate from an internal control point of view. We recommend the Board of Commissioners and management be mindful that limited staffing causes inherent risks in safeguarding the Authority's assets and the proper reporting of its financial activity. We recommend the Board of Commissioners and management continue to implement oversight procedures and monitor those procedures to determine if they are still effective internal controls.

**View of Responsible Official:** Concur

# Lake County Housing and Redevelopment Authority

## Two Harbors, Minnesota

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### 2024-002 Audit Adjustments

**Prior Year Finding Number:** 2023-003

**Year of Finding Origination:** 2011

**Type of Finding:** Internal Control Over Financial Reporting

**Severity of Deficiency:** Material Weakness

**Criteria:** A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or personnel, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements of the financial statements on a timely basis. Auditing standards define a material weakness as a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected, on a timely basis.

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

**Context:** The inability to detect 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:

#### General Fund

- Assets increased by \$57,590, liabilities increased by \$45,010, and fund balance increased by \$12,580 to record prior year audit adjustments that had not been corrected by the Authority.
- Land held for resale increased by \$151,420 and expenditures decreased by \$151,420 to record land held for resale for housing projects within Lake County.
- Cash and revenue decreased by \$200,000 to eliminate revenue incorrectly recorded for matured certificates of deposit.
- Cash increased by \$100,000 and expenditures decreased by \$100,000 to eliminate expenditures incorrectly recorded for the purchase of a certificate of deposit.
- Due to other governments and payroll expenditures increased by \$34,425 for fourth quarter payroll costs owed to Lake County.
- Cash decreased by \$129,788, interest revenue increased by \$212, and transfers out increased by \$130,000 to record the activity related to a general savings account.
- Transfers out increased by \$25,000 and fund balance increased by \$25,000 to correct an entry made in error for transfers between the General Fund and the Lakeview Apartments Enterprise Fund.
- Due from other funds increased by \$20,430 and expenditures decreased by \$20,430 to account for the Lakeview Apartments Enterprise Fund credit card expenses paid by the General Fund.

# Lake County Housing and Redevelopment Authority

## Two Harbors, Minnesota

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- Revenues decreased by \$250,000, expenditures decreased by \$85,000, and transfers out decreased by \$165,000 to properly record transfers between funds at year-end.

### Local Housing Trust Special Revenue Fund

- Cash increased by \$61,243, expenditures increased by \$188,757, and transfers out decreased by \$250,000 to record the activity of an unrecorded bank account that was opened during the year for Local Housing Trust Special Revenue Fund activity.
- Land held for resale increased by \$218,300 and expenditures decreased by \$218,300 to record land held for resale for housing projects within Lake County.

### Lakeview Apartments Enterprise Fund

- Assets increased by \$5,110, liabilities increased by \$8,254, and fund balance decreased by \$3,144 to record prior year audit adjustments that had not been corrected by the Authority.
- Accounts payable and expenses increased by \$57,009 to record additional liabilities related to repairs and maintenance services not previously recorded.
- Due to other funds and expenses increased by \$20,430 to account for Lakeview Apartments Enterprise Fund expenses paid by the General Fund.
- Transfers in increased by \$25,000 and fund balance decreased by \$25,000 to correct an entry made in error for transfers between the General Fund and the Lakeview Apartments Enterprise Fund.
- Revenues decreased and transfers in increased by \$200,000 to properly record transfers in at year-end.
- Unrestricted cash decreased and restricted cash increased by \$1,525 to restrict cash held for security deposits at year-end. Security deposits payable increased by \$1,525 and revenues decreased by \$1,525 to record security deposits held by the Authority at year-end for the Lakeview Apartments.

### Silverpointe Apartments Enterprise Fund

- Assets decreased by \$581,478, liabilities increased by \$51,157, and fund balance decreased by \$632,635 to record prior year audit adjustments that had not been corrected by the Authority.
- Accumulated depreciation and depreciation expense increased by \$55,854 to record annual depreciation.

**Cause:** The Authority informed us that staff does not have the knowledge on how to make the material adjustments.

**Recommendation:** We recommend the Authority hire additional staff, obtain additional training, or implement procedures over financial reporting to ensure the Authority's financial statements are complete, accurate, and fairly presented in accordance with generally accepted accounting principles in the United States of America.

