

# STATE OF MINNESOTA

## Office of the State Auditor



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

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**POPE COUNTY HOUSING AND  
REDEVELOPMENT AUTHORITY/  
ECONOMIC DEVELOPMENT AUTHORITY  
(A COMPONENT UNIT OF POPE COUNTY)  
GLENWOOD, MINNESOTA**

**YEAR ENDED DECEMBER 31, 2017**

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

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

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

The State Auditor performs approximately 150 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

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

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

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

**Pension** - monitors investment, financial, and actuarial reporting for approximately 650 public pension funds; and

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

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

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**POPE COUNTY HOUSING AND  
REDEVELOPMENT AUTHORITY/  
ECONOMIC DEVELOPMENT AUTHORITY  
(A COMPONENT UNIT OF POPE COUNTY)  
GLENWOOD, MINNESOTA**

**Year Ended December 31, 2017**



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

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**POPE COUNTY HOUSING AND REDEVELOPMENT AUTHORITY/  
ECONOMIC DEVELOPMENT AUTHORITY  
GLENWOOD, MINNESOTA**

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**POPE COUNTY HOUSING AND REDEVELOPMENT AUTHORITY/  
ECONOMIC DEVELOPMENT AUTHORITY  
GLENWOOD, MINNESOTA**

ORGANIZATION  
2017

Office	Name	Term	
		From	To
<b>Commissioners</b>			
Member	Larry Kittelson	January 2015	December 2018
Member	Cody Rogahn	January 2015	December 2018
Member	Dorothy Gaffaney	January 2012	December 2019
Member	Greg Vold	June 2015	December 2018
Member	John Shea	January 2016	December 2017
Member	Lori Vaadeland*	January 2017	December 2021
Member	Allen Rutter	January 2016	December 2020
<b>Officers</b>			
Executive Director	Jason Murray	January 2017	December 2017

\*Chair

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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## INDEPENDENT AUDITOR'S REPORT

Board of Commissioners  
Pope County Housing and Redevelopment  
Authority/Economic Development Authority  
Glenwood, Minnesota

### Report on the Financial Statements

We have audited the accompanying financial statements of the Pope County Housing and Redevelopment Authority/Economic Development Authority, a component unit of Pope County, Minnesota, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, as listed in the table of contents.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the financial statements 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, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Pope County Housing and Redevelopment Authority/Economic Development Authority as of December 31, 2017, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 5, 2018, on our consideration of the Pope County Housing and Redevelopment Authority/Economic Development Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 Pope County Housing and Redevelopment Authority/Economic Development 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 Pope County Housing and Redevelopment Authority/Economic Development Authority's internal control over financial reporting and compliance.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

September 5, 2018

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**POPE COUNTY HOUSING AND REDEVELOPMENT AUTHORITY/  
ECONOMIC DEVELOPMENT AUTHORITY  
GLENWOOD, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2017  
(Unaudited)**

**INTRODUCTION**

The Pope County Housing and Redevelopment Authority/Economic Development Authority's (Authority) Management's Discussion and Analysis (MD&A) is designed to (a) assist the reader in focusing on significant financial information, (b) provide an overview of the financial activity, (c) identify changes in the financial position (its ability to address the next and subsequent year challenges), and (d) identify individual issues or concerns. Since the MD&A is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the Authority's financial statements.

**FINANCIAL HIGHLIGHTS**

- The Authority's total net position decreased to \$1,090,340 in 2017, a decrease of \$16,313, or 1.5 percent.
- At the close of 2017, the Authority's net position was \$1,090,340. There are two components that comprise this balance:
  - Net investment in capital assets of a negative \$58,490, a decrease of \$127,768 when compared to the prior year.
  - Unrestricted net position of \$1,148,830, an increase of \$111,455 when compared to the prior year, is available for use in the operations and for meeting ongoing Authority obligations.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This MD&A is intended to serve as an introduction to the basic financial statements. The Authority's basic financial statements consist of two parts: the financial statements and the notes to the financial statements. The MD&A (this section) is required to accompany the basic financial statements and, therefore, is included as required supplementary information.

The financial statements consist of the following:

- The statement of net position compares the assets and liabilities to give an overall view of the financial health of the Authority.
- The statement of revenues, expenses, and changes in net position provides information on an aggregate view of the Authority's finances. All of the current year's revenues and expenses are taken into account, regardless of when the cash was received or paid.
- The statement of cash flows provides sources and uses of cash for the Authority.

