

**The Housing and Redevelopment
Authority of South St. Paul
South St. Paul, Minnesota**

Financial Statements

December 31, 2016

**The Housing and Redevelopment Authority of South St. Paul
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The Housing and Redevelopment Authority of South St. Paul
Elected Officials and Administrator
December 31, 2016

<u>Elected Official</u>	<u>Position</u>	<u>Term Expires</u>
Joyce Grannis	Chairperson	December 31, 2016
Lori Hansen	Vice Chairperson	December 31, 2016
Dan Niederkorn	Secretary	December 31, 2016
Thomas Seaberg	Commissioner	December 31, 2016
Stephen Doody	Commissioner	December 31, 2016

Administration

Steve King	Executive Director
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PRINCIPALS

Thomas A. Karnowski, CPA
Paul A. Radosevich, CPA
William J. Lauer, CPA
James H. Eichten, CPA
Aaron J. Nielsen, CPA
Victoria L. Holinka, CPA/CMA

INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners and Management
Housing and Redevelopment Authority of South St. Paul
South St. Paul, Minnesota

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Housing and Redevelopment Authority of South St. Paul (the Authority) as of and for the year ended December 31, 2016, 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 opinions 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 opinions.

(continued)

OPINIONS

In our opinion, the financial statements referred to on the previous page present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Authority as of December 31, 2016, 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.

EMPHASIS OF MATTER

Special Item – Transfer of Operations – As described in Note 7 of the notes to the basic financial statements, the Authority had a transfer of significant operations to the South St. Paul Economic Development Authority, to enhance economic development in the City of South St. Paul, effective January 1, 2016. Our opinion is not modified with respect to this matter.

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 a 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The elected officials and administration, combining and individual fund statements, and supplementary information, as listed in the table of contents, are presented for purposes of additional analysis and are not required parts of the basic financial statements.

The combining and individual fund statements and supplementary information are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund statements and supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The elected officials and administration information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

(continued)

OTHER REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2017 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Malloy, Montague, Karnowski, Radosevich & Co., P. A.

Minneapolis, Minnesota
June 28, 2017

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The Housing and Redevelopment Authority of South St. Paul Management's Discussion and Analysis

This management overview and analysis is offered to readers of the annual financial report for the Housing and Redevelopment Authority of the City of South St. Paul (the Authority) regarding the financial activities of the Authority for the fiscal year ended December 31, 2016.

FINANCIAL HIGHLIGHTS

- The assets of the Authority exceeded liabilities at the close of the most recent fiscal year by \$6,000,213 (net position). Of this amount, \$1,367,883 (unrestricted net position) may be used to meet the Authority's ongoing obligations.
- The Authority's total net position increased by \$1,071,046 before the special item.
- As of the close of the current fiscal year, the business activities of the Authority reported an ending net position balance of \$6,000,213, of which \$1,367,883 is unrestricted and the balance of \$4,632,330 is Net Investment in Capital Assets. The governmental activities reported an ending net position of \$0, as these programs were transferred to other governmental units.
- The Authority recorded a special item for the transfer of operations to the South St. Paul Economic Development Authority. This special item decreased net position in the government-wide statements by \$5,748,785.

OVERVIEW OF THE FINANCIAL STATEMENTS

The management's discussion and analysis (MD&A) is intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and 3) Notes to the Financial Statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Authority's finances. The Authority is supported primarily by intergovernmental revenues (HUD) and rental income. All of the Authority's activities are reported as proprietary funds.

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

The statement of activities presents information showing how the Authority's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for which the cash flow will occur in future periods.

The government-wide financial statements can be found on pages 15-17 of this report

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Authority, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

All of the activities that would be reported in the governmental funds was transferred to the South St. Paul Economic Development Authority. The only activity for the governmental funds is reporting the transfer of operations on the statement of revenues, expenditures and changes in fund balances. Information is presented separately for those funds that were reported as major for the previous year. Data from the other governmental funds are combined into a single, aggregated presentation under the title of nonmajor governmental funds. Individual fund data for each of these funds is provided in the form of combining statements and can be found after the notes in the financial section of this report. The basic governmental fund statements can be found on pages 18-19 of this report.

**The Housing and Redevelopment Authority of South St. Paul
Management's Discussion and Analysis**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Proprietary Funds

The Authority maintains two different types of proprietary funds, enterprise and internal service. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Authority uses enterprise funds to account for its Public Housing, Capital Fund, and Congregate Housing Programs. The only activity reported in the internal service fund is a special item for the transfer of operations to the South St. Paul Economic Development Authority. The basic proprietary fund statements can be found on pages 21-25 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The Notes to the Financial Statements can be found on pages 27-33 of this report.

Other information

Combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the notes to the financial statements on pages 36-37 of this report.

The Financial Data Schedules contain detail by program, presented in the HUD-required format. The financial data schedules and notes can be found on pages 40-46 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Authority, assets exceeded liabilities by \$6,000,213 at the close of the most recent fiscal year. The portion of the Authority's net position of \$4,632,330, or 77.2%, reflects its net investment in capital assets (e.g. land, buildings, and equipment). These capital assets are not available for future spending. The remaining \$1,367,883 is unrestricted net position which can be used for ongoing obligations to citizens and creditors.

At the end of the fiscal year, the Authority was able to report positive balances in all three categories of net position.

Net Position

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Current and Other Assets	\$ -	\$3,913,543	\$1,618,299	\$1,277,861	\$1,618,299	\$ 5,191,404
Capital and Noncurrent Assets	-	4,569,935	6,417,371	6,016,884	6,417,371	10,586,819
Total Assets	-	8,483,478	8,035,670	7,294,745	8,035,670	15,778,223
Current Liabilities	-	1,013,646	348,090	423,550	348,090	1,437,196
Long-Term Liabilities	-	1,857,999	1,687,367	1,805,076	1,687,367	3,663,075
Total Liabilities	-	2,871,645	2,035,457	2,228,626	2,035,457	5,100,271
Net Position						
Net Investment in Capital Assets	-	269,952	4,632,330	4,131,741	4,632,330	4,401,693
Restricted	-	2,711,956	-	-	-	2,711,956
Unrestricted	-	2,629,925	1,367,883	934,378	1,367,883	3,564,303
Total Net Position	\$ -	\$5,611,833	\$6,000,213	\$5,066,119	\$6,000,213	\$10,677,952

**The Housing and Redevelopment Authority of South St. Paul
Management's Discussion and Analysis**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

All assets and liabilities previously reported as governmental activities were transferred to the South St. Paul Economic Development Authority on January 1, 2016. The capital assets increased in the business-type activities due to improvements at the low income high rise buildings. Current liabilities decreased as a result of contracts for capital improvements completed during 2016. Noncurrent liabilities decreased as a result of payments on the long term note payable.

Change in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
REVENUES:						
Program Revenues:						
Charges for Services	\$ -	\$ 2,227,043	\$ 1,221,159	\$ 1,726,256	\$ 1,221,159	\$ 3,953,299
Operating Grants and Contributions	-	1,157,690	1,392,483	3,160,352	1,392,483	4,318,042
Capital Grants and Contributions	-	422,615	546,410	562,010	546,410	984,625
General Revenues:						
Property Taxes/TIF	-	1,713,743	-	-	-	1,713,743
Investment Earnings	-	1,689	421	161	421	1,850
Total Revenues	-	5,522,780	3,160,473	5,448,779	3,160,473	10,971,559
EXPENSES:						
General Government	-	169,849	-	-	-	169,849
Tenant Services/MHFA Housing Trust	-	432,846	-	-	-	432,846
Economic Development	-	4,479,046	-	-	-	4,479,046
Low Rent Public Housing	-	-	1,856,065	1,836,483	1,856,065	1,836,483
Section 8 Housing	-	-	-	2,771,389	-	2,771,389
Congregate Housing Services Program Grant	-	-	194,552	221,362	194,552	221,362
Capital Fund	-	-	38,810	49,174	38,810	49,174
Interest	-	93,958	-	-	-	93,958
Total Expenses	-	5,175,699	2,089,427	4,878,408	2,089,427	10,054,107
Change in Net Position Before Transfers and Special Item	-	347,081	1,071,046	570,371	1,071,046	917,452
Transfers	-	(17,000)	-	17,000	-	-
Special Item-Transfer of Operations	(5,611,833)	-	(136,952)	-	(5,748,785)	-
Change in Net Position	(5,611,833)	330,081	934,094	587,371	(4,677,739)	917,452
Beginning Net Position	5,611,833	5,281,752	5,066,119	4,478,748	10,677,952	9,760,500
Ending Net Position	\$ -	\$ 5,611,833	\$ 6,000,213	\$ 5,066,119	\$ 6,000,213	\$ 10,677,952

**The Housing and Redevelopment Authority of South St. Paul
Management's Discussion and Analysis**

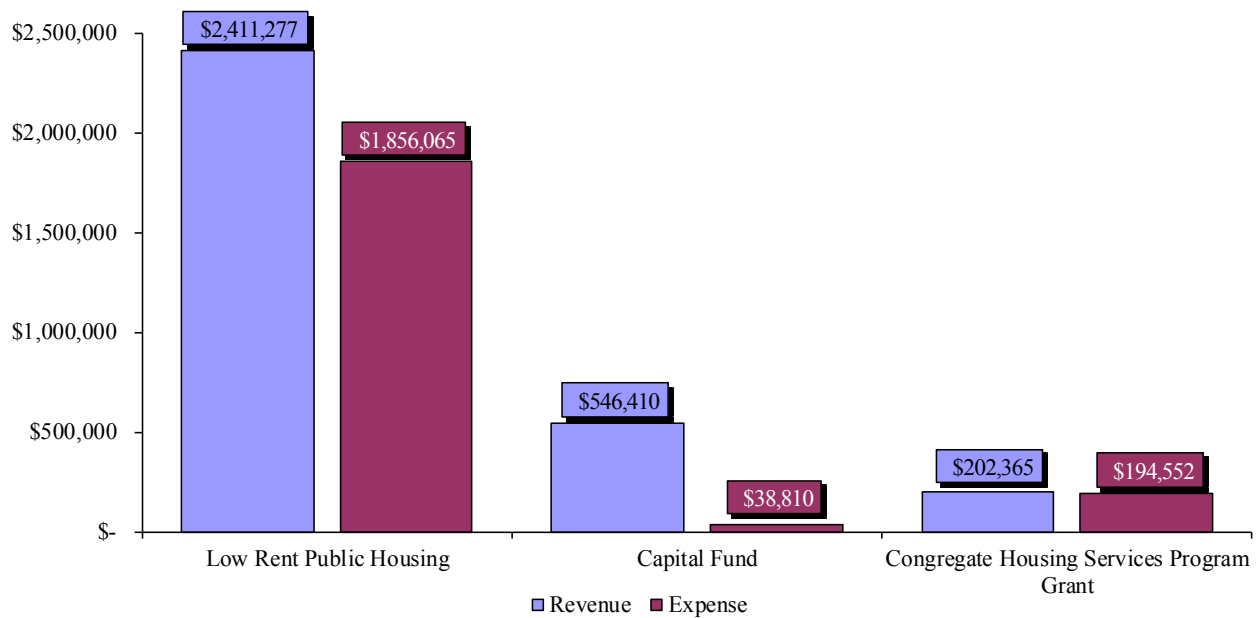
GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Business-Type Activities

Business-type activities increased net position by \$1,071,046, before the special item. The Section 8 Voucher program was transferred to the South St. Paul Economic Development Authority as of January 1, 2016, which is reflected in the overall reduction in revenues and expenses in the business-type activities. Revenue from the Low Rent Public Housing program increased in 2016 due to increases in the rents charged to tenants.