**View of Responsible Official:** Concur

# Lake County Housing and Redevelopment Authority

## Two Harbors, Minnesota

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### 2024-003 Accounting Policies and Procedures Manual

**Prior Year Finding Number:** 2023-004

**Year of Finding Origination:** 2023

**Type of Finding:** Internal Control Over Financial Reporting

**Severity of Deficiency:** Significant Deficiency

**Criteria:** Management is responsible for developing and monitoring its internal controls over the accounting cycles and the systems used for financial reporting. Although other methods might suffice, this documentation is traditionally in the form of an accounting policies and procedures manual. This manual should document the accounting policies and procedures that make up the Authority's internal control system.

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

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

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

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

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

**View of Responsible Official:** Concur

### 2024-004 Due to Other Funds and Due From Other Funds

**Prior Year Finding Number:** 2023-005

**Year of Finding Origination:** 2023

**Type of Finding:** Internal Control Over Financial Reporting

**Severity of Deficiency:** Significant Deficiency

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

**Condition:** At December 31, 2024, the Authority's recorded interfund receivables and payables have not been repaid in a timely manner.

# Lake County Housing and Redevelopment Authority

## Two Harbors, Minnesota

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

- The General Fund paid the insurance costs for the Silverpointe Apartments Enterprise Fund of \$5,234 in 2012 and \$5,961 in 2013.
- The General Fund received bond proceeds of \$7,557 when the Authority refinanced the Silverpointe Apartments mortgage in 2012.
- The General Fund paid \$1,977 for Lakeview Apartments expenditures related to director expenses, mileage, and administration costs over multiple prior years.

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

**Cause:** The HRA staff did not allocate sufficient time to address and resolve these issues.

**Recommendation:** We recommend the Authority periodically review the amounts in the due to other funds and due from other funds accounts to make a determination on whether these funds will be repaid to the respective fund and, if so, when repayment will occur.

**View of Responsible Official:** Concur

### 2024-005 Reconciliation of Rent Revenue Lakeview Apartments

**Prior Year Finding Number:** 2023-006

**Year of Finding Origination:** 2023

**Type of Finding:** Internal Control Over Financial Reporting

**Severity of Deficiency:** Significant Deficiency

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

**Condition:** The Authority does not have procedures in place to reconcile the detailed Lakeview Apartments rents collected based on the rent revenue tracking sheet to the general ledger. The rent revenue tracking sheet did not include \$3,640 in 2024 rent revenue.

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

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

**Cause:** The individual preparing the rent tracking sheet does not have access to the general ledger and was not provided a general ledger activity listing.

# Lake County Housing and Redevelopment Authority

## Two Harbors, Minnesota

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

**View of Responsible Official:** Concur

**2024-006**      Check Signing Procedures and Cashier's Checks

**Prior Year Finding Number:** 2023-007

**Year of Finding Origination:** 2023

**Type of Finding:** Internal Control Over Financial Reporting

**Severity of Deficiency:** Material Weakness

**Criteria:** The Authority's bylaws require checks and other orders to be signed by both the Secretary and another Commissioner, except as otherwise authorized by resolution of the Authority. A key internal control is to require two signatures on all payments which helps ensure expenditures have been properly approved and reduces the risk of an unauthorized or fraudulent payment occurring.

**Condition:** During 2024, payments made from the Lakeview Apartments Enterprise Fund only included one authorizing signature.

In addition, the Authority started using cashier's checks to pay for various expenditures during 2024. The payments made with cashier's checks are displayed in the bank statements as account withdrawals and only require one signature.

**Context:** Commissioners review disbursements subsequent to payment at monthly Board meetings. The Board of Commissioners has not approved a resolution allowing less than two authorized signers for payments made for the Lakeview Apartments Enterprise Fund.

In addition to requiring only one signature to obtain, the cashier's checks do not identify the vendor paid in the accounting records and require fees for each check issued, including checks written between Authority bank accounts. The Board of Commissioners has not taken action to approve the use of cashier's check for vendor payments.

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

**Cause:** The Authority was concerned that obtaining a second signature would cause unnecessary delay in payments since the Board only meets once a month.

**Recommendation:** We recommend the Authority review its check signing procedures and use of cashier's checks and implement additional internal controls to ensure that all payments are properly approved and paid in accordance with the Authority's bylaws.

