

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

Financial Statements

December 31, 2017

**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 Administration
December 31, 2017

<u>Elected Official</u>	<u>Position</u>	<u>Term Expires</u>
Lori Hansen	Chairperson	January 1, 2021
Thomas Seaberg	Vice Chairperson	January 1, 2019
Todd Podgorski	Secretary	January 1, 2019
William Flatley	Commissioner	January 1, 2021
Joseph Forester	Commissioner	January 1, 2021
James Francis	Commissioner	January 1, 2021
Marilyn Rothecker	Commissioner	January 1, 2019

Administration

Steve King	Executive Director
Michelle Pietrick	Treasurer
Edie Kleinboehl	Assistant Secretary

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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 business-type activities and each major fund of the Housing and Redevelopment Authority of South St. Paul (the Authority) as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express 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 business-type activities and each major fund of the Authority as of December 31, 2017, 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.

OTHER MATTERS

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 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 supplementary 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. 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 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.

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

Minneapolis, Minnesota
May 22, 2018

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, 2017.

FINANCIAL HIGHLIGHTS

- The assets of the Authority exceeded liabilities at the close of the most recent fiscal year by \$5,858,951 (net position). Of this amount, \$1,727,223 (unrestricted net position) may be used to meet the Authority's ongoing obligations.
- The Authority's total net position increased by \$301,224 before the prior period adjustment.
- The Authority recorded a prior period adjustment to reclassify \$442,486 recorded as revenue in 2016 to a Note Payable in 2017. This prior period adjustment decreased net position in the government-wide statements and proprietary fund statements by \$442,486.

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 13-15 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.

Proprietary Funds

The Authority maintains one type of proprietary funds, enterprise. 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 Low Rent Public Housing, Capital Fund, and Congregate Housing Programs. The basic proprietary fund statements can be found on pages 17-21 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 23-28 of this report.

Other information

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 30-34 of this report.

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

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 \$5,858,951 at the close of the most recent fiscal year. The portion of the Authority's net position of \$4,131,728, or 70.5%, reflects its net investment in capital assets (e.g. land, buildings, and equipment). These capital assets are not available for future spending. The remaining \$1,727,223 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 categories of net position.

Net Position

	Business-Type Activities	
	2016*	
	2017	Restated
Current and Other Assets	\$ 1,981,719	\$ 1,618,299
Capital and Noncurrent Assets	<u>6,261,581</u>	<u>6,417,371</u>
Total Assets	<u>8,243,300</u>	<u>8,035,670</u>
Current Liabilities	254,496	250,416
Long-Term Liabilities	<u>2,129,853</u>	<u>2,227,527</u>
Total Liabilities	<u>2,384,349</u>	<u>2,477,943</u>
Net Position		
Net Investment in Capital Assets	4,131,728	4,632,330
Unrestricted	<u>1,727,223</u>	<u>925,397</u>
Total Net Position	<u>\$ 5,858,951</u>	<u>\$ 5,557,727</u>

* - the 2016 balances have been restated to reflect the prior period adjustment as described in the notes to the financial statements.

The capital assets decreased in the business-type activities due to depreciation exceeding the capitalized assets during the year. Long-term liabilities decreased as a result of payments on the long term notes payable.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Change in Net Position

	Business-Type Activities	
	2017	2016* Restated
REVENUES:		
Program Revenues:		
Charges for Services	\$ 1,267,955	\$ 1,221,159
Operating Grants and Contributions	936,926	949,997
Capital Grants and Contributions	283,172	546,410
General Revenues:		
Investment Earnings	666	421
Total Revenues	2,488,719	2,717,987
 EXPENSES:		
Low Rent Public Housing	1,948,674	1,856,065
Congregate Housing Services	201,021	194,552
Capital Fund	37,800	38,810
Total Expenses	2,187,495	2,089,427
Change in Net Position Before Special Item	301,224	628,560
Special Item-Transfer of Operations	-	(136,952)
Change in Net Position	301,224	491,608
Beginning Net Position	5,557,727	5,066,119
Ending Net Position	\$ 5,858,951	\$ 5,557,727

* - the 2016 balances have been restated to reflect the prior period adjustment as described in the notes to the financial statements.