## FINANCIAL ANALYSIS

	<b>Net Position</b>			
	<u>2017</u>	<u>2016</u>	<u>Increase (Decrease)</u>	<u>Percentage Change (%)</u>
<b>Assets</b>				
Current assets	\$ 1,450,235	\$ 1,398,285	\$ 51,950	3.7
Capital assets, net	2,319,313	2,359,482	(40,169)	(1.7)
Other assets	<u>2,485,000</u>	<u>2,655,000</u>	<u>(170,000)</u>	<u>(6.4)</u>
Total Assets	<u>\$ 6,254,548</u>	<u>\$ 6,412,767</u>	<u>\$ (158,219)</u>	<u>(2.5)</u>
<b>Liabilities</b>				
Current liabilities	\$ 374,817	\$ 392,391	\$ (17,574)	(4.5)
Noncurrent liabilities	<u>4,789,391</u>	<u>4,913,723</u>	<u>(124,332)</u>	<u>(2.2)</u>
Total Liabilities	<u>\$ 5,164,208</u>	<u>\$ 5,306,114</u>	<u>\$ (141,906)</u>	<u>(2.7)</u>
<b>Net Position</b>				
Net investment in capital assets	\$ (58,490)	\$ 69,278	\$ (127,768)	(184.4)
Unrestricted	<u>1,148,830</u>	<u>1,037,375</u>	<u>111,455</u>	<u>10.7</u>
Total Net Position	<u>\$ 1,090,340</u>	<u>\$ 1,106,653</u>	<u>\$ (16,313)</u>	<u>(1.5)</u>

### Changes in Net Position

	2017	2016	Increase (Decrease)	Percentage Change (%)
<b>Revenues</b>				
Nonoperating revenues				
Property taxes	\$ 304,998	\$ 257,643	\$ 47,355	18.4
Intergovernmental revenue	8,481	9,676	(1,195)	(12.4)
Miscellaneous income	241,010	295,500	(54,490)	(18.4)
Investment earnings	4,273	3,666	607	16.6
Other income	-	29,537	(29,537)	(100.0)
<b>Total Revenues</b>	<b>\$ 558,762</b>	<b>\$ 596,022</b>	<b>\$ (37,260)</b>	<b>(6.3)</b>
<b>Expenses</b>				
Operating expenses				
Administrative services	\$ 13,583	\$ 15,629	\$ (2,046)	(13.1)
Professional services	77,239	82,971	(5,732)	(6.9)
Insurance	7,027	9,115	(2,088)	(22.9)
Miscellaneous	37,956	33,465	4,491	13.4
Depreciation	55,556	53,056	2,500	4.7
Nonoperating expenses				
Intergovernmental expense	20,000	30,000	(10,000)	(33.3)
Repairs and maintenance	32,966	25,292	7,674	30.3
Loss on sale of land held for resale	30,987	86,172	(55,185)	(64.0)
Loss on sale of land	84,612	-	84,612	100.0
Interest expense	205,397	194,498	10,899	5.6
Advertising	9,752	15,375	(5,623)	(36.6)
Other expense	-	25,575	(25,575)	(100.0)
<b>Total Expenses</b>	<b>\$ 575,075</b>	<b>\$ 571,148</b>	<b>\$ 3,927</b>	<b>0.7</b>
<b>Change in Net Position</b>	<b>\$ (16,313)</b>	<b>\$ 24,874</b>	<b>\$ (41,187)</b>	<b>(165.6)</b>
Net Position - January 1	1,106,653	1,081,779	24,874	2.3
Net Position - December 31	<b>\$ 1,090,340</b>	<b>\$ 1,106,653</b>	<b>\$ (16,313)</b>	<b>(1.5)</b>

## CAPITAL ASSETS

At year-end, the Authority had \$2,319,313 invested in capital assets, as reflected in the following schedule, a net decrease of \$40,169 due to annual depreciation of the assets.

	<b>Capital Assets (Net of Depreciation)</b>			Percentage Change
	2017	2016	Increase (Decrease)	(%)
Land	\$ 311,797	\$ 396,410	\$ (84,613)	(21.3)
Buildings	1,910,016	1,963,072	(53,056)	(2.7)
Infrastructure	97,500	-	97,500	100.0
Total Capital Assets	<u>\$ 2,319,313</u>	<u>\$ 2,359,482</u>	<u>\$ (40,169)</u>	(1.7)

## DEBT OUTSTANDING

At year-end, the Authority had \$5,032,803 in debt outstanding, a decrease of \$140,920 from the prior year.