**View of Responsible Official:** Concur

# Lake County Housing and Redevelopment Authority

## Two Harbors, Minnesota

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**2024-007**      **Bank Reconciliations**

**Prior Year Finding Number:** N/A

**Year of Finding Origination:** 2024

**Type of Finding:** Internal Control Over Financial Reporting

**Severity of Deficiency:** Material Weakness

**Criteria:** Reconciliations are control activities designed to provide reasonable assurance that errors will be detected in a timely manner and involve the comparison of records or balances from different sources. Effective reconciliations account for differences between records or balances. Reconciliations include investigating why differences exist and resolving them in a timely manner.

**Condition:** The Authority did not complete bank reconciliations for the Local Housing Trust Special Revenue Fund checking account that the Authority opened in July 2024.

Additionally, during the review of the Lakeview Apartments checking account bank reconciliation, an adjusting item of \$7,400 was noted as a difference between the bank balance and general ledger; however, this item cleared the bank in the prior year and should not be a current year reconciling item.

**Context:** The Authority did not include the activity of the Local Housing Trust Special Revenue Fund checking account in the Authority's general ledger.

**Effect:** In the Local Housing Trust Special Revenue Fund, cash was understated by \$250,000 and expenditures were understated by \$188,757 at year-end. In the Lakeview Apartments Fund, cash was overstated at year-end by \$7,400.

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

**Cause:** The Executive Director is responsible for monitoring the Local Housing Trust Special Revenue Fund checking account and was not aware that bank reconciliations are needed or that activity related to the account should be recorded in the general ledger.

For the Lakeview Apartments checking account, prior year cash was increased instead of recording an expense. The prior year uncorrected error caused a difference between the bank balance and the general ledger.

**Recommendation:** We recommend the Authority review procedures in place over bank reconciliations to ensure they are completed in a timely manner. We also recommend the Authority include bank activity, along with corrections as needed, in the general ledger to ensure bank balances reconcile to the general ledger.

**View of Responsible Official:** Concur

# Lake County Housing and Redevelopment Authority

## Two Harbors, Minnesota

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### 2024-008 Credit Card Policy

**Prior Year Finding Number:** N/A

**Year of Finding Origination:** 2024

**Type of Finding:** Internal Control Over Financial Reporting

**Severity of Deficiency:** Significant Deficiency

**Criteria:** The Authority should adopt a credit card policy that establishes the Authority's internal control procedures over credit cards. The internal control procedures over credit cards should include a system for tracking all credit cards issued by the Authority as well as requiring employees who have been issued a credit card to sign a credit card user agreement form acknowledging the employee has read the credit card policy. The policy should also include a review process for all purchases made by credit card to verify that the purchases were legitimate purchases for the Authority.

**Condition:** The Executive Director began using an Authority issued credit card in 2024; however, the Board did not adopt a credit card policy.

**Context:** The Board approved the use of a credit card by the Executive Director in August 2023.

**Effect:** Without a written credit card policy, the Authority increases its likelihood for the misuse of Authority funds.

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

**Recommendation:** We recommend the Authority establish a credit card policy. This policy should establish procedures that would prohibit the use of the credit card for personal purchases; identify the individuals who are authorized to make purchases on behalf of the Authority and are eligible to use the card; set up a review process for all purchases made with the credit card; restrict the total amount of charges that can be made on the credit card; and obtain signed written acknowledgments of the credit card policy from all authorized users. Once the policy is established, the Board should review and approve the policy.

**View of Responsible Official:** Concur

### 2024-009 Multiple Accounting Systems and Recording of Transactions

**Prior Year Finding Number:** N/A

**Year of Finding Origination:** 2024

**Type of Finding:** Internal Control Over Financial Reporting

**Severity of Deficiency:** Material Weakness

**Criteria:** Management is responsible for the accuracy and completeness of all financial records and related information. Management is also responsible for controls over the period-end financial reporting process, including controls over procedures used to enter transactions into the general ledger and initiate, authorize, record, and process journal entries into the general ledger. When multiple accounting systems are used, procedures should be in place to consolidate the financial activity recorded in those accounting systems during its year-end closing process.

# Lake County Housing and Redevelopment Authority

## Two Harbors, Minnesota

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**Condition:** The Authority utilizes three different accounting systems to record the activities of four funds. These accounting systems are not interfaced into one accounting system for financial reporting, nor is a manual consolidation process in place to properly account for year-end account balances and transactions.