Business-Type Activities

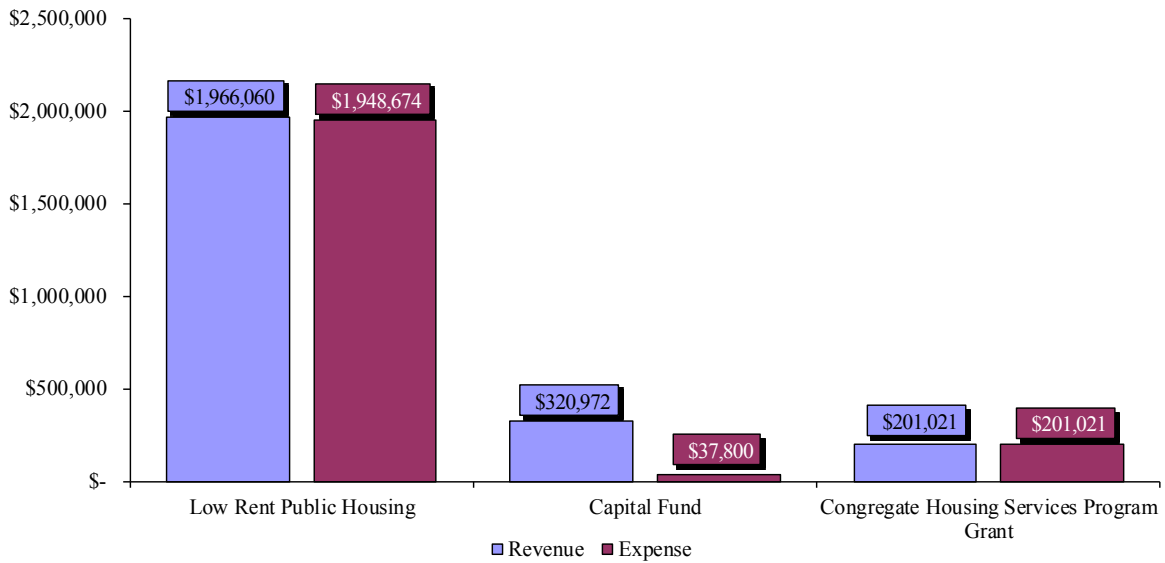
Business-type activities increased net position by \$301,224. Charges for services increased in 2017 due to increases in the rents charged to tenants. Capital grants decreased in 2017 because the fire alarm project was completed in 2016 and the projects in 2017 were significantly smaller. Administration and maintenance expenses were higher in 2017 than 2016.

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

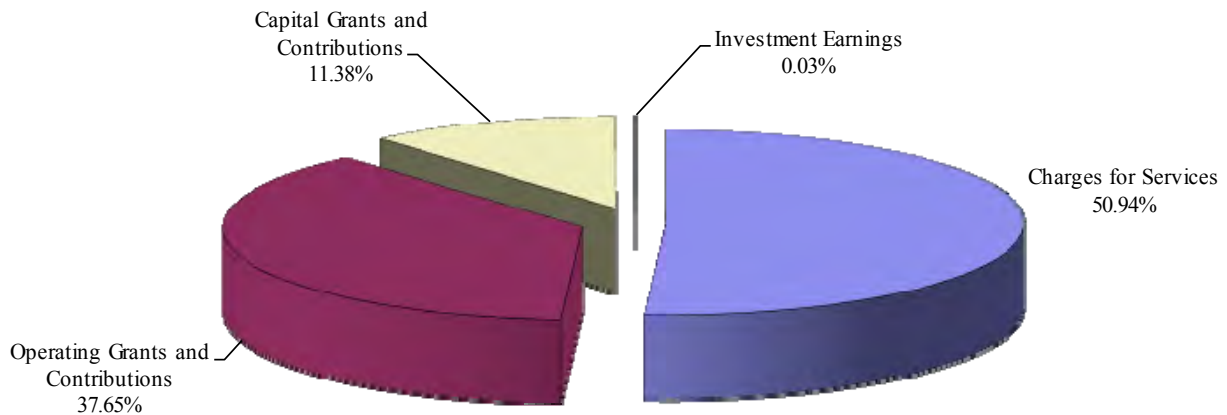
GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