	<b>Debt (Net of Premium/Discount)</b>			Percentage Change
	2017	2016	Increase (Decrease)	(%)
Revenue bonds	\$ 2,655,000	\$ 2,795,416	\$ (140,416)	(5.0)
General obligation bonds	2,277,803	2,328,307	(50,504)	(2.2)
Contract for deed	-	50,000	(50,000)	(100.0)
Note payable	100,000	-	100,000	100.0
Total Debt	<u>\$ 5,032,803</u>	<u>\$ 5,173,723</u>	<u>\$ (140,920)</u>	(2.7)

Additional information on long-term debt can be found in Note 2.B. to the financial statements.

## ECONOMIC FACTORS

The Authority depends on financial resources flowing from, or associated with, both the State of Minnesota and Pope County. Because of this dependency, the Authority is subject to changes in state and local laws and appropriations.

Significant economic factors that could affect the Authority include: (1) local inflationary, recessionary, and employment trends, which can affect the incomes of low-income public housing residents and, therefore, the amount of rental income; (2) inflationary pressure on utility rates, supplies, and other costs, which can impact economic development; and (3) local labor supply and demand, which can affect salary and wage rates.

### **CONTACTING THE AUTHORITY**

This MD&A is designed to provide a general overview. If you have any questions about this report, or need additional financial information, contact the Pope County Housing and Redevelopment Authority/Economic Development Authority, 130 East Minnesota Avenue, Glenwood, Minnesota 56334.

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## **BASIC FINANCIAL STATEMENTS**

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**POPE COUNTY HOUSING AND REDEVELOPMENT AUTHORITY/  
ECONOMIC DEVELOPMENT AUTHORITY  
GLENWOOD, MINNESOTA**

***EXHIBIT 1***

**STATEMENT OF NET POSITION  
DECEMBER 31, 2017**

**Assets**

**Current assets**

Cash and cash equivalents	\$	549,070
Accounts receivable		400
Taxes receivable		
Delinquent		6,283
Accrued interest receivable		50,933
Due from primary government		4,241
Loans receivable		236,344
Lease receivable		170,000
Land held for resale		419,985
Restricted assets		
Cash for security deposits		11,084
Cash for workforce grant		1,895

**Total current assets** **\$ 1,450,235**

**Noncurrent assets**

Lease receivable	\$	2,485,000
Capital assets		
Nondepreciable		311,797
Depreciable - net		2,007,516

**Total noncurrent assets** **\$ 4,804,313**

**Total Assets** **\$ 6,254,548**

**POPE COUNTY HOUSING AND REDEVELOPMENT AUTHORITY/  
ECONOMIC DEVELOPMENT AUTHORITY  
GLENWOOD, MINNESOTA**

***EXHIBIT 1  
(Continued)***

**STATEMENT OF NET POSITION  
DECEMBER 31, 2017**

**Liabilities**

**Current liabilities**

Accounts payable	\$	9,492
Due to other governments		465
Accrued interest payable		79,969
Unearned rent		28,500
General obligation bonds payable		55,000
Revenue bonds payable		170,000
Note payable		18,412
		18,412

**Total current liabilities** **\$ 361,838**

**Current liabilities payable from restricted assets**

Tenant security deposits	\$	11,084
Accounts payable		1,895
		1,895

**Total current liabilities payable from restricted assets** **\$ 12,979**

**Noncurrent liabilities**

General obligation bonds payable	\$	2,222,803
Revenue bonds payable		2,485,000
Note payable		81,588
		81,588