**Context:** The use of multiple accounting systems caused multiple errors and inconsistencies in the financial reporting process. Below is a list of the errors and inconsistencies corrected in the financial statements:

- The Authority does not adjust the general ledger for any adjustments to the financial statements at the completion of the annual audit. At the beginning of a new audit cycle, the January 1 account balances for the Balance Sheet/Statement of Net Position need to be reconciled to the prior year December 31 balances.
- The General Fund and Lakeview Apartments Enterprise Fund are reported as a singular fund in the general ledger.
- Unrecorded revenues and expenditures were identified during the audit. A new bank account was opened in 2024 to track the revenues and expenditures related to the construction of a single-family home, but this activity was not recorded in any of the Authority's accounting systems.
- Transfers in and transfers out between funds were not reconciled, which caused transfers between the General Fund and Lakeview Apartments Enterprise Fund to be unbalanced by \$25,000 at year-end.
- Payables and receivables are not identified or recorded in the general ledger for the General Fund and Lakeview Apartments Enterprise Fund.

**Effect:** The use of multiple accounting systems can lead to inconsistencies, errors, or missed activity in the financial reporting process. The use of multiple accounting systems can also increase the potential for fraudulent activity to occur.

**Cause:** The Authority consists of a Board of Commissioners, various independent contractors, and an Executive Director. Due to the limited staffing, the consolidation process of the Authority's records has not been properly designed.

**Recommendation:** We recommend that the Authority develop procedures to ensure that financial information across its multiple accounting systems is consolidated and adjustments are made to account for year-end account balances and transactions as part of its year-end closing process. This could include replacing the multiple accounting systems with a single accounting system or working with a vendor with suitable skill, knowledge, or experience to consolidate the activity from the accounting systems on its behalf.

**View of Responsible Official:** Concur

**2024-010**      Accounting for Capital Assets

**Prior Year Finding Number:** N/A

**Year of Finding Origination:** 2024

**Type of Finding:** Internal Control Over Financial Reporting

**Severity of Deficiency:** Material Weakness

**Criteria:** The Authority is required by generally accepted accounting principles to account for and depreciate its capital assets over their estimated useful lives.

# Lake County Housing and Redevelopment Authority

## Two Harbors, Minnesota

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**Condition:** The Authority does not maintain detailed capital asset records that include a list of current capital assets in use, the cost or estimated historical cost, or accumulated depreciation for each asset.

**Context:** Information needed for reporting includes capital assets by major asset category, capital outlay function, and depreciation expense by function.

**Effect:** The Lake County Housing and Redevelopment Authority has not complied with all the requirements of generally accepted accounting principles.

**Cause:** The Lake County Housing and Redevelopment Authority has not developed a comprehensive capital asset policy for accumulating and recording its capital assets in accordance with generally accepted accounting principles.

**Recommendation:** The Authority should establish a record-keeping system for capital assets to improve controls over capital assets and comply with generally accepted accounting principles. Additionally, the Authority Board should take steps to establish formal policies and procedures for implementing and maintaining a capital asset system. Following is an outline for developing and maintaining a capital asset inventory system:

- Adopt a capitalization policy that sets a minimum dollar value for an asset to be accounted for on the capital asset system.
- Determine the useful lives for various classes of assets to be used for depreciation purposes and the general ledger account codes to be used to record capital asset transactions.
- Identify the information that will need to be captured by a capital asset accounting system and establish a system that will provide the information needed to comply with the reporting requirements.
- Inventory all capital assets owned by the Authority.
- Assign actual or estimated historical cost to each item.
- Enter the information into the capital asset system.
- Maintain the capital asset accounting system on a current basis.
- Establish procedures on how disposals of capital assets will be identified and recorded by the Authority.
- Periodically verify inventory by physical inspection.

**View of Responsible Official:** Concur

## Section II – Other Findings and Recommendations

### 2024-011 Contracting and Bidding

**Prior Year Finding Number:** N/A

**Year of Finding Origination:** 2024

**Type of Finding:** Minnesota Legal Compliance

**Criteria:** Minnesota Statutes, Section 471.345, requires all construction contracts over \$175,000 to be formally bid, using applicable public notice. Regarding splitting contracts to avoid formal bidding, the general rule as stated

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

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in McQuillin, The Law of Municipal Corporations 3<sup>rd</sup> Ed., § 29.33, is “[w]here a municipality is prohibited from letting contracts involving an expenditure of more than a specified sum without submitting the same to competitive bidding, it cannot divide the work and let it under several contracts, the amount for each falling below the amount required for competitive bidding.” In Atty Gen. Op. 70-7-a-4 (Apr. 29, 1952), the Minnesota Attorney General cited this general rule and held that splitting a contract to avoid the requirements of competitive bidding is prohibited.