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

Operating Expenses and Program Revenues – Business-Type Activities



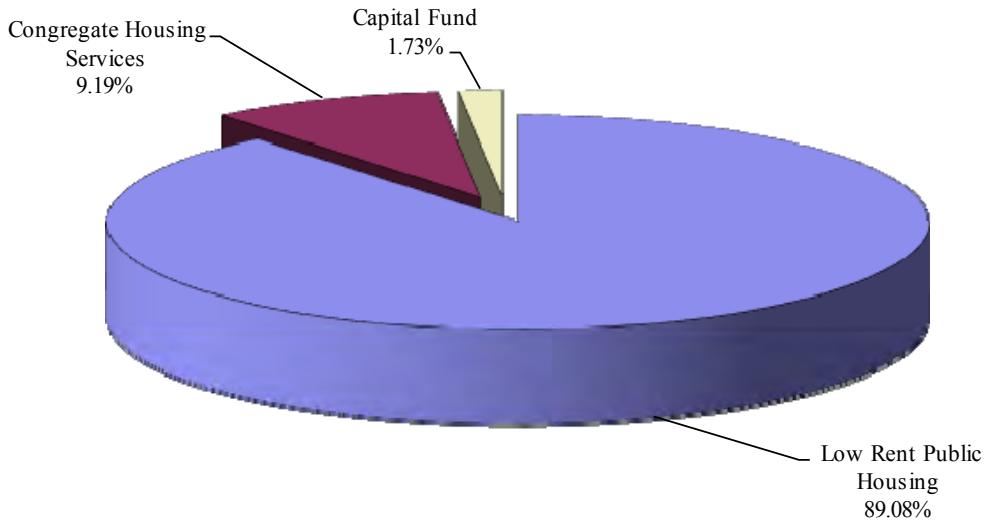
Revenues by Source – Business-Type Activities – 2017



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

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Expenses by Function – Business-Type Activities – 2017



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 \$5,858,951. Of this total, 70.5%, or \$4,131,728, was net investment in capital assets and 29.5%, or \$1,727,223, was unrestricted.

The Low Rent Public Housing fund experienced a positive change in net position of \$301,224. 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 2017 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, 2017, amounted to \$6,261,581 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings and improvements, and equipment.

	Capital Assets (Net of Depreciation)	
	2017	2016
Land	\$ 265,675	\$ 265,675
Construction in progress	-	13,413
Buildings and improvements	5,988,593	6,128,531
Equipment	7,313	9,752
Total	\$ 6,261,581	\$ 6,417,371

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

CAPITAL ASSET AND DEBT ADMINISTRATION (CONTINUED)

Capital purchases for the year were for building improvements totaling \$305,599. Depreciation on capital assets totaled \$473,952 during the fiscal year. 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, 2017 and 2016, the Authority had \$2,129,853 and \$2,227,527, respectively, in notes outstanding after the prior period adjustment. Refer to Note 5 and Note 7 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 2018 and that next year's budget operations will be comparable to the 2017 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, 2017

Statement 1

	<u>Business-Type Activities</u>
Assets	
Cash and cash equivalents	\$ 1,889,165
Accounts receivable	23,575
Prepaid items	68,979
Capital assets (net of accumulated depreciation)	
Nondepreciable	265,675
Depreciable	<u>5,995,906</u>
Total assets	<u>8,243,300</u>
Liabilities	
Accounts and contracts payable	84,693
Interest payable	11,490
Due to other governments	89,394
Tenant security deposits	68,919
Notes payable	
Due within one year	104,790
Due in more than one year	<u>2,025,063</u>
Total liabilities	<u>2,384,349</u>
Net Position	
Net investment in capital assets	4,131,728
Unrestricted	<u>1,727,223</u>
Total net position	<u><u>\$ 5,858,951</u></u>

See notes to the financial statements

The Housing and Redevelopment Authority of South St. Paul
Statement of Activities
Year Ended December 31, 2017

Functions/Programs	Expenses	Charges for Services
Business-type activities		
Low rent public housing	\$ 1,948,674	\$ 1,246,126
Capital fund	37,800	-
Congregate housing services	201,021	21,829
Total business-type activities	\$ 2,187,495	\$ 1,267,955

General revenues
 Unrestricted investment earnings

Change in net position

Net position - beginning, as previously stated

Prior period adjustment

Net position - beginning, restated

Net position - ending

See notes to the financial statements

Statement 2

Program Revenue				Net (Expense)	
Operating		Capital		Revenue and	
Grants and		Grants and		Changes in	
Contributions		Contributions		Net Position	
				Business-Type	
				Activities	
\$	719,934	\$	-	\$	17,386
	37,800		283,172		283,172
	179,192		-		-
<hr/>		<hr/>		<hr/>	
\$	936,926	\$	283,172		300,558
<hr/>		<hr/>		<hr/>	
					666
					301,224
					6,000,213
					(442,486)
					5,557,727
					<hr/>
				\$	5,858,951
					<hr/>

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The Housing and Redevelopment Authority of South St. Paul
Statement of Net Position - Proprietary Funds
December 31, 2017