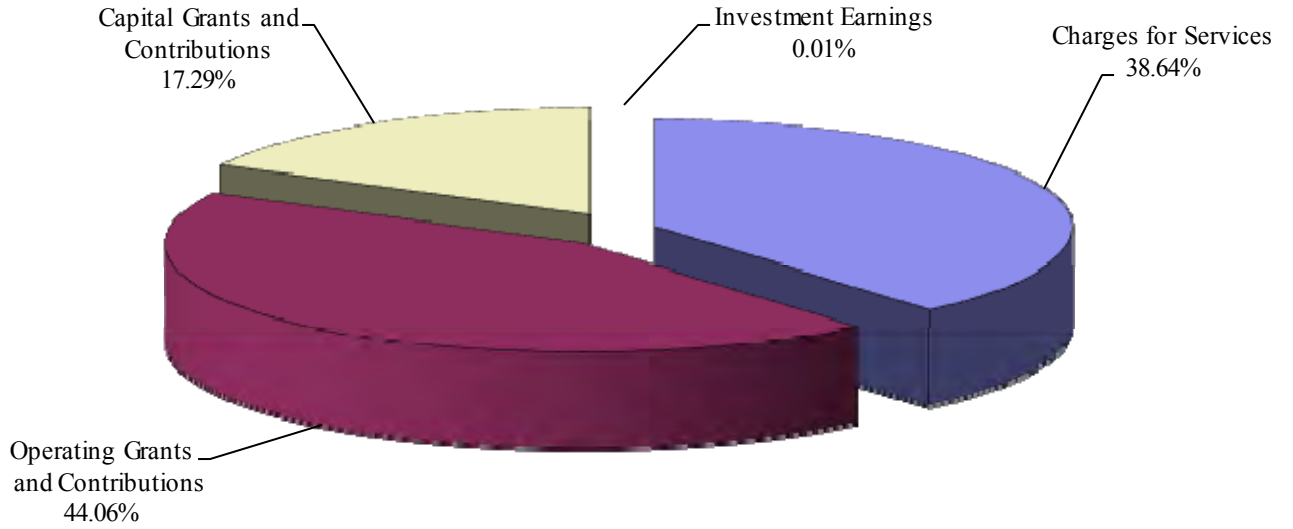
Below are specific graphs that provide comparisons of the business-type activities program revenues and expenses:

Operating Expenses and Program Revenues – Business-Type Activities

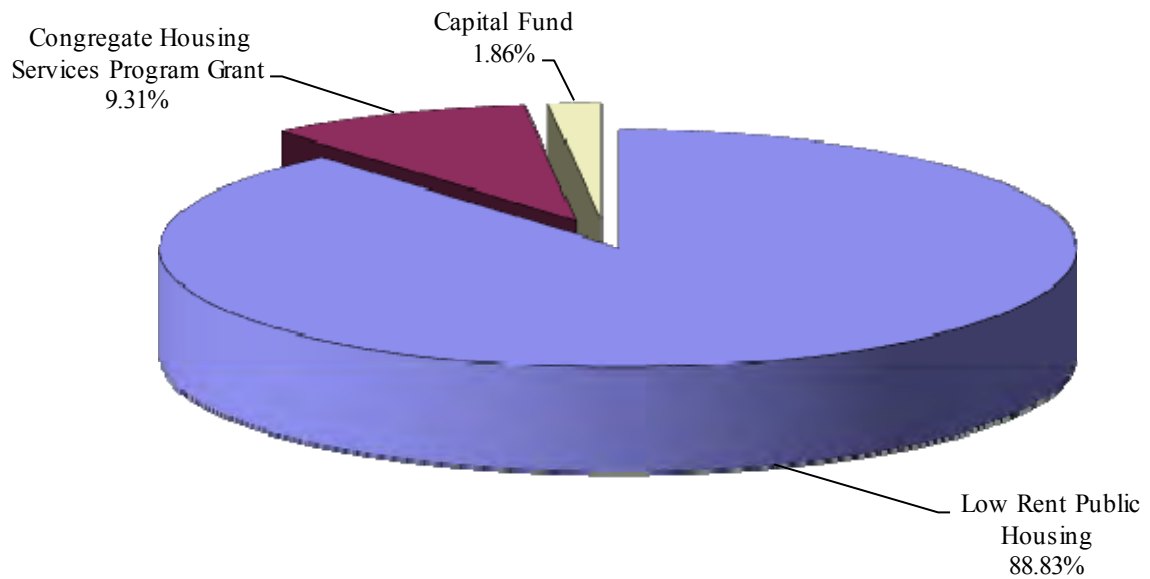


The Housing and Redevelopment Authority of South St. Paul
Management's Discussion and Analysis

Revenues by Source – Business-Type Activities – 2016



Expenses by Function – Business-Type Activities – 2016



**The Housing and Redevelopment Authority of South St. Paul
Management's Discussion and Analysis**

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

Proprietary Funds – The Authority's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

At the end of the current fiscal year, the Authority's proprietary funds reported combined net position of \$6,000,213. Of this total, 77.2%, or \$4,632,330, was net investment in capital assets and 22.8%, or \$1,367,883, was unrestricted.

The Low Rent Public Housing fund experienced a positive change in net position before the special item of \$1,071,046. This can be attributed to the accumulation of funds to provide financing for non-HUD funded projects and unexpected maintenance costs that may arise in the future.

Both the Capital Fund and Congregate Housing Services Program Grant funds ended 2016 with \$0 net position; these two funds transfer any remaining net position to the Low Rent Public Housing Program each year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets – The Authority's capital assets for its business-type activities as of December 31, 2016, amounted to \$6,417,371 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings and improvements, and equipment.

Capital purchases for the year were for building improvements totaling \$779,485. Depreciation on capital assets totaled \$379,001 during the fiscal year.

	Capital Assets (Net of Depreciation)	
	2016	2015
Land	\$ 265,675	\$ 449,492
Construction in progress	13,413	112,294
Buildings and improvements	6,128,531	5,626,726
Equipment	9,752	888,685
Total	\$ 6,417,371	\$ 7,077,197

More detailed information regarding capital assets can be found in the notes to the financial statements (Note 1H and Note 3).

Debt Outstanding – As of December 31, 2016 and 2015, the Authority had \$1,785,041 and \$1,905,176, respectively, in notes outstanding. Refer to Note 5 in the notes to the financial statements for additional information.

ECONOMIC FACTORS AND NEXT YEARS BUDGETS

The Authority remains heavily dependent on federal, state and local funding to support its operations. It is anticipated that funding will remain at current levels for 2017 and that next year's budget operations will be comparable to the 2016 budget. The Authority's goal is to maintain its current financial reserves.

FINANCIAL CONTACT

The Authority's financial statements are designed to present the users (citizens, taxpayers, customers, investors and creditors) with a general overview of the Authority's finances and to demonstrate the Authority's accountability. If you have questions about the report or need additional financial information, contact the Authority's Executive Director or the City of South St. Paul Finance Director at 125 Third Avenue North, South St. Paul, Minnesota 55075.

BASIC FINANCIAL STATEMENTS

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The Housing and Redevelopment Authority of South St. Paul
Statement of Net Position
December 31, 2016

Statement 1

	<u>Business-Type Activities</u>
Assets	
Cash (including cash equivalents)	\$ 1,545,866
Accounts receivable	10,497
Prepaid items	61,936
Capital assets (net of accumulated depreciation)	
Nondepreciable	279,088
Depreciable	<u>6,138,283</u>
Total assets	<u>8,035,670</u>
Liabilities	
Accounts and contracts payable	84,393
Interest payable	12,800
Due to other governments	88,766
Tenant security deposits	64,457
Notes payable	
Due within one year	97,674
Due in more than one year	<u>1,687,367</u>
Total liabilities	<u>2,035,457</u>
Net Position	
Net investment in capital assets	4,632,330
Unrestricted	<u>1,367,883</u>
Total net position	<u><u>\$ 6,000,213</u></u>

See notes to the financial statements

The Housing and Redevelopment Authority of South St. Paul
Statement of Activities
Year Ended December 31, 2016

Functions/Programs	Expenses	Charges for Services	Program Revenue Operating Grants and Contributions
Business-type activities			
Low rent public housing	\$ 1,856,065	\$ 1,197,986	\$ 1,213,291
Capital fund	38,810	-	-
Congregate housing services program grant	194,552	23,173	179,192
Total business-type activities	\$ 2,089,427	\$ 1,221,159	\$ 1,392,483
General revenues			
Unrestricted investment earnings			
Special item - transfer of operations			
Total general revenues and special item			
Change in net position			
Net position - beginning			
Net position - ending			

See notes to the financial statements

Statement 2

Net (Expense) Revenue and Changes in Net Position			
Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
\$ -	\$ -	\$ 555,212	\$ 555,212
546,410	-	507,600	507,600
-	-	7,813	7,813
<u>\$ 546,410</u>	<u>-</u>	<u>1,070,625</u>	<u>1,070,625</u>
	-	421	421
	<u>(5,611,833)</u>	<u>(136,952)</u>	<u>(5,748,785)</u>
	<u>(5,611,833)</u>	<u>(136,531)</u>	<u>(5,748,364)</u>
	(5,611,833)	934,094	(4,677,739)
	<u>5,611,833</u>	<u>5,066,119</u>	<u>10,677,952</u>
	<u>\$ -</u>	<u>\$ 6,000,213</u>	<u>\$ 6,000,213</u>

The Housing and Redevelopment Authority of South St. Paul
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds
Year Ended December 31, 2016

	Special		
	General Fund (260)	Business Loans (283)	Rehab Loans (293, 294, 295)
Special item			
Transfer of operations	\$ (91,564)	\$ (687,117)	\$ (1,571,001)
Fund Balances			
Beginning of year	91,564	687,117	1,571,001
End of year	\$ -	\$ -	\$ -

See notes to the financial statements

Statement 3

<u>Revenue</u>		<u>Capital Projects</u>		
<u>Tax Levy Rediscover (292)</u>	<u>Development (284)</u>	<u>TIF (490, 491, 492)</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 151,681	\$ (308,489)	\$ (1,534,088)	\$ (1,335,549)	\$ (5,376,127)
<u>(151,681)</u>	<u>308,489</u>	<u>1,534,088</u>	<u>1,335,549</u>	<u>5,376,127</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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The Housing and Redevelopment Authority of South St. Paul
Statement of Net Position - Proprietary Funds
December 31, 2016

Statement 4

	Business-Type Activities		
	Low Rent Public Housing (677, 678)	Congregate Housing Services Program Grant (671)	Total
Assets			
Current assets			
Cash and cash equivalents	\$ 1,528,194	\$ 17,672	\$ 1,545,866
Accounts receivable	10,497	-	10,497
Prepaid items	61,936	-	61,936
Total current assets	<u>1,600,627</u>	<u>17,672</u>	<u>1,618,299</u>
Noncurrent assets			
Capital assets			
Land	265,675	-	265,675
Buildings and improvements	19,986,906	-	19,986,906
Equipment	69,832	-	69,832
Construction in progress	13,413	-	13,413
Total capital assets	20,335,826	-	20,335,826
Less accumulated depreciation	(13,918,455)	-	(13,918,455)
Net capital assets	6,417,371	-	6,417,371
Total assets	<u>\$ 8,017,998</u>	<u>\$ 17,672</u>	<u>\$ 8,035,670</u>
Liabilities			
Current liabilities			
Accounts and contracts payable	\$ 66,721	\$ 17,672	\$ 84,393
Due to other governments	88,766	-	88,766
Tenant security deposits	64,457	-	64,457
Notes payable - current portion	97,674	-	97,674
Interest payable	12,800	-	12,800
Total current liabilities	<u>330,418</u>	<u>17,672</u>	<u>348,090</u>
Noncurrent liabilities			
Notes payable, net of current portion	1,687,367	-	1,687,367
Total liabilities	<u>2,017,785</u>	<u>17,672</u>	<u>2,035,457</u>
Net position			
Net investment in capital assets	4,632,330	-	4,632,330
Unrestricted	1,367,883	-	1,367,883
Total net position	<u>\$ 6,000,213</u>	<u>\$ -</u>	<u>\$ 6,000,213</u>

See notes to the financial statements

The Housing and Redevelopment Authority of South St. Paul
Statement of Revenues, Expenses, and Changes in Fund Net Position - Proprietary Funds
Year Ended December 31, 2016

	Low Rent Public Housing (677, 678)	Capital Fund (673)
Operating revenues		
Charges for services	\$ 1,135,352	\$ -
Operating grants and contributions	1,213,291	-
Other program revenue	62,634	-
Total operating revenues	<u>2,411,277</u>	<u>-</u>
Operating expenses		
Administration	466,475	38,810
Tenant services	60,544	-
Protective services	8,333	-
Ordinary maintenance and operations	472,637	-
Insurance	71,388	-
Utilities	260,773	-
Depreciation	379,001	-
General and nonroutine expenses	105,729	-
Total operating expenses	<u>1,824,880</u>	<u>38,810</u>
Operating income (loss)	<u>586,397</u>	<u>(38,810)</u>
Nonoperating revenues (expenses)		
Investment income	421	-
Interest expense	(31,185)	-
Total nonoperating revenues (expenses)	<u>(30,764)</u>	<u>-</u>
Income (loss) before contributions, transfers and special item	<u>555,633</u>	<u>(38,810)</u>
Capital contributions/grants	-	546,410
Transfers in	515,413	-
Transfers out	-	(507,600)
Special item - transfer of operations	(139,579)	-
Change in net position	<u>931,467</u>	<u>-</u>
Net position		
Beginning of year	5,068,746	-
End of year	<u>\$ 6,000,213</u>	<u>\$ -</u>