**Total noncurrent liabilities** **\$ 4,789,391**

**Total Liabilities** **\$ 5,164,208**

**Net Position**

Net investment in capital assets	\$	(58,490)
Unrestricted		1,148,830
		1,148,830

**Total Net Position** **\$ 1,090,340**

**POPE COUNTY HOUSING AND REDEVELOPMENT AUTHORITY/  
ECONOMIC DEVELOPMENT AUTHORITY  
GLENWOOD, MINNESOTA**

**EXHIBIT 2**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
FOR THE YEAR ENDED DECEMBER 31, 2017**

<b>Operating Expenses</b>	
Administrative services	\$ 13,583
Professional services	77,239
Insurance	7,027
Miscellaneous	37,956
Depreciation	<u>55,556</u>
<b>Total Operating Expenses</b>	<b><u>\$ 191,361</u></b>
<b>Operating Income (Loss)</b>	<b><u>\$ (191,361)</u></b>
<b>Nonoperating Revenues (Expenses)</b>	
Property taxes	\$ 304,998
Intergovernmental revenue	8,481
Intergovernmental expense - economic development	(20,000)
Miscellaneous income	241,010
Investment earnings	4,273
Repairs and maintenance	(32,966)
Loss on sale of land held for resale	(30,987)
Loss on sale of land	(84,612)
Interest expense	(205,397)
Advertising	<u>(9,752)</u>
<b>Total Nonoperating Revenues (Expenses)</b>	<b><u>\$ 175,048</u></b>
<b>Change in net position</b>	<b>\$ (16,313)</b>
<b>Net Position - January 1</b>	<b><u>1,106,653</u></b>
<b>Net Position - December 31</b>	<b><u><u>\$ 1,090,340</u></u></b>

**POPE COUNTY HOUSING AND REDEVELOPMENT AUTHORITY/  
ECONOMIC DEVELOPMENT AUTHORITY  
GLENWOOD, MINNESOTA**

**EXHIBIT 3**

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2017  
Increase (Decrease) in Cash and Cash Equivalents**

<b>Cash Flows from Operating Activities</b>	
Payments to suppliers	\$ (122,222)
Payments for administrative services	(13,118)
Purchase and maintenance of land held for resale	(70,724)
Proceeds from sale of land held for resale	<u>1</u>
<b>Net cash provided by (used in) operating activities</b>	<b><u>\$ (206,063)</u></b>
<b>Cash Flows from Noncapital Financing Activities</b>	
Property taxes	\$ 302,587
Intergovernmental revenues	8,060
Intergovernmental expense	(20,000)
Repairs and maintenance	(44,993)
Rent deposits	148,037
Advertising expense	(9,752)
Pass-through grant payments to nongovernmental entity	(21,588)
Insurance dividends	<u>787</u>
<b>Net cash provided by (used in) noncapital financing activities</b>	<b><u>\$ 363,138</u></b>
<b>Cash Flows from Capital and Related Financing Activities</b>	
Notes issued	\$ 100,000
Principal paid on long-term debt	(210,000)
Interest paid on long-term debt	(184,353)
Proceeds received from capital lease	160,000
Interest and fee received on capital lease	125,440
Purchases of capital assets	(100,000)
Proceeds from sale of capital assets	<u>1</u>
<b>Net cash provided by (used in) capital and related financing activities</b>	<b><u>\$ (108,912)</u></b>
<b>Cash Flows from Investing Activities</b>	
Collections of loan principal	\$ 7,541
Interest received on loans	<u>3,486</u>
<b>Net cash provided by (used in) investing activities</b>	<b><u>\$ 11,027</u></b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>\$ 59,190</b>
<b>Cash and Cash Equivalents at January 1</b>	<b><u>502,859</u></b>
<b>Cash and Cash Equivalents at December 31</b>	<b><u><u>\$ 562,049</u></u></b>

The notes to the financial statements are an integral part of this statement.

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**POPE COUNTY HOUSING AND REDEVELOPMENT AUTHORITY/  
ECONOMIC DEVELOPMENT AUTHORITY  
GLENWOOD, MINNESOTA**

***EXHIBIT 3  
(Continued)***

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2017  
Increase (Decrease) in Cash and Cash Equivalents**

<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities</b>	
Operating income (loss)	<u>\$ (191,361)</u>
<b>Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities</b>	
Depreciation expense	\$ 55,556
(Increase) decrease in land held for resale	(20,723)
Increase (decrease) in salaries payable	465
Increase (decrease) in contract for deed payable	<u>(50,000)</u>
<b>Total adjustments</b>	<u>\$ (14,702)</u>
<b>Net Cash Provided by (Used in) Operating Activities</b>	<u><u>\$ (206,063)</u></u>
<b>Non-Cash Investing, Capital, and Financing Activities</b>	
Loss on sale of land held for resale	\$ (30,987)
Loss on sale of capital assets	(84,612)

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**POPE COUNTY HOUSING AND REDEVELOPMENT AUTHORITY/  
ECONOMIC DEVELOPMENT AUTHORITY  
GLENWOOD, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017

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1. Summary of Significant Accounting Policies

The Pope County Housing and Redevelopment Authority/Economic Development Authority's (Authority) financial statements are prepared in accordance with accounting principles general accepted in the United States of America (GAAP) for the year ended December 31, 2017. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established by GAAP and used by the Authority are discussed below.