Minnesota Statutes, Section 375.21, requires certain contracts to be awarded to the lowest responsible bidder and executed in writing.

Minnesota Statutes, Section 574.26, requires contractors doing public work to provide both a performance bond and a payment bond in an amount not less than the contract price if the contract is more than \$175,000.

Minnesota Statutes, Section 471.345, subdivision 4, states that contracts estimated to exceed \$25,000 but not to exceed \$175,000, may be made either upon sealed bids or by direct negotiation, by obtaining two or more quotations for the purchase, when possible, without advertising for bids or otherwise complying with the requirements of competitive bidding. If the contract is made upon quotation, it shall be based, so far as practicable, on at least two quotations. A quote should include the scope of the project, an itemized list of the goods needed for the project, the services to be performed, and total cost.

Minnesota Statutes, Section 471.345, subdivision 5, states that contracts estimated to be \$25,000 or less may be based upon quotations in the open market, by obtaining two or more quotations, when possible, or best value under a request for proposals.

Minnesota Statutes, Section 16C.285, states that for each construction contract in excess of \$50,000, awarded pursuant to a lowest responsible bidder or best value process, the successful contractor must submit verification of compliance signed under oath by an owner or officer verifying compliance with the minimum criteria set forth in Minn. Stat. § 16C.285, subd. 3.

Minnesota Statutes, Section 471.425, subdivision 4a, states that each contract of a municipality must require the prime contractor to pay any subcontractor within ten days of the prime contractor’s receipt of payment from the municipality or pay interest of one and one-half percent per month, or any part of a month, to the subcontractor or any undisputed amount not paid on time to the subcontractor.

**Condition:** Testing of compliance with State of Minnesota contracting and bid laws identified the following instances of noncompliance for the five projects tested:

- One contractor charged the Authority in excess of \$175,000 for work performed at one location; however, there was no documentation that the contract was let on sealed bids, no signed agreement with terms of the project or total cost, no performance and payment bonds received, and no responsible contractor verification received.
- For one project tested with expenditures between \$25,000 and \$175,000, and one other project tested with expenditures less than \$25,000, the Authority obtained an hourly rate but not a quotation for the total cost of the project.
- For four of the projects, the Authority did not have a signed contract or agreement that included the disclosure regarding the prompt payment to subcontractors.

# Lake County Housing and Redevelopment Authority

## Two Harbors, Minnesota

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**Context:** In 2024, the Authority expanded their operations to include the rehabilitation of an apartment building and the construction of a single-family home. The Board of Commissioners gave the Executive Director authority to approve or terminate contracts without Board approval.

**Effect:** Noncompliance with Minn. Stat. §§ 471.345, 375.21, 574.26, 16C.285, and 471.425.

**Cause:** Authority staff were not aware of contracting and bidding requirements, and the Authority has not established policies or written instructions.

**Recommendation:** We recommend that the Authority implement policies and procedures to ensure that all contracting and bidding is performed in accordance with applicable statutes.

**View of Responsible Official:** Acknowledge

### 2024-012 Public Purpose Funds – Non-HRA Expenditures

**Prior Year Finding Number:** N/A

**Year of Finding Origination:** 2024

**Type of Finding:** Minnesota Legal Compliance

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

**Condition:** A Lake County Housing and Redevelopment Authority Commissioner made a \$100 personal loan to a tenant who provided services to the Authority. When the Authority paid for the services, the Authority paid \$100 to the Commissioner as repayment for the personal loan and the remainder of the amount due for the services to the tenant rather than paying the entire amount due to the tenant directly.

**Context:** Authority staff indicated the Lake County Housing and Redevelopment Authority has a history of employees and Commissioners loaning their personal money to tenants.

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

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

**Recommendation:** We recommend that the Authority discontinue the practice of making loan repayments on a tenant’s behalf.

**View of Responsible Official:** Acknowledge

# Lake County Housing and Redevelopment Authority

## Two Harbors, Minnesota

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**2024-013**      **Conflicts of Interest Policy**

**Prior Year Finding Number:** N/A

**Year of Finding Origination:** 2024

**Type of Finding:** Management Practice

**Criteria:** A conflicts of interest policy assists in ensuring that the Authority has a process in place to identify actual or potential conflicts of interest when they arise, communicate those conflicts, and comply with Minnesota statutes. A conflicts of interest policy should include appropriate actions to be taken before making a decision which could substantially affect a Commissioner's or an employee's financial interests.