See notes to the financial statements

Business-Type Activities			
Section 8 Rental Voucher Program (660, 661)	Congregate Housing Services Program Grant (671)	Total	Governmental Activities - Internal Service Funds
\$ -	\$ 23,173	\$ 1,158,525	\$ -
-	179,192	1,392,483	-
-	-	62,634	-
-	202,365	2,613,642	-
-	8,524	513,809	-
-	186,028	246,572	-
-	-	8,333	-
-	-	472,637	-
-	-	71,388	-
-	-	260,773	-
-	-	379,001	-
-	-	105,729	-
-	194,552	2,058,242	-
-	7,813	555,400	-
-	-	421	-
-	-	(31,185)	-
-	-	(30,764)	-
-	7,813	524,636	-
-	-	546,410	-
-	-	515,413	-
-	(7,813)	(515,413)	-
2,627	-	(136,952)	110
2,627	-	934,094	110
(2,627)	-	5,066,119	(110)
\$ -	\$ -	\$ 6,000,213	\$ -

The Housing and Redevelopment Authority of South St. Paul
Statement of Cash Flows - Proprietary Funds
Year Ended December 31, 2016

	Low Rent Public Housing (677, 678)
Cash Flows-Operating Activities	
Cash received from customers and tenants	\$ 1,141,534
Cash received from HUD	1,213,291
Other program revenue	62,634
Cash paid for operating expenses	(1,504,329)
Special item-transfer of operations	(139,579)
Net cash flows-operating activities	773,551
Cash Flows-Noncapital Financing Activities	
Transfer from other funds	515,413
Transfer to other funds	-
Payment from interfund borrowing	139,580
Net cash flows-noncapital financing activities	654,993
Cash Flows-Capital And Related Financing Activities	
Principal paid on debt	(100,101)
Interest paid on debt	(33,942)
Acquisition of capital assets	(779,485)
Capital contributions/grants	-
Net cash flows-capital and related financing activities	(913,528)
Cash Flows-Investing Activities	
Interest and dividends received	421
Net change in cash and cash equivalents	515,437
Cash and Cash Equivalents	
Beginning of year	1,012,757
End of year	\$ 1,528,194
Reconciliation of Operating Income (Loss) to Net Cash Flows-Operating Activities	
Operating income (loss)	\$ 586,397
Adjustments to reconcile operating income (loss) to net cash flows-operating activities	
Depreciation expense	379,001
Changes in assets and liabilities	
Accounts receivable	11,097
Prepaid items	3,945
Accounts payable	(47,967)
Due to other governmental units	88,766
Tenant security deposits	4,795
Other liabilities	(107,988)
Unearned revenue	(4,916)
Special item-transfer of operations	(139,579)
Total adjustments	187,154
Net cash flows-operating activities	\$ 773,551

See notes to the financial statements

Business- Type Activities			
Capital Fund (673)	Section 8 Rental Voucher Program (660, 661)	Congregate Housing Services Program Grant (671)	Total
\$ -	\$ 40	\$ 202,365	\$ 1,343,939
-	-	-	1,213,291
-	-	-	62,634
(39,019)	(31,663)	(183,003)	(1,758,014)
-	2,627	-	(136,952)
<u>(39,019)</u>	<u>(28,996)</u>	<u>19,362</u>	<u>724,898</u>
-	-	-	515,413
(507,600)	-	(7,813)	(515,413)
-	-	-	139,580
<u>(507,600)</u>	<u>-</u>	<u>(7,813)</u>	<u>139,580</u>
-	-	-	(100,101)
-	-	-	(33,942)
-	-	-	(779,485)
546,410	-	-	546,410
<u>546,410</u>	<u>-</u>	<u>-</u>	<u>(367,118)</u>
-	-	-	421
<u>(209)</u>	<u>(28,996)</u>	<u>11,549</u>	<u>497,781</u>
209	28,996	6,123	1,048,085
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 17,672</u>	<u>\$ 1,545,866</u>
\$ (38,810)	\$ -	\$ 7,813	\$ 555,400
-	-	-	379,001
-	40	-	11,137
-	2,678	-	6,623
(209)	(2,345)	11,549	(38,972)
-	-	-	88,766
-	-	-	4,795
-	(31,996)	-	(139,984)
-	-	-	(4,916)
-	2,627	-	(136,952)
<u>(209)</u>	<u>(28,996)</u>	<u>11,549</u>	<u>169,498</u>
<u>\$ (39,019)</u>	<u>\$ (28,996)</u>	<u>\$ 19,362</u>	<u>\$ 724,898</u>

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The Housing and Redevelopment Authority of South St. Paul
Notes to the Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Housing and Redevelopment Authority of the City of South Saint Paul, Minnesota (Authority) is a public agency that was established in 1964 under enabling state legislation. South St. Paul was the first Minnesota city outside the Twin Cities to form its own HRA. The HRA programs provided and encouraged development of safe and affordable housing, revitalization of commercial and industrial areas to provide stimulus for new development and employment opportunities in the City of South St. Paul (City). The HRA is governed by a five-member Board of Commissioners consisting of two members of the public and three members of the City Council.

The HRA was reorganized in 2015-2016. This reorganization consisted of transferring HRA employees to the City; transferring all programs and projects of the HRA, except for the Low Rent Housing Programs, to the Economic Development Authority (EDA); and transferring administrative and financial services to the City.

The HRA, for financial reporting purposes, includes all funds for which the HRA is financially accountable. Financial accountability was determined on the basis of selection of the governing body, ability to impose will, a financial benefit/burden relationship, and fiscal dependency including approval of budgets, tax levies, and bonded debt issuance. In applying this criteria, the HRA has no component units.

Also, in applying the financial accountability criteria, it has been determined that the HRA is a discrete component unit of the City of South St. Paul and is, therefore, included in the City's Comprehensive Annual Financial Report for the fiscal year ended December 31, 2016. In 2016 the Board of Commissioners was not the full city council but the City has the ability to impose its will on the HRA since City staff are responsible for the day-to-day management of the HRA. The City gives final substantive approval to HRA budgets and HRA tax levy which is now assigned to the EDA.

B. Government-Wide Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the Authority.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Internally dedicated revenues are reported as general revenues rather than program revenues.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. 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 with the only activity being the special item transferring the funds to other governmental units as described in Note 7.

Major individual proprietary funds are reported as separate columns in the fund financial statements. The Authority reports the following major proprietary funds:

Low Rent Public Housing Fund – Low Rent records transactions relating to the two high rises with 300 dwelling units owned by the Authority. The U.S. Department of Housing and Urban Development (HUD) provides operating subsidies for these units through a Consolidated Annual Contributions Contract (CACC).

The Housing and Redevelopment Authority of South St. Paul
Notes to the Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

Capital Fund – This Fund accounts for modernization funds received from HUD for capital improvements, major repairs, and related costs to improve the physical quality of low-income housing units.

Section 8 Rental Voucher Program Fund – The responsibility for this program was transferred to the City of South St. Paul and subsequently to the Dakota County Community Development Agency. See footnote 7 related to the transfer of operations.

Congregate Housing Services Program Grant (CHSP) – CHSP provides assistance in necessary daily living activities, which enables residents to maintain independent living status, as opposed to becoming dependent on institutionalized care. Participants pay a HUD-regulated fee for services received.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Proprietary 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. The principal operating revenues of the enterprise funds are charges for services charged to tenants. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Budgets

Budgets for Low Rent Public Housing are adopted and amended on a HUD-prescribed basis. Operating budgets are adopted on an annual basis, while the budgets for grants supported by Capital Fund Program Grant funds cover up to four years. Expenses may not exceed total allocations by grant, although there is some flexibility on a line-item basis with the grant.

E. Cash Equivalents

The Authority's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. The Authority follows the deposit and investment policy for HUD. Therefore, the Authority has formal policies in place as of December 31, 2016, to address custodial credit risk for deposits.

Custodial Credit Risk - Deposits: In the case of deposits, this is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. Minnesota Statutes Section 118A requires that all deposits be protected by federal deposit insurance, corporate surety bonds or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by Federal Deposit Insurance Corporation (FDIC) insurance or corporate surety bonds. The investment policy requires collateralization as referenced in the above statute.

F. Receivables and Payables

Accounts receivable consist of amounts owed for tenant rent. Accounts payable consist of amounts owed to vendors at year-end.

G. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. Prepaid items are reported using the consumption method and recorded as expenses at the time of consumption.

The Housing and Redevelopment Authority of South St. Paul
Notes to the Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Capital Assets

Capital assets, which include land, buildings, and equipment are stated at historical cost, estimated historical cost or in the case of contributions, at their estimated acquisition value at the time received. Capital assets are defined by the authority as assets with an initial, individual cost of more than \$2,500 and an estimated useful life in excess of one year.

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 acquired by the Low Rent Public Housing Fund include land, buildings, and equipment. Land and construction in progress are not depreciated. Capital assets, other than land and construction in progress, are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings and improvements	40
Equipment	3-15

I. Tenant Deposits

Tenants for the Low Rent Public Housing Program are required to make a security deposit prior to moving into their respective apartment. In addition, any resident who has a pet or who wishes to obtain a pet must make a deposit. These deposits are used to offset any damages incurred.

J. Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable business-type activities or proprietary fund type statement of net position.

K. Net Position

Net position represents the difference between assets and liabilities in the government-wide and proprietary fund financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net position is reported as restricted in the financial statements when there are limitations on their use through external restrictions imposed by creditors, grantors or laws, or regulations of other governments.

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

L. Use of Estimates

The preparation of financial statements in conformity with accounting principles general 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. Estimates also affect the reported amounts of revenue and expense during the reporting period. Actual results could differ from those estimates.

NOTE 2 – DEPOSITS

In accordance with Minnesota Statutes, the Authority maintains deposits at those depository banks authorized by the Board, all of which are members of the Federal Reserve System. Minnesota Statutes require that all Authority deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by insurance or bonds. As of December 31, 2016 the Authority's bank balances were covered by insurance or collateral pledged and held in the Authority's name.

The Housing and Redevelopment Authority of South St. Paul
Notes to the Financial Statements

NOTE 2 – DEPOSITS (CONTINUED)

Total deposits at December 31, 2016, are as follows:

Depository accounts	\$1,387,095
Money market depositories	<u>158,771</u>
Total deposits	<u><u>\$1,545,866</u></u>

NOTE 3 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2016, was as follows:

	Beginning Balance, as previously reported	Special item- Decreases	Beginning Balance, restated	Increases	Decreases	Ending Balance
Governmental activities:						
Capital assets not being depreciated:						
Land	\$ 183,817	\$ (183,817)	\$ -	\$ -	\$ -	\$ -
Capital assets being depreciated:						
Machinery & equipment	1,215,451	(1,215,451)	-	-	-	-
Less accumulated depreciation for:						
Machinery & equipment	338,958	(338,958)	-	-	-	-
Total capital assets being depreciated - net	876,493	(876,493)	-	-	-	-
Governmental activities capital assets - net	<u>\$ 1,060,310</u>	<u>\$ (1,060,310)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Beginning						
Balance						
Increases						
Decreases						
Ending						
Balance						
Business-type activities:						
Capital assets not being depreciated:						
Land			\$ 265,675	\$ -	\$ -	\$ 265,675
Construction in progress			112,294	564,634	(663,515)	13,413
Total capital assets not being depreciated			<u>377,969</u>	<u>564,634</u>	<u>(663,515)</u>	<u>279,088</u>
Capital assets being depreciated:						
Buildings & improvements			19,115,022	878,366	(6,482)	19,986,906
Equipment			69,832	-	-	69,832
Total capital assets being depreciated			<u>19,184,854</u>	<u>878,366</u>	<u>(6,482)</u>	<u>20,056,738</u>
Less accumulated depreciation for:						
Buildings & improvements			13,488,296	376,561	(6,482)	13,858,375
Equipment			57,640	2,440	-	60,080
Total accumulated depreciation			<u>13,545,936</u>	<u>379,001</u>	<u>(6,482)</u>	<u>13,918,455</u>
Total capital assets being depreciated - net			<u>5,638,918</u>	<u>499,365</u>	<u>-</u>	<u>6,138,283</u>
Business-type activities capital assets - net			<u>\$ 6,016,887</u>	<u>\$ 1,063,999</u>	<u>\$ (663,515)</u>	<u>\$ 6,417,371</u>

All of the Governmental Activities capital assets were transferred to the South St. Paul Economic Development Authority as part of the transfer of operations. See Note 7.

Depreciation expense is included in the Low Rent Public Housing fund.

The Housing and Redevelopment Authority of South St. Paul
Notes to the Financial Statements

NOTE 4 – INTERFUND TRANSFERS

The following is a summary of fund financial interfund transfers at December 31, 2016:

Transfer out:	Transfer In: Low Rent Public Housing
Capital fund	\$ 507,600
Congregate Housing Services Program Grant	7,813
Total	\$ 515,413

Transfers were made to fund various project costs and to provide administrative oversight in the Congregate Housing Services Program Grant fund.