A. Financial Reporting Entity

The Pope County Housing and Redevelopment Authority was established in May 1994, having all the powers and duties of a county housing and redevelopment authority under the provisions of Minn. Stat. §§ 469.001 to 469.047. In April 2011, the Authority was granted powers of an Economic Development Authority under Minn. Stat. §§ 469.090 to 469.1081. The Authority is governed by a seven-member Board of Commissioners who are appointed by the Pope County Board of Commissioners.

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

B. Basis of Presentation

The accounts of the Pope County Housing Redevelopment Authority/Economic Development Authority are presented as an enterprise fund. Enterprise funds are used to account for operations financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

**POPE COUNTY HOUSING AND REDEVELOPMENT AUTHORITY/  
ECONOMIC DEVELOPMENT AUTHORITY  
GLENWOOD, MINNESOTA**

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1. Summary of Significant Accounting Policies

B. Basis of Presentation (Continued)

Enterprise funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for proprietary funds include the cost of personnel and contractual services, supplies, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

C. Measurement Focus and Basis of Accounting

The Authority's financial statements are reported using the economic resources measurement focus and the full accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized when a liability is incurred, regardless of the timing of cash flows.

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.

D. Assets, Liabilities, and Net Position

1. Cash and Cash Equivalents

The Authority has defined cash and cash equivalents to include cash on hand and demand deposits.

2. Receivables

Property tax levies are set by the Authority and are certified to Pope County each year for collection in the following year. In Minnesota, counties act as collection agents for all property taxes. Real property taxes are generally due from taxpayers in equal installments on May 15 and October 15. The County remits tax settlements to the Authority at various times during the year. Taxes collectible in a given calendar year are generally recognized as revenue during that fiscal year.

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

**POPE COUNTY HOUSING AND REDEVELOPMENT AUTHORITY/  
ECONOMIC DEVELOPMENT AUTHORITY  
GLENWOOD, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

3. Property Held for Resale

Property is acquired by the Authority for subsequent resale for redevelopment purposes and not as an investment program. In order to encourage development, the land is often resold at prices substantially lower than the Authority's cost and cannot be sold for more than expended. Land held for resale is reported as an asset at the net realizable value.

4. 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.

5. Capital Assets

Capital assets, which include land and buildings, are reported in the financial statements. Capital assets are defined by the Authority as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Capital assets are depreciated using the straight-line method over their estimated useful lives ranging from 3 to 40 years.

**POPE COUNTY HOUSING AND REDEVELOPMENT AUTHORITY/  
ECONOMIC DEVELOPMENT AUTHORITY  
GLENWOOD, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

6. Long-Term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the 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 the applicable bond premium or discount.

7. Classification of Net Position

Net position is classified in the following categories:

Net investment in capital assets - net position representing capital assets, net of accumulated depreciation, and reduced by outstanding debt attributed to the acquisition, construction, or improvement of the assets, net of unspent related debt proceeds, if any.

Restricted net position - 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 - net position that does not meet the definition of restricted or net investment in capital assets.

8. Use of Estimates

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

**POPE COUNTY HOUSING AND REDEVELOPMENT AUTHORITY/  
ECONOMIC DEVELOPMENT AUTHORITY  
GLENWOOD, MINNESOTA**

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2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

The Authority's total deposits are reported as follows:

Cash and cash equivalents	\$ 549,070
Restricted assets	
Cash for security deposits	11,084
Cash for workforce grant	<u>1,895</u>
Total Deposits	<u>\$ 562,049</u>

a. Deposits

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 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, 2017, the Authority's deposits were not exposed to custodial credit risk.

**POPE COUNTY HOUSING AND REDEVELOPMENT AUTHORITY/  
ECONOMIC DEVELOPMENT AUTHORITY  
GLENWOOD, MINNESOTA**

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2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

b. Investments

The Authority may invest in the following types of investments as authorized by Minn. Stat. §§ 118A.04 and 118A.05:

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as “high risk” by Minn. Stat. § 118A.04, subd. 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) 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 had no investments as of December 31, 2017.