Statement 3

	Business-Type Activities		
	Low Rent Public Housing (677, 678)	Congregate Housing Services Program Grant (671)	Total
Assets			
Current assets			
Cash and cash equivalents	\$ 1,876,565	\$ 12,600	\$ 1,889,165
Accounts receivable	23,575	-	23,575
Prepaid items	68,979	-	68,979
Total current assets	<u>1,969,119</u>	<u>12,600</u>	<u>1,981,719</u>
Noncurrent assets			
Capital assets			
Land	265,675	-	265,675
Buildings and improvements	19,978,850	-	19,978,850
Equipment	69,832	-	69,832
Total capital assets	<u>20,314,357</u>	<u>-</u>	<u>20,314,357</u>
Less accumulated depreciation	<u>(14,052,776)</u>	<u>-</u>	<u>(14,052,776)</u>
Total noncurrent assets	<u>6,261,581</u>	<u>-</u>	<u>6,261,581</u>
Total assets	<u>8,230,700</u>	<u>12,600</u>	<u>8,243,300</u>
Liabilities			
Current liabilities			
Accounts and contracts payable	72,093	12,600	84,693
Due to other governments	89,394	-	89,394
Tenant security deposits	68,919	-	68,919
Notes payable - current portion	104,790	-	104,790
Interest payable	11,490	-	11,490
Total current liabilities	<u>346,686</u>	<u>12,600</u>	<u>359,286</u>
Noncurrent liabilities			
Notes payable, net of current portion	<u>2,025,063</u>	<u>-</u>	<u>2,025,063</u>
Total liabilities	<u>2,371,749</u>	<u>12,600</u>	<u>2,384,349</u>
Net position			
Net investment in capital assets	4,131,728	-	4,131,728
Unrestricted	1,727,223	-	1,727,223
Total net position	<u>\$ 5,858,951</u>	<u>\$ -</u>	<u>\$ 5,858,951</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, 2017

	Low Rent Public Housing (677, 678)
Operating revenues	
Charges for services	\$ 1,162,177
Operating grants and contributions	719,934
Other program revenue	70,020
Total operating revenues	<u>1,952,131</u>
Operating expenses	
Administration	383,920
Tenant services	69,929
Protective services	3,322
Ordinary maintenance and operations	558,541
Insurance	68,207
Utilities	268,434
Depreciation	473,952
General and nonroutine expenses	92,960
Total operating expenses	<u>1,919,265</u>
Operating income (loss)	<u>32,866</u>
Nonoperating revenues (expenses)	
Investment income	666
Other revenue	13,929
Interest expense	(29,409)
Total nonoperating revenues (expenses)	<u>(14,814)</u>
Income (loss) before contributions and transfers	<u>18,052</u>
Capital contributions/grants	-
Transfers in	283,172
Transfers out	-
Change in net position	<u>301,224</u>
Net position	
Beginning of year, as previously stated	6,000,213
Prior period adjustment	(442,486)
Beginning of year, as restated	<u>5,557,727</u>
End of year	<u>\$ 5,858,951</u>

See notes to the financial statements

Business-Type Activities

Capital Fund (673)	Congregate Housing Services Program Grant (671)	Total
\$ -	\$ 21,829	\$ 1,184,006
37,800	179,192	936,926
-	-	70,020
<u>37,800</u>	<u>201,021</u>	<u>2,190,952</u>
37,800	21,375	443,095
-	179,646	249,575
-	-	3,322
-	-	558,541
-	-	68,207
-	-	268,434
-	-	473,952
-	-	92,960
<u>37,800</u>	<u>201,021</u>	<u>2,158,086</u>
-	-	32,866
-	-	666
-	-	13,929
-	-	<u>(29,409)</u>
-	-	<u>(14,814)</u>
-	-	18,052
283,172	-	283,172
-	-	283,172
<u>(283,172)</u>	<u>-</u>	<u>(283,172)</u>
-	-	301,224
-	-	6,000,213
-	-	<u>(442,486)</u>
-	-	<u>5,557,727</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,858,951</u>

The Housing and Redevelopment Authority of South St. Paul
Statement of Cash Flows - Proprietary Funds
Year Ended December 31, 2017