NOTE 5 – LONG-TERM DEBT

Business-Type Activities – Notes Payable

During 1999, the Authority obtained financing of two loans through the Minnesota Housing Finance Agency (MHFA) in the aggregate amount of \$211,980 to assist with the rehabilitation of the John Carroll Apartment windows. One loan in the amount of \$105,980 is due and payable as a lump sum on September 20, 2029. This is a noninterest bearing loan. The other loan in the amount of \$106,000 shall be deemed to be paid in full and no payment thereof shall be required after 30 years if no event of default occurs as described in the agreement.

During 2002, the Authority obtained financing from the Dakota County Community Development Agency in the amount of \$250,000 to assist with the rehabilitation of the Nan McKay Apartment windows. This is a noninterest bearing loan. This loan is only payable if/when the building ceases to be public housing.

During 2013, the Authority obtained financing from the MHFA in the amount of \$368,734 to assist with the rehabilitation of the Nan McKay Apartment elevators. This is a noninterest bearing loan and shall be deemed to be paid in full and no payment thereof shall be required after 20 years if no event of default occurs as described in the agreement.

During 2015, the Authority obtained financing through PNC Equipment Finance, LLC in the amount of \$1,163,746 for an Energy Performance Contract with Johnson Controls. This Contract was to assist with energy conservation improvements at the John Carroll Building and Nan McKay building. This loan carries an interest rate of 3.219% with payments due annually through 2024. The balance of the loan at December 31, 2016, was \$954,327.

Annual debt service requirements for business-type activities long-term debt are as follows:

	Business-Type		
	Principal	Interest	Total
2017	\$ 97,674	\$ 30,719	\$ 128,393
2018	104,790	27,575	132,365
2019	112,254	24,202	136,456
2020	120,081	20,589	140,670
2021	128,287	16,723	145,010
2022-2026	391,241	24,272	415,513
2027-2029	105,980	-	105,980
Foregivable Debt	724,734	-	724,734
Total	\$ 1,785,041	\$ 144,080	\$ 1,929,121

The Housing and Redevelopment Authority of South St. Paul
Notes to the Financial Statements

NOTE 5 – LONG-TERM DEBT (CONTINUED)

Changes in Long-Term Debt

Long-term debt activity for the year ended December 31, 2016, was as follows:

	Balance 01/01/16, as previously stated	Special item - Deletions	Balance 01/01/16, as restated	Additions	Deletions	Balance 12/31/16	Due Within One Year
Governmental activities:							
Lease revenue bonds	\$ 2,060,000	\$(2,060,000)	\$ -	\$ -	\$ -	\$ -	\$ -
Special assessments	31,571	(31,571)	-	-	-	-	-
Compensated absences/Severance payable	2,999	(2,999)	-	-	-	-	-
Total governmental activities long-term debt	<u>\$ 2,094,570</u>	<u>\$(2,094,570)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Business-type activities:							
Loans payable:							
1999 MHFA-ARIF	\$ 105,980	\$ -	\$ 105,980	\$ -	\$ -	\$ 105,980	\$ -
1999 MHFA-HTF	106,000	-	106,000	-	-	106,000	-
2013 MHFA	368,734	-	368,734	-	-	368,734	-
2002 CDA	250,000	-	250,000	-	-	250,000	-
Energy Performance Lease - 78 PNC	405,440	-	405,440	-	38,489	366,951	37,556
Energy Performance Lease - 77 PNC	648,988	-	648,988	-	61,612	587,376	60,118
Compensated absences/Severance payable	20,034	(20,034)	-	-	-	-	-
Total business-type activities long-term debt	<u>\$ 1,905,176</u>	<u>\$ (20,034)</u>	<u>\$ 1,885,142</u>	<u>\$ -</u>	<u>\$ 100,101</u>	<u>\$ 1,785,041</u>	<u>\$ 97,674</u>

NOTE 6 – RISK MANAGEMENT

The Authority is exposed to various risks and loss related to torts: theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. In order to protect against these risks of loss, the Authority purchases commercial insurance through the Housing Authority Risk Retention Group, Inc. and The Housing Authority Property Insurance, Inc. The Authority is covered through these Insurance Companies for any claims incurred but unreported, however, retains risk for the deductible portion of its insurance policies. The amounts of these deductibles are considered immaterial to the financial statements.

During the year ended December 31, 2016, there were no significant reductions in insurance coverage from the prior year. Settled claims have not exceeded the Authority's commercial coverage in any of the past three years.

NOTE 7 – SPECIAL ITEM – TRANSFER OF OPERATIONS TO OTHER ENTITIES

On January 1, 2016, the Authority transferred the assets and liabilities comprising its economic development and housing development programs to the South St. Paul Economic Development Authority (EDA). The purpose of the transfer is to enhance economic development in the city.

To record this transfer of operations, there is a special item recorded to close out the beginning balances of those programs/funds which were transferred out of the Authority to the EDA. The assets, liabilities and net position of those transferred programs are shown on the following page.

The Housing and Redevelopment Authority of South St. Paul
Notes to the Financial Statements

NOTE 7 – SPECIAL ITEM – TRANSFER OF OPERATIONS TO OTHER ENTITIES (CONTINUED)

	Governmental Activities	Business-Type Activities	Total
Assets			
Current assets	\$ 3,913,543	\$ 171,293	\$ 4,084,836
Noncurrent assets	4,569,935	-	4,569,935
Total assets	<u>8,483,478</u>	<u>171,293</u>	<u>8,654,771</u>
Liabilities			
Current liabilities	1,013,646	34,341	1,047,987
Noncurrent liabilities	1,857,999	-	1,857,999
Total liabilities	<u>2,871,645</u>	<u>34,341</u>	<u>2,905,986</u>
Net Position			
Net investment in capital assets	269,952	-	269,952
Restricted	2,711,956	-	2,711,956
Unrestricted	2,629,925	136,952	2,766,877
Total net position	<u>\$ 5,611,833</u>	<u>\$ 136,952</u>	<u>\$ 5,748,785</u>

The special item reported on the fund financial statements, \$5,376,127 in the governmental funds and (\$110) in the proprietary funds, differs from the amount reported on the government wide financial statements of \$5,611,833. This difference is attributable to prior year reconciling items which converted modified to accrual accounting as noted below:

	Governmental Funds	Internal Service Fund	Governmental Activities
Special Item - Fund Statements	\$ 5,376,127	\$ (110)	\$ 5,376,017
Adjustments to reconcile from modified accrual to accrual:			
Beginning balance of capital assets-governmental activities	1,060,310	-	1,060,310
Beginning balance of capital assets-internal service fund	-	(13,014)	(13,014)
Beginning balance of lease receivable	1,301,212	-	1,301,212
Beginning balance of deferred inflows of resources	12,784	-	12,784
Beginning balance of accrued interest payable	(30,906)	-	(30,906)
Beginning balance of compensated absences	(2,999)	-	(2,999)
Beginning balance of long-term debt	(2,091,571)	-	(2,091,571)
Special Item - Government-Wide Statements			<u>\$ 5,611,833</u>

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COMBINING AND INDIVIDUAL FUND STATEMENTS

The Housing and Redevelopment Authority of South St. Paul
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds
Year Ended December 31, 2016

	Special Revenue			
	Bond Fees (287)	Special Grants (289)	Parking Lot (285)	CDBG Dakota County (296)
Special item				
Transfer of operations	\$ (196,082)	\$ (233,700)	\$ (73,093)	\$ (685,517)
Fund Balances				
Beginning of year	<u>196,082</u>	<u>233,700</u>	<u>73,093</u>	<u>685,517</u>
End of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

		Debt Service				
MHFA Housing Trust (662)	Total	BRS Debt Service Fund (391)	South Metro Fire Bonds (386)	Total	Total Nonmajor Governmental Funds	
\$ (5,657)	\$ (1,194,049)	\$ (141,950)	\$ 450	\$ (141,500)	\$ (1,335,549)	
<u>5,657</u>	<u>1,194,049</u>	<u>141,950</u>	<u>(450)</u>	<u>141,500</u>	<u>1,335,549</u>	
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	

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SUPPLEMENTARY INFORMATION

The Housing and Redevelopment Authority of South St. Paul
Financial Data Schedule
Combining Balance Sheet - All Programs
As of December 31, 2016

Line Item No.	Account Descriptions	Project Total	14.170 Congregate Housing Service Program	Subtotal	Eliminations	Total
ASSETS						
Current assets						
111	Cash - unrestricted	\$ 1,463,737	\$ 17,672	\$ 1,481,409	\$ -	\$ 1,481,409
114	Cash - Tenant Security Deposits	64,457	-	64,457	-	64,457
100	Total cash	<u>1,528,194</u>	<u>17,672</u>	<u>1,545,866</u>	<u>-</u>	<u>1,545,866</u>
Accounts and Notes Receivable						
125	Accounts Receivable - Miscellaneous	146	-	146	-	146
126	Accounts Receivable - Tenants	13,741	-	13,741	-	13,741
126.1	Allowance for Doubtful Accounts - Tenants	(1,419)	-	(1,419)	-	(1,419)
126.2	Allowance for Doubtful Accounts - Other	(1,971)	-	(1,971)	-	(1,971)
120	Total Receivables, Net of Allowances for Doubtful Accounts	<u>10,497</u>	<u>-</u>	<u>10,497</u>	<u>-</u>	<u>10,497</u>
Investments and Other Assets						
142	Prepaid Expenses and Other Assets	61,936	-	61,936	-	61,936
150	Total Current Assets	<u>1,600,627</u>	<u>17,672</u>	<u>1,618,299</u>	<u>-</u>	<u>1,618,299</u>
Noncurrent assets						
161	Land	265,675	-	265,675	-	265,675
162	Buildings	19,986,906	-	19,986,906	-	19,986,906
163	Furniture, Equipment & Machinery - Dwellings	69,832	-	69,832	-	69,832
166	Accumulated Depreciation	(13,918,455)	-	(13,918,455)	-	(13,918,455)
167	Construction in Progress	13,413	-	13,413	-	13,413
160	Total Capital Assets, Net of Accumulated Depreciation	<u>6,417,371</u>	<u>-</u>	<u>6,417,371</u>	<u>-</u>	<u>6,417,371</u>
180	Total Noncurrent Assets	<u>6,417,371</u>	<u>-</u>	<u>6,417,371</u>	<u>-</u>	<u>6,417,371</u>
290	TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	<u>\$ 8,017,998</u>	<u>\$ 17,672</u>	<u>\$ 8,035,670</u>	<u>\$ -</u>	<u>\$ 8,035,670</u>

See notes to the financial data schedule

The Housing and Redevelopment Authority of South St. Paul
Financial Data Schedule
Combining Balance Sheet - All Programs
As of December 31, 2016

Line Item No.	Account Descriptions	Project Total	14.170 Congregate Housing Service Program	Subtotal	Eliminations	Total
LIABILITIES AND NET POSITION						
Liabilities						
Current Liabilities						
312	Accounts Payable <= 90 Days	\$ 66,721	\$ 17,672	\$ 84,393	\$ -	\$ 84,393
325	Accrued Interest Payable	12,800	-	12,800	-	12,800
341	Tenant Security Deposits	64,457	-	64,457	-	64,457
Current Portion of Long-term Debt - Capital						
343	Projects/Mortgage Revenue	97,674	-	97,674	-	97,674
345	Other Current Liabilities	88,766	-	88,766	-	88,766
310	Total Current Liabilities	<u>330,418</u>	<u>17,672</u>	<u>348,090</u>	<u>-</u>	<u>348,090</u>
Noncurrent Liabilities						
Long-term Debt, Net of Current - Capital						
351	Projects/Mortgage Revenue	<u>1,687,367</u>	-	<u>1,687,367</u>	-	<u>1,687,367</u>
350	Total Noncurrent Liabilities	<u>1,687,367</u>	<u>-</u>	<u>1,687,367</u>	<u>-</u>	<u>1,687,367</u>
300	Total Liabilities	<u>2,017,785</u>	<u>17,672</u>	<u>2,035,457</u>	<u>-</u>	<u>2,035,457</u>
Net Position						
508.4	Net investment in capital assets	4,632,330		4,632,330	-	4,632,330
512.4	Unrestricted net position	<u>1,367,883</u>		<u>1,367,883</u>	-	<u>1,367,883</u>
513	Total Equity - Net Assets/Position	<u>6,000,213</u>	<u>-</u>	<u>6,000,213</u>	<u>-</u>	<u>6,000,213</u>
600	TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND EQUITY - NET ASSETS / POSITION	<u>\$ 8,017,998</u>	<u>\$ 17,672</u>	<u>\$ 8,035,670</u>	<u>\$ -</u>	<u>\$ 8,035,670</u>

The Housing and Redevelopment Authority of South St. Paul
Financial Data Schedule
Combining Schedule of Revenues, Expenses, and Changes in Net Position - All Programs
For the Year Ended December 31, 2016