**POPE COUNTY HOUSING AND REDEVELOPMENT AUTHORITY/  
ECONOMIC DEVELOPMENT AUTHORITY  
GLENWOOD, MINNESOTA**

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2. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Of the loans receivable, \$230,191 is not expected to be collected within the next year.

Capital Lease Receivable

The Authority and Pope County have jointly constructed a Government Law Enforcement Center. To finance this building, the Authority authorized the sale of \$3,400,000 Public Project Revenue Bonds, Series 2008A. Pope County has pledged its taxing power toward repayment of the bonds. The building was completed in 2011.

On December 1, 2008, Pope County entered into a lease agreement with the Authority, which provides that the County is liable for the full amount of the bond principal and interest costs in return for the right to own the building once it is completed.

Pope County is carrying the building for \$3,400,000, the initial value of the Authority revenue bonds. The Authority is carrying the bond liability on its records and records the lease receivable for the value of the bonds. As of December 31, 2017, the amount of the bonds outstanding is \$2,655,000. The interest received is recorded as nonoperating miscellaneous revenue. For 2017, the Authority recorded interest revenue of \$122,773; \$50,933 of this is recorded as accrued interest receivable. Principal payments of \$160,000 were made by the County to the Authority and by the Authority on the bond liability for 2017. The current portion of the lease receivable is \$170,000.

During 2017, the County issued refunding bonds to repay the final amount of the capital lease. The value of the refunding bonds are being held by an escrow agent for the County, and payment will be made in 2019, when the Authority's revenue bonds become callable.

**POPE COUNTY HOUSING AND REDEVELOPMENT AUTHORITY/  
ECONOMIC DEVELOPMENT AUTHORITY  
GLENWOOD, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

The Authority's capital asset activity for the year ended December 31, 2017, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 396,410	\$ -	\$ (84,613)	\$ 311,797
Capital assets depreciated				
Buildings	\$ 2,122,240	\$ -	\$ -	\$ 2,122,240
Infrastructure	-	100,000	-	100,000
Total capital assets depreciated	\$ 2,122,240	\$ 100,000	\$ -	\$ 2,222,240
Less: accumulated depreciation for				
Buildings	\$ (159,168)	\$ (53,056)	\$ -	\$ (212,224)
Infrastructure	-	(2,500)	-	(2,500)
Total accumulated depreciation	\$ (159,168)	\$ (55,556)	\$ -	\$ (214,724)
Total capital assets depreciated, net	\$ 1,963,072	\$ 44,444	\$ -	\$ 2,007,516
Capital Assets, Net	\$ 2,359,482	\$ 44,444	\$ (84,613)	\$ 2,319,313

B. Liabilities

Long-Term Debt

Long-term debt outstanding at December 31, 2017, consists of the following:

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rates (%)	Original Issue Amount	Outstanding Balance December 31, 2017
2008A Public Project Revenue Bonds	02/01/2019	\$135,000 - 2,485,000	3.20 - 4.90	\$ 3,400,000	\$ 2,655,000
2013A General Obligation Bonds	02/01/2034	\$40,000 - \$245,000	0.85 - 3.10	\$ 2,405,000	\$ 2,270,000
Note Payable	06/01/2022	\$18,412 - \$21,664	4.13	\$ 100,000	\$ 100,000

**POPE COUNTY HOUSING AND REDEVELOPMENT AUTHORITY/  
ECONOMIC DEVELOPMENT AUTHORITY  
GLENWOOD, MINNESOTA**

2. Detailed Notes on All Funds

B. Liabilities

Long-Term Debt (Continued)

The debt service requirements as of December 31, 2017, are as follows:

Year Ending December 31	Revenue Bonds		General Obligation Bonds	
	Principal	Interest	Principal	Interest
2018	\$ 170,000	\$ 118,755	\$ 55,000	\$ 57,798
2019	2,485,000	57,635	60,000	57,043
2020	-	-	70,000	56,003
2021	-	-	75,000	54,842
2022	-	-	85,000	53,435
2023 - 2027	-	-	575,000	235,268
2028 - 2032	-	-	880,000	141,749
2033 - 2034	-	-	470,000	14,951
Total	\$ 2,655,000	\$ 176,390	\$ 2,270,000	\$ 671,089

Year Ending December 31	Note Payable	
	Principal	Interest
2018	\$ 18,412	\$ 4,130
2019	19,172	3,369
2020	19,964	2,578
2021	20,788	1,753
2022	21,664	895
2023 - 2027	-	-
2028 - 2032	-	-
Total	\$ 100,000	\$ 12,725