**Condition:** The Authority does not have a conflicts of interest policy in place.

**Context:** As the Authority expands operations, there may be an increased need for a conflicts of interest policy. During 2024, the Authority expanded operations related to the rehabilitation of the Lakeview Apartments and the construction of a single-family home.

**Effect:** Without a written policy, the Authority may risk noncompliance with Minn. Stat. § 469.009, subd 1.

**Cause:** The Authority informed us that they were not aware of a need for a conflicts of interest policy.

**Recommendation:** We recommend that the Authority develop a conflicts of interest policy to provide guidance to the Board of Commissioners and employees on how to identify actual or potential conflicts of interest and actions to take when conflicts of interest arise.

**View of Responsible Official:** Concur.



## Housing Redevelopment Authority

Matthew Johnson, Director

### Board Members

Richard DeRosier, Chair

Paul Iversen, Vice Chair

Susan Rosette, Secretary

Robert Entzion, Treasurer

Rick Goutermont, Commissioner

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

**Corrective Action Plan  
For the Year Ended December 31, 2024**

**Finding Number: 2024-001**

**Finding Title: Segregation of Duties**

Name of Contact Person Responsible for Corrective Action:

Richard DeRosier, Chair

Corrective Action Planned:

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

Anticipated Completion Date:

March 1, 2026

**Finding Number: 2024-002**

**Finding Title: Audit Adjustments**

Name of Contact Person Responsible for Corrective Action:

Richard DeRosier, Chair

Corrective Action Planned:

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

Anticipated Completion Date:

The LCHRA is researching changing to a different system, by either partnering with the County and/or purchasing the online version of QuickBooks. A decision should be made by February 2026.

**Finding Number: 2024-003**

**Finding Title: Accounting Policies and Procedures Manual**

Name of Contact Person Responsible for Corrective Action:

Matthew Johnson, Director

Corrective Action Planned:

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

Anticipated Completion Date:

December 31, 2026

**Finding Number: 2024-004**

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

Name of Contact Person Responsible for Corrective Action:

Lisa DeRosier, Assistant

Corrective Action Planned:

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

Anticipated Completion Date:

June 1, 2026

**Finding Number: 2024-005**

**Finding Title: Reconciliation of Rent Revenue Lakeview Apartments**

Name of Contact Person Responsible for Corrective Action:

Matthew Johnson, Director

Corrective Action Planned:

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

Anticipated Completion Date:

Quarterly beginning in 2026

**Finding Number: 2024-006**

**Finding Title: Check Signing Procedures and Cashier's Checks**

Name of Contact Person Responsible for Corrective Action:

Matthew Johnson, Director

Corrective Action Planned:

The HRA Bylaws have been updated to reflect the check signing procedures. This will also be addressed when the HRA policy manual is created during 2026.

Anticipated Completion Date:

December 31, 2026

**Finding Number: 2024-007**

**Finding Title: Bank Reconciliations**

Name of Contact Person Responsible for Corrective Action:

Lisa DeRosier, Assistant

Corrective Action Planned:

Implement procedures to reconcile bank statements

Anticipated Completion Date:

Monthly beginning in 2026

**Finding Number: 2024-008**

**Finding Title: Credit Card Policy**

Name of Contact Person Responsible for Corrective Action:

Matthew Johnson, Director

Corrective Action Planned:

Adopt a LCHRA policies and procedures manual similar to Lake County and include a section on the use of credit cards.

Anticipated Completion Date:

December 31, 2026

**Finding Number: 2024-009**

**Finding Title: Multiple Accounting Systems and Recording of Transactions**

Name of Contact Person Responsible for Corrective Action:

Lisa DeRosier, Assistant

Corrective Action Planned:

Purchase Online QuickBooks and consolidate records

Anticipated Completion Date:

By March 1, 2026

**Finding Number: 2024-010**

**Finding Title: Accounting for Capital Assets**

Name of Contact Person Responsible for Corrective Action:

Lisa DeRosier

Corrective Action Planned:

Add a database to the Online QuickBooks

Anticipated Completion Date:

July 1, 2026

**Finding Number: 2024-011**

**Finding Title: Contracting and Bidding**

Name of Contact Person Responsible for Corrective Action:

Matthew Johnson, Director

Corrective Action Planned:

Adopt a LCHRA policies and procedures manual similar to Lake County and include a section on contracting and bidding that will be followed for all future procurements. HRA staff will also receive some additional training to ensure compliance with State Statutes.