Line Item No.	Account Descriptions	Project Total	66.606 Surveys, Studies, Investigations and Special Purpose Grants	14.218 Community Development Block Grants/Entitlement Grants
REVENUES				
70300	Net Tenant Rental Revenue	\$ 1,135,352	\$ -	\$ -
70500	Total Tenant Revenue	1,135,352	-	-
70600	HUD PHA Operating Grants	809,615	-	-
70610	Capital Grants	507,600	-	-
70800	Other Government Grants	442,486	-	-
71100	Investment Income - Unrestricted	421	-	-
71500	Other Revenue	62,634	-	-
70000	Total Revenue	2,958,108	-	-
EXPENSES				
Administrative				
91200	Auditing Fees	38,335	-	-
91400	Advertising and Marketing	6,006	-	-
91600	Office Expenses	446,895	-	-
91700	Legal Expense	10,624	-	-
91800	Travel	3,425	-	-
91000	Total Operating - Administrative	505,285	-	-
Tenant Services				
92400	Tenant Services - Other	60,544	-	-
92500	Total Tenant Services	60,544	-	-
Utilities				
93100	Water	8,694	-	-
93200	Electricity	165,475	-	-
93300	Gas	50,400	-	-
93400	Fuel	3,490	-	-
93600	Sewer	32,714	-	-
93000	Total Utilities	260,773	-	-
Ordinary Maintenance and Operations				
94200	Ordinary Maintenance and Operations - Materials and Other	54,839	-	-
94300	Ordinary Maintenance and Operations Contracts	402,179	-	-
94000	Total Ordinary Maintenance and Operations	457,018	-	-
Protective Services				
95300	Protective Services - Other	8,333	-	-
95000	Total Protective Services	8,333	-	-
Insurance Premiums				
96110	Property Insurance	62,018	-	-
96120	Liability Insurance	9,370	-	-
96100	Total insurance Premiums	71,388	-	-

See notes to the financial data schedule

14.871 Housing Choice Vouchers	14.170 Congregate Housing Service Program	2 State/Local	Subtotal	Eliminations	Total
\$ -	\$ -	\$ -	\$ 1,135,352	\$ -	\$ 1,135,352
-	-	-	1,135,352	-	1,135,352
-	179,192	-	988,807	-	988,807
-	-	-	507,600	-	507,600
-	-	-	442,486	-	442,486
-	-	-	421	-	421
-	23,173	-	85,807	-	85,807
-	202,365	-	3,160,473	-	3,160,473
-	1,380	-	39,715	-	39,715
-	-	-	6,006	-	6,006
-	6,982	-	453,877	-	453,877
-	-	-	10,624	-	10,624
-	162	-	3,587	-	3,587
-	8,524	-	513,809	-	513,809
-	186,028	-	246,572	-	246,572
-	186,028	-	246,572	-	246,572
-	-	-	8,694	-	8,694
-	-	-	165,475	-	165,475
-	-	-	50,400	-	50,400
-	-	-	3,490	-	3,490
-	-	-	32,714	-	32,714
-	-	-	260,773	-	260,773
-	-	-	54,839	-	54,839
-	-	-	402,179	-	402,179
-	-	-	457,018	-	457,018
-	-	-	8,333	-	8,333
-	-	-	8,333	-	8,333
-	-	-	62,018	-	62,018
-	-	-	9,370	-	9,370
-	-	-	71,388	-	71,388

The Housing and Redevelopment Authority of South St. Paul
Financial Data Schedule
Combining Schedule of Revenues, Expenses, and Changes in Net Position - All Programs
For the Year Ended December 31, 2016

Line Item No.	Account Descriptions	Project Total	66.606 Surveys, Studies, Investigations and Special Purpose Grants	14.218 Community Development Block Grants/Entitlement Grants
	General Expenses			
96200	Other General Expenses	480	-	-
96300	Payments in Lieu of Taxes	86,957	-	-
96400	Bad debt - Tenant Rents	18,292	-	-
96000	Total Other General Expenses	105,729	-	-
	Interest Expense and Amortization Cost			
96710	Interest of Mortgage (or Bonds) Payable	31,185	-	-
96700	Total Interest Expense and Amortization Cost	31,185	-	-
96900	Total Operating Expenses	1,500,255	-	-
97000	Excess of Operating Revenue over Operating Expenses	1,457,853	-	-
97100	Extraordinary Maintenance	15,619	-	-
97400	Depreciation Expense	379,001	-	-
90000	Total Expenses	1,894,875	-	-
10080	Special Items (Net Gain/Loss)	(139,579)	(296,861)	(685,517)
10093	Transfers between Program and Project - In	7,813	-	-
10094	Transfers between Program and Project - Out	-	-	-
10100	Total Other financing Sources (Uses)	(131,766)	(296,861)	(685,517)
10000	EXCESS (DEFICIENCY) OF TOTAL REVENUE OVER (UNDER) TOTAL EXPENSES	\$ 931,467	\$ (296,861)	\$ (685,517)
11020	Required Annual Debt Principal Payments	\$ 100,101	\$ -	\$ -
11030	Beginning Equity	5,068,744	296,861	685,517
11190	Unit Months Available	3,576	-	-
11210	Number of Unit Months Leased	3,549	-	-
11270	Excess Cash	1,083,252	-	-
11620	Building Purchases	779,485	-	-

See notes to the financial data schedule

14.871 Housing Choice Vouchers	14.170 Congregate Housing Service Program	2 State/Local	Subtotal	Eliminations	Total
-	-	-	480	-	480
-	-	-	86,957	-	86,957
-	-	-	18,292	-	18,292
-	-	-	105,729	-	105,729
-	-	-	31,185	-	31,185
-	-	-	31,185	-	31,185
-	194,552	-	1,694,807	-	1,694,807
-	7,813	-	1,465,666	-	1,465,666
-	-	-	15,619	-	15,619
-	-	-	379,001	-	379,001
-	194,552	-	2,089,427	-	2,089,427
2,626	-	(4,629,452)	(5,748,783)	-	(5,748,783)
-	-	-	7,813	-	7,813
-	(7,813)	-	(7,813)	-	(7,813)
2,626	(7,813)	(4,629,452)	(5,748,783)	-	(5,748,783)
\$ 2,626	\$ -	\$ (4,629,452)	\$ (4,677,737)	\$ -	\$ (4,677,737)
\$ -	\$ -	\$ -	\$ 100,101	\$ -	\$ 100,101
(2,626)	-	4,629,452	10,677,948	-	10,677,948
-	-	-	3,576	-	3,576
-	-	-	3,549	-	3,549
-	-	-	1,083,252	-	1,083,252
-	-	-	779,485	-	779,485

The Housing and Redevelopment Authority of South St. Paul
Notes to the Financial Data Schedules

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial data schedules are presented on a full accrual basis of accounting. The information in the schedules is presented in accordance with the U.S. Department of Housing and Urban Development (HUD), Office of Public and Indian Housing, Real Estate Assessment Center and the Financial Assistance Subsystem-Public Housing (FASS-PH). Therefore, some of the amounts presented in these schedules may differ from the amounts presented in, or used in the preparation of, the Authority's financial statements.

Management Report

for

Housing and Redevelopment
Authority of South St. Paul
South St. Paul, Minnesota

December 31, 2016

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PRINCIPALS

Thomas A. Karnowski, CPA
Paul A. Radosevich, CPA
William J. Lauer, CPA
James H. Eichten, CPA
Aaron J. Nielsen, CPA
Victoria L. Holinka, CPA/CMA

To the Board of Commissioners and Management
Housing and Redevelopment Authority of South St. Paul, Minnesota

We have prepared this management report in conjunction with our audit of the Housing and Redevelopment Authority of South St. Paul, Minnesota's (the Authority) financial statements for the year ended December 31, 2016. We have organized this report into the following sections:

- Audit Summary
- Enterprise Funds Overview
- Accounting and Auditing Updates

We would be pleased to further discuss any of the information contained in this report or any other concerns that you would like us to address. We would also like to express our thanks for the courtesy and assistance extended to us during the course of our audit.

The purpose of this report is solely to provide those charged with governance of the Authority, management, and those who have responsibility for oversight of the financial reporting process comments resulting from our audit process. Accordingly, this report is not suitable for any other purpose.

Malloy, Montague, Karnowski, Radosevich & Co., P.A.

Minneapolis, Minnesota
June 28, 2017

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AUDIT SUMMARY

The following is a summary of our audit work, key conclusions, and other information that we consider important or that is required to be communicated to the Board of Commissioners, administration, or those charged with governance of the Authority.

OUR RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA, *GOVERNMENT AUDITING STANDARDS*, AND TITLE 2 U.S. CODE OF FEDERAL REGULATIONS (CFR) PART 200, *UNIFORM ADMINISTRATIVE REQUIREMENTS, COST PRINCIPLES, AND AUDIT REQUIREMENTS FOR FEDERAL AWARDS (UNIFORM GUIDANCE)*

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Authority as of and for the year ended December 31, 2016, and the related notes to the financial statements. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and the Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We have communicated such information to you verbally and in our audit engagement letter. Professional standards also require that we communicate the following information related to our audit.

PLANNED SCOPE AND TIMING OF THE AUDIT

We performed the audit according to the planned scope and timing previously discussed and coordinated in order to obtain sufficient audit evidence and complete an effective audit.

AUDIT OPINION AND FINDINGS

Based on our audit of the Authority's financial statements for the year ended December 31, 2016:

- We have issued an unmodified opinion on the Authority's basic financial statements. Our report included a paragraph emphasizing the Authority's reporting of a special item – transfer of operations in the current year. Our opinion was not modified with respect to this matter.
- We reported no deficiencies in the Authority's internal control over financial reporting that we considered to be material weaknesses.
- The results of our testing disclosed no instances of noncompliance required to be reported under *Government Auditing Standards*.
- We reported that the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the basic financial statements.
- The results of our tests indicate that the Authority has complied, in all material respects, with the types of compliance requirements that could have a direct and material effect on each of its major federal programs.
- The results of our tests noted three matters involving the internal control over compliance and its operation that we consider to be significant deficiencies in our testing of major federal programs:
 1. During our audit, we noted that the Authority did not have documented written controls to ensure compliance with the U.S. Office of Management and Budget's *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) standards for financial management for all federal programs awarded under the Uniform Guidance.

2. During our audit, we noted that the Authority did not have sufficient controls in place within the Public and Indian Housing federal program to assure that it was in compliance with the Uniform Guidance eligibility compliance requirements. The Authority has limited segregation of duties in the determination of Public and Indian Housing federal program income eligibility.
 3. During our audit, we noted the Authority did not have sufficient controls in place within the Public and Indian Housing federal program to assure that it was not contracting for goods or services with parties that are suspended or debarred, or whose principals are suspended or debarred from participating in contracts involving the expenditures of federal program funds.
- We reported two findings based on our testing of the Authority's compliance with Minnesota laws and regulations.
 1. Before making final settlement with any contractor under a contract requiring the employment of employees for wages by said contractor or subcontractors, the Authority must obtain a certificate by the Commissioner of Revenue that the contractor or subcontractor has complied with the withholding requirements of Minnesota Statutes §290.92 (either Form IC-134 or a Contractor's Withholding Affidavit). The Authority did not obtain the required certificate for one contract completed in 2016 prior to final settlement being paid.
 2. Authority contracts for construction services must include specific language that requires the prime contractor to pay any subcontractors within 10 days of the prime contractor's receipt of payment from the Authority or pay interest at the rate of 1.5 percent per month on any unpaid balance. This required language was not included in contracts awarded during the year ended December 31, 2016.

SPECIAL ITEM – TRANSFER OF OPERATIONS TO OTHER ENTITIES

On January 1, 2016, the Authority transferred the assets and liabilities comprising its economic development and housing development programs to the South St. Paul Economic Development Authority (EDA). The purpose of the transfer is to enhance economic development in the City of South St. Paul.

To record this transfer of operations, there is a special item recorded to close out the beginning balances of those programs/funds which were transferred out of the Authority to the EDA. The assets, liabilities, and net position of those transferred programs totaled \$8,654,771, \$2,905,986, and \$5,748,785, respectively.

SIGNIFICANT ACCOUNTING POLICIES

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Authority are described in Note 1 of the notes to basic financial statements.

No new accounting policies were adopted and the application of existing policies was not changed during the year ended December 31, 2016. We noted no transactions entered into by the Authority during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

ACCOUNTING ESTIMATES AND MANAGEMENT JUDGMENTS

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

- The depreciation of capital assets involves estimates pertaining to useful lives.

We evaluated the key factors and assumptions used by management to develop this estimate in determining that they are reasonable in relation to the basic financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

We encountered no significant difficulties in dealing with management in performing and completing our audit.

CORRECTED AND UNCORRECTED MISSTATEMENTS

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Where applicable, management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management, when applicable, were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

DISAGREEMENTS WITH MANAGEMENT

For purposes of this report, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

MANAGEMENT REPRESENTATIONS

We have requested certain representations from management that are included in the management representation letter dated June 28, 2017.