Long-term liability activity for the year ended December 31, 2017, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue bonds	\$ 2,815,000	\$ -	\$ 160,000	\$ 2,655,000	\$ 170,000
(Discount)/premium	(19,584)	-	(19,584)	-	-
General obligation bonds	2,320,000	-	50,000	2,270,000	55,000
(Discount)/premium	8,307	-	504	7,803	-
Note payable	-	100,000	-	100,000	18,412
Contract for deed	50,000	-	50,000	-	-
Long-Term Liabilities	\$ 5,173,723	\$ 100,000	\$ 240,920	\$ 5,032,803	\$ 243,412

**POPE COUNTY HOUSING AND REDEVELOPMENT AUTHORITY/  
ECONOMIC DEVELOPMENT AUTHORITY  
GLENWOOD, MINNESOTA**

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3. Summary of Significant Contingencies and Other Items

A. 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 (MCIT) and purchases commercial insurance. 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.

B. Tax Abatements - Pay-As-You-Go Tax Increment

The Authority entered into a property tax abatement agreement with a developer, dated September 1, 2017, for a period of 14 years effective in the years 2019 through 2033, under Minn. Stat. §§ 469.174 to .1794 (Tax Increment Financing) through a pay-as-you-go note program. Tax increment financing (TIF) can be used to encourage private development, redevelopment, renovation and renewal, growth in low- to moderate-income housing, and economic development. TIF captures the increase in tax capacity and property taxes (of most taxing jurisdictions, including the Authority) from development or redevelopment to provide funding for the related project. The pay-as-you-go note provides for payment to the developer of all tax increment received in the prior six months. The payment reimburses the developer for certain public improvements in an amount not to exceed \$68,000.



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REBECCA OTTO  
STATE AUDITOR

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

### Independent Auditor's Report

Board of Commissioners  
Pope County Housing and Redevelopment  
Authority/Economic Development Authority  
Glenwood, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Pope County Housing and Redevelopment Authority/Economic Development Authority, a component unit of Pope County, Minnesota, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated September 5, 2018.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Pope County Housing and Redevelopment Authority/Economic Development Authority's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

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 combination of deficiencies, in internal control over financial reporting 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. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit the attention of those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during our audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings and Recommendations as item 2016-001, that we consider to be a significant deficiency.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Pope County Housing and Redevelopment Authority/Economic Development 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Minnesota Legal Compliance**

The *Minnesota Legal Compliance Audit Guide for Counties*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven categories of compliance to be tested in connection with the audit of the Authority's financial statements: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories.

In connection with our audit, nothing came to our attention that caused us to believe that the Pope County Housing and Redevelopment Authority/Economic Development Authority failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Counties*. 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.

## **Pope County Housing and Redevelopment Authority/Economic Development Authority's Response to Finding**

The Pope County Housing and Redevelopment Authority/Economic Development Authority's response to the internal control finding identified in our audit is described in the Corrective Action Plan. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of This Report**

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting, compliance, and the provisions of the *Minnesota Legal Compliance Audit Guide for Counties* 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/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

September 5, 2018

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**POPE COUNTY HOUSING AND REDEVELOPMENT AUTHORITY/  
ECONOMIC DEVELOPMENT AUTHORITY  
GLENWOOD, MINNESOTA**

SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
FOR THE YEAR ENDED DECEMBER 31, 2017

**I. FINDINGS RELATED TO FINANCIAL STATEMENTS AUDITED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding Number 2016-001

Segregation of Duties

**Criteria:** A good system of internal control provides for an adequate segregation of duties so that no one individual handles a transaction from its inception to completion.

**Condition:** The Pope County Housing and Redevelopment Authority/Economic Development Authority (Authority) has one person who is responsible for billing, collecting, recording, and depositing receipts.

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

**Effect:** Inadequate segregation of duties could adversely affect the Authority's ability to detect misstatements in amounts that would be material in relation to the financial statements in a timely period by personnel in the normal course of performing their assigned functions.

**Cause:** The Authority has informed us that it does not have the economic resources needed to hire additional qualified accounting staff in order to adequately segregate duties.

**Recommendation:** We recommend the Authority's Board and management be aware of the lack of segregation of the accounting functions and, where possible, implement oversight procedures to ensure the internal control policies and procedures are being implemented by personnel to the extent possible.