Anticipated Completion Date:

December 31, 2026

**Finding Number: 2024-012**

**Finding Title: Public Purpose Funds – Non-HRA Expenditures**

Name of Contact Person Responsible for Corrective Action:

Matthew Johnson, Director

Corrective Action Planned:

Adopt a LCHRA policies and procedures manual similar to Lake County and include a section that addressed Public Purpose Funds – Non-HRA Expenditures.

Anticipated Completion Date:

December 31, 2026

**Finding Number: 2024-013**

**Finding Title: Conflicts of Interest Policy**

Name of Contact Person Responsible for Corrective Action:

Matthew Johnson, Director

Corrective Action Planned:

Adopt a LCHRA policies and procedures manual similar to Lake County and include a section on conflicts of interest.

Anticipated Completion Date:

December 31, 2026



## Housing Redevelopment Authority

Matthew Johnson, Director

### Board Members

Richard DeRosier, Chair

Paul Iversen, Vice Chair

Susan Rosette, Secretary

Robert Entzion, Treasurer

Rick Goutermont, Commissioner

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

## Summary Schedule of Prior Audit Findings

For the Year Ended December 31, 2024

**Finding Number: 2023-001**

**Year of Finding Origination: 1998**

**Finding Title: Segregation of Duties**

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

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

**Status:** Not Corrected. The HRA Board did agree upon which path was needed to resolve and move forward.

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

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

**Finding Number: 2023-002**

**Year of Finding Origination: 2023**

**Finding Title: Prior Period Adjustment**

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

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

**Status:** Fully Corrected.

**Finding Number: 2023-003**  
**Year of Finding Origination: 2011**  
**Finding Title: Audit Adjustments**

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

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

**Status:** Not Corrected. The HRA Board continues to oversee financial reporting but has not yet created a method for resolving this issue.

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

As a partial mitigation step, the Executive Director reviewed all expenditures/payments made to the Park State Bank fund balances to ensure they were authorized. The LCHRA Board is discussing options to collaborate with Lake County for a shared accounting position, in addition to purchasing the online version of QuickBooks so that multiple people can review the trial balance and journal entries.

**Finding Number: 2023-004**  
**Year of Finding Origination: 2023**  
**Finding Title: Accounting Policies and Procedures Manual**

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

**Summary of Corrective Action Previously Reported:** Adopt a LCHRA policies and procedures manual similar to Lake County.

**Status:** Not Corrected. The LCHRA is working with Lake County to develop a manual that replicates the County's accounting policies and procedures.

**Finding Number: 2023-005**  
**Year of Finding Origination: 2023**  
**Finding Title: Due to Other Funds and Due From Other Funds**

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

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

**Status:** Not Corrected. The HRA Board has not yet decided on the resolution.

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

The LCHRA Board was unclear on how to resolve this issue and plans to consult an accounting firm in the future.

**Finding Number: 2023-006**

**Year of Finding Origination: 2023**

**Finding Title: Reconciliation of Rent Revenue Lakeview Apartment Fund**

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

**Summary of Corrective Action Previously Reported:** Implement procedures to reconcile the rents collected to the general ledger and bank statements.

**Status:** Not Corrected. The HRA Board did agree upon which path was needed to resolve and move forward.

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

The 2023 rent received has not been reconciled with the HRA general ledger. The HRA intends on doing so after it purchase QuickBooks Online and hires an accounting firm to provide assistance.

**Finding Number: 2023-007**

**Year of Finding Origination: 2023**

**Finding Title: Check Signing Procedures**

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

**Summary of Corrective Action Previously Reported:** Adopt/update new bylaws.

**Status:** Not Corrected. The LCHRA Board, in practice, has only required one authorizing signature for Lakeview Apartments. This will soon be reflected in updated bylaws.

**Finding Number: 2023-008**

**Year of Finding Origination: 2023**

**Finding Title: Use of Public Funds**

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

**Summary of Corrective Action Previously Reported:** The LCHRA will continue to ensure payments aren't made for unauthorized items that do not meet a public purpose.

**Status:** Fully Corrected.