MANAGEMENT CONSULTATIONS WITH OTHER INDEPENDENT ACCOUNTANTS

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Authority's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

OTHER AUDIT FINDINGS OR ISSUES

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Authority's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

OTHER MATTERS

We applied certain limited procedures to the management's discussion and analysis, that is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the combining and individual fund statements, the supplementary information accompanying the financial statements, and the separately issued Schedule of Expenditures of Federal Awards, which are not RSI. With respect to this information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the combining and individual fund statements, supplementary information, and Schedule of Expenditures of Federal Awards to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We were not engaged to report on the elected officials and administration information that accompanies the financial statements but is not RSI. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

ENTERPRISE FUNDS OVERVIEW

The Authority maintains several enterprise funds to account for services the Authority provides that are financed primarily through fees charged to those utilizing the service. This section of the report provides you with an overview of the financial trends and activities of the Authority's enterprise funds, which includes the Low Rent Public Housing, Capital, and Congregate Housing Services Program Grant Funds.

ENTERPRISE FUNDS FINANCIAL POSITION

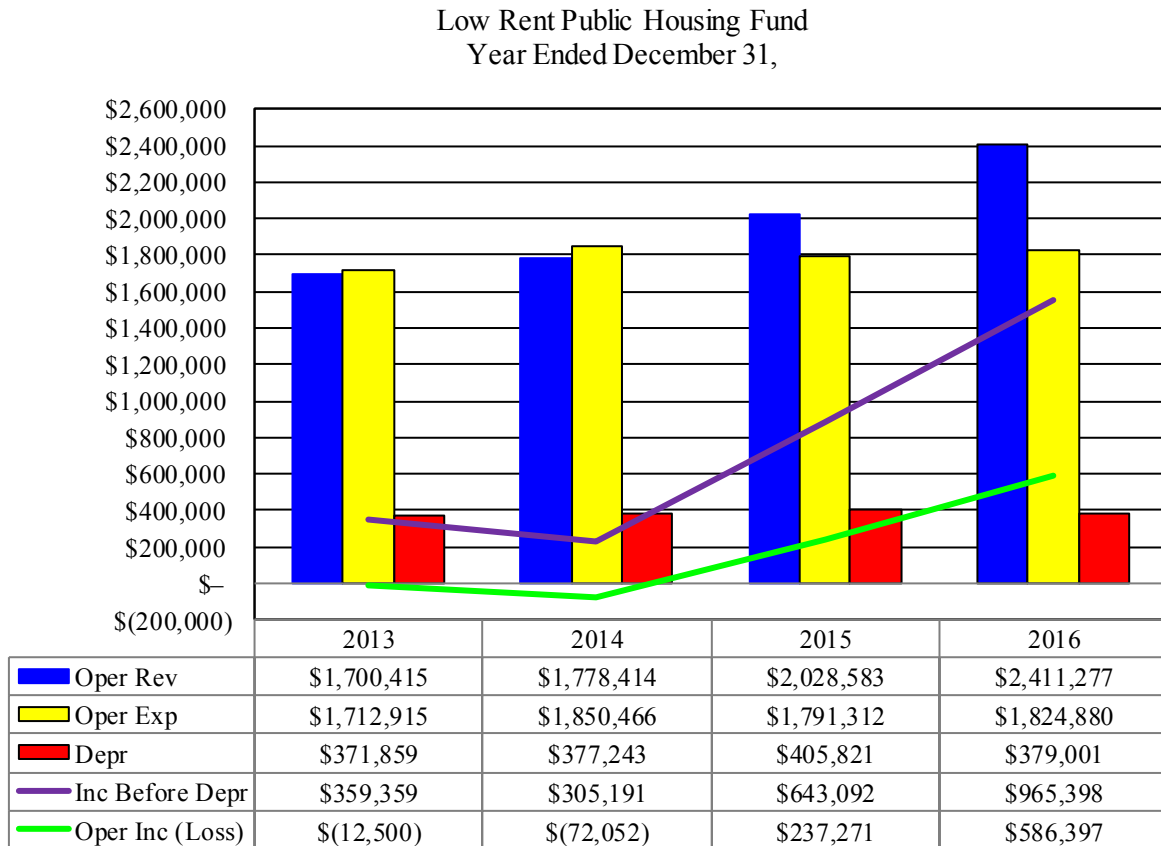
The following table summarizes the changes in the financial position of the Authority's enterprise funds during the year ended December 31, 2016, presented both by classification and by fund:

Enterprise Funds Change in Financial Position			
	Net Position as of December 31,		Increase (Decrease)
	<u>2016</u>	<u>2015</u>	
Net position of enterprise funds			
Total by classification			
Net investment in capital assets	\$ 4,632,330	\$ 4,131,741	\$ 500,589
Unrestricted	<u>1,367,883</u>	<u>934,378</u>	<u>433,505</u>
Total – enterprise funds	<u>\$ 6,000,213</u>	<u>\$ 5,066,119</u>	<u>\$ 934,094</u>
Total by fund			
Low Rent Public Housing	\$ 6,000,213	\$ 5,068,746	\$ 931,467
Section 8 Rental Voucher Program	<u>–</u>	<u>(2,627)</u>	<u>2,627</u>
Total – enterprise funds	<u>\$ 6,000,213</u>	<u>\$ 5,066,119</u>	<u>\$ 934,094</u>

In total, the net position of the Authority's enterprise funds increased by \$934,094 during the year ended December 31, 2016. The increase in the net investment in capital assets reflects the continued investment in buildings and improvements. The increase in unrestricted net position is due to the positive operating results of the funds.

LOW RENT PUBLIC HOUSING FUND

The following graph presents four years of operating results for the Low Rent Public Housing Fund:



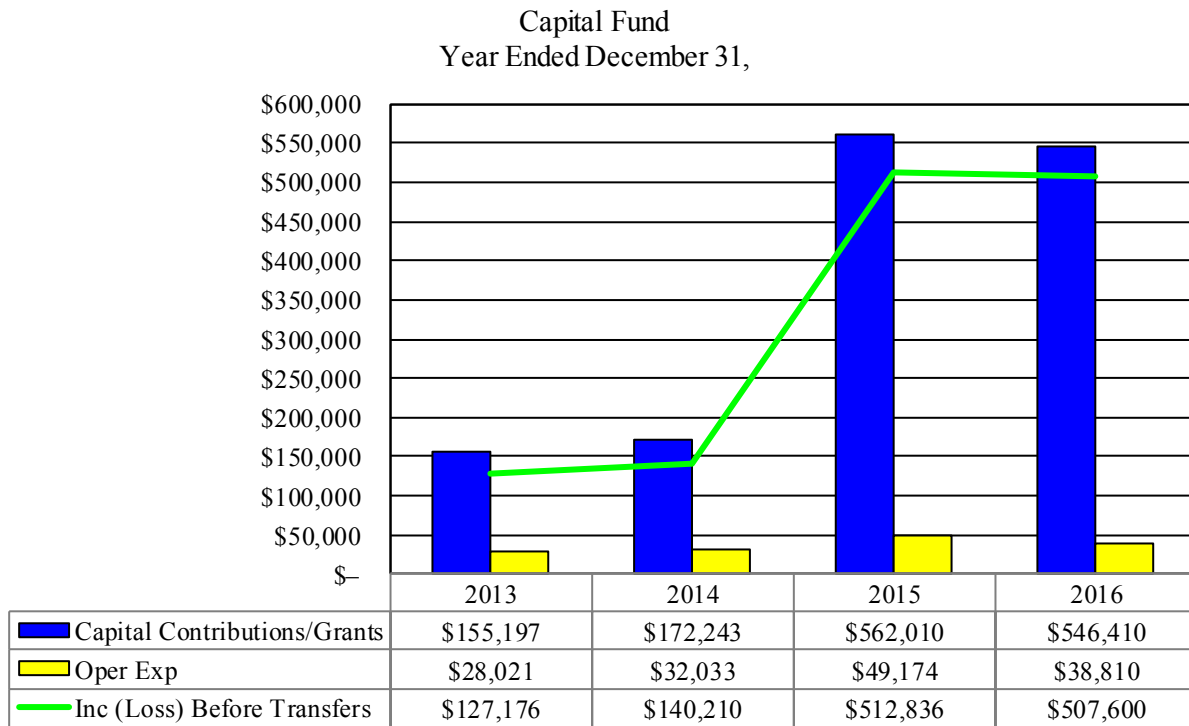
The Low Rent Public Housing Fund ended 2016 with a net position of \$6,000,213, an increase of \$931,467 from the prior year. Of this, \$4,632,330 represents the net investment in capital assets, leaving \$1,367,883 of unrestricted net position.

Low Rent Public Housing Fund operating revenue was \$2,411,277 for 2016, an increase of \$382,694 from 2015, due to increased operating grants in the current year.

Operating expenses were \$1,824,880, an increase of \$33,568 from the prior year.

CAPITAL FUND

The following graph presents four years of operating results for the Capital Fund:



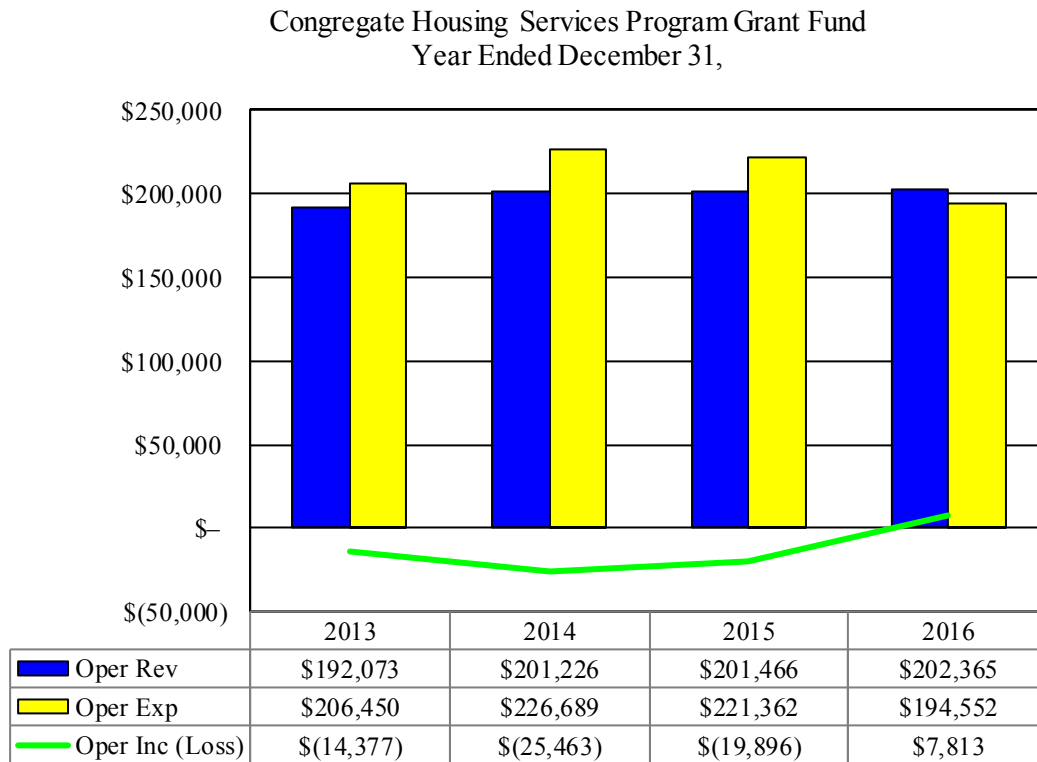
The Capital Fund ended 2016 with a net position of \$0, the same as the prior year. This fund transfers any remaining net position to the Low Rent Public Housing Program Fund each year.

Capital Fund capital contributions/grants were \$546,410 for 2016, a decrease of \$15,600 from 2015.

Operating expenses were \$38,810, a decrease of \$10,364 from the prior year.

CONGREGATE HOUSING SERVICES PROGRAM GRANT FUND

The following graph presents four years of operating results for the Congregate Housing Services Program Grant Fund:



The Congregate Housing Services Program Grant Fund ended 2016 with a net position of \$0, the same as the prior year. This fund transfers any remaining net position to the Low Rent Public Housing Program Fund each year.

Congregate Housing Services Program Grant Fund operating revenues were \$202,365 for 2016, a slight increase of \$899 from 2015.

Operating expenses were \$194,552, a decrease of \$26,810 from the prior year.