**View of Responsible Official:** Concur

## **II. PREVIOUSLY REPORTED ITEMS RESOLVED**

2016-002 Accounting Policies and Procedures

2016-003 Audit Adjustment

2016-004 Supporting Documentation

2016-005 Documentation of Approval



**REPRESENTATION OF  
POPE COUNTY HOUSING AND REDEVELOPMENT AUTHORITY/  
ECONOMIC DEVELOPMENT AUTHORITY  
GLENWOOD, MINNESOTA**

**CORRECTIVE ACTION PLAN  
FOR THE YEAR ENDED DECEMBER 31, 2017**

**Finding Number: 2016-001**

**Finding Title: Segregation of Duties**

Name of Contact Person Responsible for Corrective Action:

HRA Board of Commissioners  
Jason Murray, Executive Director

Corrective Action Planned:

It is difficult for an organization of our size and financial resources to truly establish segregation of accounting duties. The Board and Staff will establish policies and practices to best address internal accounting controls.

Anticipated Completion Date:

Ongoing

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**REPRESENTATION OF  
POPE COUNTY HOUSING AND REDEVELOPMENT AUTHORITY/  
ECONMOIC DEVELOPMENT AUTHORITY  
GLENWOOD, MINNESOTA**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED DECEMBER 31, 2017**

**Finding Number: 2016-001**

**Finding Title: Segregation of Duties**

**Summary of Condition:** The Pope County Housing and Redevelopment Authority/Economic Development Authority (Authority) has one person who is responsible for billing, collecting, recording, and depositing receipts.

**Summary of Corrective Action Previously Reported:** It is difficult for an organization of the Authority's size and financial resources to truly establish segregation of accounting duties. The Board and staff will establish policies and practices to best address internal accounting controls.

**Status:** Not Corrected. The organization implemented several policies to insure adequate review of accounting duties. However, due to the financial resources and size of the organization, full segregation of duties will be difficult to achieve. The HRA-EDA management will continue to monitor the day to day financial activity.

Was corrective action taken significantly different than the action previously reported?

Yes \_\_\_\_\_ No  X

**Finding Number: 2016-002**

**Finding Title: Accounting Policies and Procedures**

**Summary of Condition:** The Authority does not have a current and comprehensive accounting policies and procedures manual, including documentation of significant internal controls of its accounting system.

**Summary of Corrective Action Previously Reported:** The Organization will implement the following policies to address accounting and financial management: procurement, investing and accounting.

**Status:** Fully Corrected. Corrective action was taken.

Was corrective action taken significantly different than the action previously reported?

Yes \_\_\_\_\_ No  X

**Finding Number: 2016-003**

**Finding Title: Audit Adjustment**

**Summary of Condition:** During the audit, a material adjustment resulted in significant changes to the Authority's financial statements.

**Summary of Corrective Action Previously Reported:** We believe this is a one-time oversight due to a transition in accounting duties and responsibilities. By implementing future organizational policies to address oversight and process, we will alleviate these adjustments.

**Status:** Fully Corrected. Corrective action was taken

Was corrective action taken significantly different than the action previously reported?

Yes \_\_\_\_\_ No  X

**Finding Number: 2016-004**

**Finding Title: Supporting Documentation**

**Summary of Condition:** During testing, it was noted that transactions entered into the system through manual journal entries lacked supporting documentation.

**Summary of Corrective Action Previously Reported:** We believe this is a one-time oversight as we were transitioning accounting and responsibilities and duties. Future manual adjustments will be well documented. As we develop our organizational policies, we will address the required documentation processes.

**Status:** Fully Corrected. Corrective action was taken.

Was corrective action taken significantly different than the action previously reported?

Yes \_\_\_\_\_ No  X

**Finding Number: 2016-005**

**Finding Title: Documentation of Approval**

**Summary of Condition:** During testing, it was noted there was no documented approval for journal entries entered into the general ledger system or for bank reconciliations.

**Summary of Corrective Action Previously Reported:** The HRA will implement a policy and practice: 1) to ensure all journal entries are reviewed and approved by management before being posted to the general ledger; 2) reconciliations will be reviewed and approved by someone independent of the preparer in a timely manner; and 3) all reviews will be documented, by signing and dating, with the documentation being maintained as support.

**Status:** Fully Corrected. Corrective action was taken.

Was corrective action taken significantly different than the action previously reported?

Yes \_\_\_\_\_ No   X