ACCOUNTING AND AUDITING UPDATES

GASB STATEMENT NO. 73, ACCOUNTING AND FINANCIAL REPORTING FOR PENSIONS AND RELATED ASSETS THAT ARE NOT WITHIN THE SCOPE OF GASB STATEMENT 68, AND AMENDMENTS TO CERTAIN PROVISIONS OF GASB STATEMENTS 67 AND 68

This statement extends the approach to accounting and financial reporting established in GASB Statement No. 68 to all pensions, including those not administered through a trust. Governmental employers participating in such plans will be required to report the total of any unfunded pension liability related to the plan in their accrual basis financial statements, rather than the net pension liability. The requirements of this statement that address accounting and financial reporting by employers and governmental nonemployer contributing entities for pensions not within the scope of GASB Statement No. 68, are effective for financial statements for fiscal years beginning after June 15, 2016.

This statement also clarified the application of certain provisions of GASB Statement Nos. 67 and 68 regarding 10-year schedules of required supplementary information (RSI) and other recognition issues pertaining to employers and nonemployer contributing entities effective for financial statements for fiscal years beginning after June 15, 2015.

GASB STATEMENT NO. 74, FINANCIAL REPORTING FOR POSTEMPLOYMENT BENEFIT PLANS OTHER THAN PENSION PLANS

This statement establishes new accounting and financial reporting requirements for other post-employment benefits (OPEB) plans, replacing GASB Statement Nos. 43 and 57. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in GASB Statement Nos. 25, 43, and 50.

This statement will improve financial reporting primarily through enhanced note disclosures and schedules of RSI that will be presented by OPEB plans administered through trusts meeting the specified criteria. The new information will enhance the decision-usefulness of the financial reports of those OPEB plans, their value for assessing accountability, and their transparency by providing information about measures of net OPEB liabilities and explanations of how and why those liabilities changed from year-to-year. The net OPEB liability information, including ratios, will offer an up-to-date indication of the extent to which the total OPEB liability is covered by the fiduciary net position of the OPEB plan. The comparability of the reported information for similar types of OPEB plans will be improved by the changes related to the attribution method used to determine the total OPEB liability. The contribution schedule will provide measures to evaluate decisions related to the assessment of contribution rates in comparison with actuarially determined rates, if such rates are determined. In addition, new information about rates of return on OPEB plan investments will inform financial report users about the effects of market conditions on the OPEB plan's assets over time and provide information for users to assess the relative success of the OPEB plan's investment strategy and the relative contribution that investment earnings provide to the OPEB plan's ability to pay benefits to plan members when they come due.

This statement is effective for financial statements for fiscal years beginning after June 15, 2016. Earlier application is encouraged.

GASB STATEMENT NO. 75, *ACCOUNTING AND FINANCIAL REPORTING FOR POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS*

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB, as well as for certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities. This statement replaces the requirements of GASB Statement Nos. 45 and 57.

This statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. Similar to changes implemented for pensions, this statement requires the liability of employers and nonemployer contributing entities to employees for defined benefit OPEB (net OPEB liability) to be measured as the portion of the present value of projected benefit payments to be provided to current active and inactive employees that is attributed to those employees' past periods of service (total OPEB liability), less the amount of the OPEB plan's fiduciary net position. Note disclosure and RSI requirements about defined benefit OPEB also are addressed.

This statement is effective for fiscal years beginning after June 15, 2017. Earlier application is encouraged.

GASB STATEMENT NO. 80, *BLENDING REQUIREMENTS FOR CERTAIN COMPONENT UNITS—AN AMENDMENT OF GASB STATEMENT NO. 14*

The objective of this statement is to clarify the financial statement presentation requirements for certain component units. This statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units—an amendment of GASB Statement No. 14*.

The requirements of this statement are effective for reporting periods beginning after June 15, 2016. Earlier application is encouraged.

GASB STATEMENT NO. 81, *IRREVOCABLE SPLIT-INTEREST AGREEMENTS*

This statement provides recognition and measurement guidance for the accounting and financial reporting of irrevocable split-interest agreements by governments that are the beneficiary of such an agreement. Split-interest agreements are a type of giving agreement used by donors to provide resources to two or more beneficiaries, including governments.

This statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement (1) recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement, (2) recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party if the government controls the present service capacity of the beneficial interests, and (3) recognize revenue when the resources become applicable to the reporting period.

The requirements of this statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively. Earlier application is encouraged.

GASB STATEMENT NO. 82, *PENSION ISSUES—AN AMENDMENT OF GASB STATEMENTS NO. 67, NO. 68, AND NO. 73*

The intent of this statement is to address certain issues raised with respect to GASB Statement Nos. 67, 68, and 73.

This statement amends GASB Statement Nos. 67 and 68, changing the definition of “covered payroll” utilized in schedules of RSI from the payroll of employees that are provided with pensions through the pension plan, to the payroll on which contributions to a pension plan are based. It clarifies that a deviation, as the term is used in Actuarial Standards of Practice, is not considered to be in conformity with the requirements of GASB Statement Nos. 67, 68, or 73 for the selection of assumptions used in determining the total pension liability and related measures. It also clarifies that payments made by an employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements should be classified as plan member contributions for purposes of Statement No. 67 and as employee contributions for purposes of Statement No. 68, and requires that an employer’s expense and expenditures for those amounts be recognized in the period for which the contribution is assessed and classified in the same manner as the employer classifies similar compensation other than pensions.

The requirements of this statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this statement for the selection of assumptions in a circumstance in which an employer’s pension liability is measured as of a date other than the employer’s most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Earlier application is encouraged.

GASB STATEMENT NO. 83, *CERTAIN ASSET RETIREMENT OBLIGATIONS*

This statement addresses accounting and financial reporting for certain asset retirement obligations (ARO), which are legally enforceable liabilities associated with the retirement of a tangible capital asset.

This statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for ARO. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability when it is both incurred and reasonably estimable. The measurement of an ARO is required to be based on the best estimate of the current value of outlays expected to be incurred, and a deferred outflow of resources associated with an ARO is required to be measured at the amount of the corresponding liability upon initial measurement.

This statement requires the current value of a government’s AROs to be adjusted for the effects of general inflation or deflation at least annually, and a government to evaluate all relevant factors at least annually to determine whether the effects of one or more of the factors are expected to significantly change the estimated asset retirement outlays. A government should remeasure an ARO only when the result of the evaluation indicates there is a significant change in the estimated outlays. Deferred outflows of resources should be reduced and recognized as outflows of resources in a systematic and rational manner over the estimated useful life of the tangible capital asset.

If a government owns a minority interest in a jointly owned tangible asset where a nongovernmental entity is the majority owner or has operational responsibility for the jointly owned asset, the government’s minority share of an ARO should be reported using the measurement produced by the nongovernmental majority owner or the nongovernmental minority owner that has operational responsibility, without adjustment to conform to the liability measurement and recognition requirements of this statement.

The statement also requires disclosures of any funding or financial assurance requirements a government has related to the performance of asset retirement activities, along with any assets restricted for the payment of the government's AROs. This statement also requires disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. If an ARO (or portions thereof) has been incurred by a government but is not yet recognized because it is not reasonably estimable, the government is required to disclose that fact and the reasons therefor. This statement requires similar disclosures for a government's minority shares of AROs.

The requirements of this statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

GASB STATEMENT NO. 84, *FIDUCIARY ACTIVITIES*

This statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements, which should present a statement of fiduciary net position and a statement of changes in fiduciary net position. This statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria.

A fiduciary component unit, when reported in the fiduciary fund financial statements of a primary government, should combine its information with its component units that are fiduciary component units and aggregate that combined information with the primary government's fiduciary funds.

This statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources, defined as when a demand for the resources has been made or when no further action, approval, or condition is required to be taken or met by the beneficiary to release the assets.

The requirements of this statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.

HOUSING AND REDEVELOPMENT AUTHORITY
OF SOUTH ST. PAUL
DAKOTA COUNTY, MINNESOTA

Special Purpose Audit Reports

Year Ended
December 31, 2016

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HOUSING AND REDEVELOPMENT AUTHORITY OF SOUTH ST. PAUL
DAKOTA COUNTY, MINNESOTA

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HOUSING AND REDEVELOPMENT AUTHORITY OF SOUTH ST. PAUL

Schedule of Expenditures of Federal Awards
Year Ended December 31, 2016

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA No.	Federal Expenditures
U.S. Department of Housing and Urban Development		
Direct program		
Public and Indian Housing	14.850	\$ 770,805
Congregate Housing Services Program	14.170	179,192
Public Housing Capital Fund	14.872	546,411
Total federal awards		\$ 1,496,408

Note 1: The Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting. The information in this schedule is presented in accordance with both OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*, and the OMB's *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, when applicable. Therefore, some amounts presented in this schedule may differ from the amounts presented in, or used in the preparation of, the Authority's basic financial statements.

Note 2: All pass-through entities listed above use the same CFDA numbers as the federal grantors to identify these grants, and have not assigned any additional identifying numbers.

Note 3: The Authority did not elect to use the 10 percent de minimis indirect cost rate.

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INDEPENDENT AUDITOR'S 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

To the Board of Commissioners and Management
Housing and Redevelopment Authority of South St. Paul
South St. Paul, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Housing and Redevelopment Authority of South St. Paul, Minnesota (the Authority) as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon June 28, 2017.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the 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. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

(continued)

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the 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*.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control 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 and compliance. Accordingly, this report is not suitable for any other purpose.

Malloy, Montague, Karnowski, Radosevich & Co., P. A.

Minneapolis, Minnesota
June 28, 2017

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL
OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Commissioners and Management
Housing and Redevelopment Authority of South St. Paul
South St. Paul, Minnesota

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited the Housing and Redevelopment Authority of South St. Paul, Minnesota's (the Authority) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget *Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended December 31, 2016. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

MANAGEMENT'S RESPONSIBILITY

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on compliance for each of the Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

(continued)

OPINION ON EACH MAJOR FEDERAL PROGRAM

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to on the previous page that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2016.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to on the previous page. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as items 2016-001, 2016-002, and 2016-003, that we consider to be significant deficiencies.

AUTHORITY'S RESPONSES TO FINDINGS

The Authority's responses to the internal control over compliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The Authority's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on them.

PURPOSE OF THIS REPORT

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

(continued)

REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Authority as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements. We issued our report thereon dated June 28, 2017, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Malloy, Montague, Karnowski, Radosevich & Co., P.A.

Minneapolis, Minnesota
June 28, 2017

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INDEPENDENT AUDITOR'S REPORT
ON MINNESOTA LEGAL COMPLIANCE

To the Board of Commissioners and Management
Housing and Redevelopment Authority of South St. Paul
South St. Paul, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Housing and Redevelopment Authority of South St. Paul, Minnesota (the Authority) as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated June 28, 2017.

MINNESOTA LEGAL COMPLIANCE

The *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*, promulgated by the State Auditor pursuant to Minnesota Statutes § 6.65, contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, 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 Authority failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*, except as described in the Schedule of Findings and Questioned Costs as items 2016-004 and 2016-005. 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.

AUTHORITY'S RESPONSES TO FINDINGS

The Authority's responses to the legal compliance findings identified in our audit have been included in the Schedule of Findings and Questioned Costs. The Authority's responses were not subject to the auditing procedures applied in our audit of the financial statements and, accordingly, we express no opinion on them.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. Accordingly, this report is not suitable for any other purpose.

Malloy, Montague, Karnowski, Radosevich & Co., P.A.

Minneapolis, Minnesota
June 28, 2017

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HOUSING AND REDEVELOPMENT AUTHORITY OF SOUTH ST. PAUL

Schedule of Findings and Questioned Costs
Year Ended December 31, 2016

A. SUMMARY OF AUDIT RESULTS

This summary is formatted to provide federal granting agencies and pass-through agencies answers to specific questions regarding the audit of federal awards.

Financial Statements

What type of auditor's report is issued? X Unmodified
 Qualified
 Adverse
 Disclaimer

Internal control over financial reporting:

Material weakness(es) identified? Yes X No

Significant deficiency(ies) identified? Yes X None reported

Noncompliance material to the financial statements noted? Yes X No

Federal Awards

Internal controls over major federal award programs:

Material weakness(es) identified? Yes X No

Significant deficiency(ies) identified? X Yes None reported

Type of auditor's report issued on compliance for major programs? Unmodified
 Qualified
 Adverse
 Disclaimer

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? X Yes No

Programs tested as major programs:

Program or Cluster	CFDA No.
U.S. Department of Housing and Urban Development Public and Indian Housing	14.850

Threshold for distinguishing type A and B programs: \$ 750,000

Does the auditee qualify as a low-risk auditee? X Yes No

HOUSING AND REDEVELOPMENT AUTHORITY OF SOUTH ST. PAUL

Schedule of Findings and Questioned Costs (continued)
Year Ended December 31, 2016

B. FINANCIAL STATEMENT FINDINGS

None.

C. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

SIGNIFICANT DEFICIENCY IN INTERNAL CONTROL OVER COMPLIANCE – ALL FEDERAL PROGRAMS AWARDED UNDER UNIFORM GUIDANCE

2016-001 Internal Control Over Compliance With Standards for Financial Management

Criteria – 2 CFR § 200.302(b)(5) requires the Housing and Redevelopment Authority of South St. Paul (the Authority) to establish and maintain effective internal control over compliance with requirements applicable to written budget to actual comparison of expenditures for each federal award.

Condition – During our audit, we noted that the Authority did not have documented written controls to ensure compliance with the U.S. Office of Management and Budget's (OMB) *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) standards for financial management.

Questioned Costs – None. Our testing did not indicate any instances of noncompliance.

Context – The lack of written controls pertains to all federal grants, except those grants that remained under OMB A-133 guidance, if any. This was not a statistically valid sample.

Repeat Finding – This is a current year finding only.

Cause – During implementation of the new Uniform Guidance requirements for federal awards, some internal control policies, including financial management, were not updated to reflect the necessary changes.

Effect – This could be viewed as a violation of the award agreement.

Recommendation – We recommend that the Authority review its internal control procedures relating to financial management for all federal programs. The Authority should review the Uniform Guidance to obtain a better understanding of the requirements and identify any needed policy and procedure changes, in addition to those already referenced above. We also recommend the Authority adopt written policies pertaining to financial management for all federal programs, including documentation and performance of regular budget to actual comparisons of expenditures for each federal award.

View of Responsible Official and Planned Corrective Actions – The Authority agrees with the finding. The Authority has separately issued a Corrective Action Plan related to this finding.

HOUSING AND REDEVELOPMENT AUTHORITY OF SOUTH ST. PAUL

Schedule of Findings and Questioned Costs (continued)
Year Ended December 31, 2016

C. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

SIGNIFICANT DEFICIENCY IN INTERNAL CONTROL OVER COMPLIANCE – U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PUBLIC AND INDIAN HOUSING – CFDA No. 14.850

2016-002 Internal Control Over Compliance With Eligibility Requirements

Criteria – The Authority has limited segregation of duties over U.S. Department of Housing and Urban Development income eligibility determination.

Condition – During our audit, we noted that the Authority did not have sufficient controls in place within the Public and Indian Housing federal program to assure that it was in compliance with the Uniform Guidance eligibility compliance requirements. The Authority has limited segregation of duties in the determination of Public and Indian Housing federal program income eligibility.

Questioned Costs – None. Our testing did not indicate any instances of noncompliance.

Context – The condition applies to eligibility determination as noted above.

Repeat Finding – This is a current year finding only.

Cause – The limited segregation of duties is primarily caused by the limited size of the Authority's staff.

Effect – A lack of segregation of duties subjects the Authority to a higher risk that errors or fraud could occur and not be detected in a timely manner in the normal course of business.

Recommendation – We recommend that the Authority continue to segregate duties as best it can within the limits of what the Authority considers to be cost beneficial.

View of Responsible Official and Planned Corrective Actions – The Authority agrees with the finding. The Authority has separately issued a Corrective Action Plan related to this finding.

HOUSING AND REDEVELOPMENT AUTHORITY OF SOUTH ST. PAUL

Schedule of Findings and Questioned Costs (continued)
Year Ended December 31, 2016

C. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

SIGNIFICANT DEFICIENCY IN INTERNAL CONTROL OVER COMPLIANCE – U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PUBLIC AND INDIAN HOUSING – CFDA No. 14.850 (CONTINUED)

2016-003 Internal Control Over Compliance With Federal Procurement, Suspension, and Debarment Requirements

Criteria – 2 CFR § 180. Management is responsible for establishing and maintaining effective internal control over compliance with requirements applicable to federal program expenditures, including procurement, suspension, and debarment requirements applicable to the Public and Indian Housing federal program.

Condition – During our audit, we noted that the Authority did not have sufficient controls in place within the Public and Indian Housing federal program to assure that it was not contracting for goods or services with parties that are suspended or debarred, or whose principals are suspended or debarred from participating in contracts involving the expenditures of federal program funds.

Questioned Costs – None. Our testing did not indicate any instances of noncompliance with these requirements.

Context – The condition applies to procurement, suspension, and debarment requirements as noted above.

Repeat Finding – This is a current year finding only.

Cause – This was an oversight by authority personnel.

Effect – Noncompliance with the procurement, suspension, and debarment requirements could result in the Authority expending federal funds with vendors that are not eligible to be parties to such transactions, which could be viewed as a violation of the award agreement.

Recommendation – We recommend that the Authority review its internal control procedure relating to procurement, suspension, and debarment for all federal programs. Internal controls over compliance for this area should include verification that any vendor with which the Authority contracts for goods or services exceeding \$25,000 is not listed as suspended or debarred on the federal Excluded Parties List System (EPLS) website.

View of Responsible Official and Planned Corrective Actions – The Authority agrees with the finding. The Authority has separately issued a Corrective Action Plan related to this finding.

HOUSING AND REDEVELOPMENT AUTHORITY OF SOUTH ST. PAUL

Schedule of Findings and Questioned Costs (continued)
Year Ended December 31, 2016

D. MINNESOTA LEGAL COMPLIANCE FINDINGS

2016-004 Withholding Affidavit

Criteria – Minnesota Statutes § 270C.66.

Condition – Before making final settlement with any contractor under a contract requiring the employment of employees for wages by said contractor or subcontractors, the Authority must obtain a certificate by the Commissioner of Revenue that the contractor or subcontractor has complied with the withholding requirements of Minnesota Statutes § 290.92 (either Form IC-134 or a Contractor's Withholding Affidavit). The Authority did not obtain the required certificate for one contract completed in 2016 prior to final settlement being paid.

Questioned Costs – Not applicable.

Context – One out of two contracts tested was not in compliance.

Repeat Finding – This is a current year finding only.

Cause – This was an oversight by authority personnel.

Effect – The Authority did not obtain the required documentation of either a Withholding Affidavit or Commissioner of Revenue Form IC-134.

Recommendation – We recommend that the Authority review purchasing procedures and obtain the required documentation prior to making final payment on future contracts.

View of Responsible Official and Planned Corrective Actions – The Authority agrees with the finding. The Authority has separately issued a Corrective Action Plan related to this finding.

2016-005 Contract Language – Payment of Subcontractors

Criteria – Minnesota Statutes § 471.425, Subd. 4a.

Condition – Authority contracts for construction services must include specific language that requires the prime contractor to pay any subcontractors within 10 days of the prime contractor's receipt of payment from the Authority or pay interest at the rate of 1.5 percent per month on any unpaid balance. This required language was not included in contracts awarded during the year ended December 31, 2016.

Questioned Costs – Not applicable.

Context – Two out of two bids tested were not in compliance.

Repeat Finding – This is a current year finding only.

Cause – This was an oversight by authority personnel.

Effect – Contracts awarded by the Authority did not include the required statutory language.

HOUSING AND REDEVELOPMENT AUTHORITY OF SOUTH ST. PAUL

Schedule of Findings and Questioned Costs (continued)
Year Ended December 31, 2016

D. MINNESOTA LEGAL COMPLIANCE FINDINGS (CONTINUED)

2016-005 Contract Language – Payment of Subcontractors (continued)

Recommendation – We recommend that the Authority include this required language in all future contracts.

View of Responsible Official and Planned Corrective Actions – The Authority agrees with the finding. The Authority has separately issued a Corrective Action Plan related to this finding.

HOUSING AND REDEVELOPMENT AUTHORITY OF SOUTH ST. PAUL

Corrective Action Plans and
Summary Schedule of Prior Audit Findings
Year Ended December 31, 2016

A. FINANCIAL STATEMENT FINDINGS

None.

B. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

**SIGNIFICANT DEFICIENCY IN INTERNAL CONTROL OVER COMPLIANCE – ALL FEDERAL PROGRAMS
AWARDED UNDER UNIFORM GUIDANCE**

2016-001 Internal Control Over Compliance With Standards for Financial Management

Summary of Finding

The Housing and Redevelopment Authority of South St. Paul (the Authority) did not have documented written controls to ensure compliance with the U.S. Office of Management and Budget's *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) financial management standards, as required by the Uniform Guidance related to written budget to actual comparison of expenditures for each federal award.

Corrective Action Plan

Actions Planned – The Authority will review and update its written policies and procedures relating to the standards for financial management, specifically as they relate to completing a written budget to actual expenditure review for its federal programs to ensure compliance with Uniform Guidance in the future.

Official Responsible – The Authority's Finance Director.

Planned Completion Date – December 31, 2017.

Disagreement With or Explanation of Finding – The Authority agrees with this finding.

Plan to Monitor – The Authority's Finance Director will ensure appropriate written internal controls and procedures are updated and in place for future federal grants.

**SIGNIFICANT DEFICIENCY IN INTERNAL CONTROL OVER COMPLIANCE – U.S. DEPARTMENT OF
HOUSING AND URBAN DEVELOPMENT PUBLIC AND INDIAN HOUSING – CFDA No. 14.850**

2016-002 Internal Control Over Compliance With Eligibility Requirements

Summary of Finding

The Authority has limited segregation of duties in the determination of Public and Indian Housing federal program income eligibility.

HOUSING AND REDEVELOPMENT AUTHORITY OF SOUTH ST. PAUL

Corrective Action Plans and
Summary Schedule of Prior Audit Findings (continued)
Year Ended December 31, 2016

B. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

SIGNIFICANT DEFICIENCY IN INTERNAL CONTROL OVER COMPLIANCE – U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PUBLIC AND INDIAN HOUSING – CFDA No. 14.850 (CONTINUED)

2016-002 Internal Control Over Compliance With Eligibility Requirements (continued)

Corrective Action Plan

Actions Planned – The Authority will implement new processes and procedures to address the segregation of duties issues identified during the annual audit and actions needed to eliminate or mitigate this internal control deficiency.

Official Responsible – The Authority’s Housing Division Manager.

Planned Completion Date – December 31, 2017.

Disagreement With or Explanation of Finding – The Authority agrees with this finding.

Plan to Monitor – The Authority’s Finance Director will assure appropriate internal controls and procedures are updated and in place for future federal grants.

2016-003 Internal Control Over Compliance With Federal Procurement, Suspension, and Debarment Requirements

Summary of Finding

For three contracts selected for testing, the Authority did not verify that it was not contracting for goods or services with parties that are suspended or debarred, or whose principals are suspended or debarred from participating in contracts involving the expenditures of federal program funds.

Corrective Action Plan

Actions Planned – The Authority will implement new processes and procedures to address the internal control issues that resulted in the finding to ensure compliance with Uniform Guidance in the future.

Official Responsible – The Authority’s Housing Division Manager.

Planned Completion Date – December 31, 2017.

Disagreement With or Explanation of Finding – The Authority agrees with this finding.

Plan to Monitor – The Authority’s Finance Director will ensure appropriate internal controls and procedures are updated and in place for future federal grants.

HOUSING AND REDEVELOPMENT AUTHORITY OF SOUTH ST. PAUL

Corrective Action Plans and
Summary Schedule of Prior Audit Findings (continued)
Year Ended December 31, 2016

C. MINNESOTA LEGAL COMPLIANCE FINDINGS

2016-004 Withholding Affidavit

Summary of Finding

For one of two contracts selected for testing, the Authority did not obtain the required certificate for one contract completed in 2016 prior to final settlement being paid as required by state statute.

Corrective Action Plan

Actions Planned – The Authority will review its procedures to ensure compliance with state statutes in the future.

Official Responsible – The Authority’s Housing Division Manager.

Planned Completion Date – December 31, 2017.

Disagreement With or Explanation of Finding – The Authority agrees with this finding.

Plan to Monitor – The Authority’s Finance Director will continue to review the progress of contracts awarded and subsequent payment to contractors to ensure future compliance with this state statute.

2016-005 Contract Language – Payment of Subcontractors

Summary of Finding

For two contracts selected for testing, the Authority did not include specific language that requires the prime contractor to pay any subcontractors within 10 days of the prime contractor’s receipt of payment from the Authority or pay interest at the rate of 1.5 percent per month on any unpaid balance as required by state statute.

Corrective Action Plan

Actions Planned – The Authority will review its procedures to ensure future compliance with this state statute.

Official Responsible – The Authority’s Housing Division Manager.

Planned Completion Date – December 31, 2017.

Disagreement With or Explanation of Finding – The Authority agrees with this finding.

Plan to Monitor – The Authority’s Finance Director will continue to review all contracts awarded to ensure future compliance with this state statute.

HOUSING AND REDEVELOPMENT AUTHORITY OF SOUTH ST. PAUL

Corrective Action Plans and
Summary Schedule of Prior Audit Findings (continued)
Year Ended December 31, 2016

C. SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

**FINANCIAL STATEMENT FINDING – SIGNIFICANT DEFICIENCY IN INTERNAL CONTROL OVER
FINANCIAL REPORTING**

2015-001 Segregation of Duties

Corrective action has been taken.