	Low Rent Public Housing (677, 678)
Cash Flows-Operating Activities	
Cash received from customers and tenants	\$ 1,219,119
Cash received from HUD	719,934
Other program revenue	13,929
Cash paid for operating expenses	(1,441,894)
Net cash flows-operating activities	511,088
Cash Flows-Noncapital Financing Activities	
Transfer from other funds	283,172
Transfer to other funds	-
Net cash flows-noncapital financing activities	283,172
Cash Flows-Capital And Related Financing Activities	
Principal paid on debt	(97,674)
Interest paid on debt	(30,719)
Acquisition of capital assets	(318,162)
Capital contributions/grants	-
Net cash flows-capital and related financing activities	(446,555)
Cash Flows-Investing Activities	
Interest and dividends received	666
Net change in cash and cash equivalents	348,371
Cash and Cash Equivalents	
Beginning of year	1,528,194
End of year	\$ 1,876,565
Reconciliation of Operating Income (Loss) to Net Cash Flows-Operating Activities	
Operating income (loss)	\$ 32,866
Adjustments to reconcile operating income (loss) to net cash flows-operating activities	
Depreciation expense	473,952
Changes in assets and liabilities	
Accounts receivable	(13,078)
Prepaid items	(7,043)
Accounts payable	6,000
Tenant security deposits	4,462
Other program revenue	13,929
Total adjustments	478,222
Net cash flows-operating activities	\$ 511,088

See notes to the financial statements

Business- Type Activities

Capital Fund (673)	Congregate Housing Services Program Grant (671)	Total
\$ -	\$ 21,829	\$ 1,240,948
37,800	179,192	936,926
-	-	13,929
(37,800)	(206,093)	(1,685,787)
-	(5,072)	506,016
-	-	283,172
(283,172)	-	(283,172)
(283,172)	-	-
-	-	(97,674)
-	-	(30,719)
-	-	(318,162)
283,172	-	283,172
283,172	-	(163,383)
-	-	666
-	(5,072)	343,299
-	17,672	1,545,866
\$ -	\$ 12,600	\$ 1,889,165
\$ -	\$ -	\$ 32,866
-	-	473,952
-	-	(13,078)
-	-	(7,043)
-	(5,072)	928
-	-	4,462
-	-	13,929
-	(5,072)	473,150
\$ -	\$ (5,072)	\$ 506,016

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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 (HRA) 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 seven-member Board of Commissioners consisting of the City Council.

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 blended 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, 2017. In 2017 the Board of Commissioners was the full City Council and 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.

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.

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).

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.

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.

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)

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 HRA follows the deposit and investment policy for HUD. Therefore, the HRA has formal policies in place as of December 31, 2017, 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 HRA'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.

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2017 the Authority's bank balances were covered by insurance or collateral pledged and held in the Authority's name.

Total deposits at December 31, 2017, are as follows:

Depository accounts	\$ 1,729,989
Money market depositories	159,176
Total deposits	<u>\$ 1,889,165</u>

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

NOTE 3 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2017, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 265,675	\$ -	\$ -	\$ 265,675
Construction in progress	13,413	250,599	(264,012)	-
Total capital assets not being depreciated	<u>279,088</u>	<u>250,599</u>	<u>(264,012)</u>	<u>265,675</u>
Capital assets being depreciated:				
Buildings & improvements	19,986,906	331,575	(339,631)	19,978,850
Equipment	69,832	-	-	69,832
Total capital assets being depreciated	<u>20,056,738</u>	<u>331,575</u>	<u>(339,631)</u>	<u>20,048,682</u>
Less accumulated depreciation for:				
Buildings & improvements	13,858,375	471,513	(339,631)	13,990,257
Equipment	60,080	2,439	-	62,519
Total accumulated depreciation	<u>13,918,455</u>	<u>473,952</u>	<u>(339,631)</u>	<u>14,052,776</u>
Total capital assets being depreciated - net	<u>6,138,283</u>	<u>(142,377)</u>	<u>-</u>	<u>5,995,906</u>
Business-type activities capital assets - net	<u>\$ 6,417,371</u>	<u>\$ 108,222</u>	<u>\$ (264,012)</u>	<u>\$ 6,261,581</u>

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

NOTE 4 – INTERFUND TRANSFERS

Interfund Transfers of \$283,172 were made to fund various project costs from the Capital fund to the Low Rent Public Housing 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.

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

NOTE 5 – LONG-TERM DEBT

Business-Type Activities – Notes Payable (Continued)

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, 2017, was \$856,653.

During 2016, the HRA obtained financing from the MHFA in the amount of \$442,486 to assist with the replacement of the fire alarm systems of the Nan McKay and John Carroll Apartment buildings. 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.

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

	Business-Type		
	Principal	Interest	Total
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	136,887	12,594	149,481
2023-2027	254,354	11,678	266,032
2028-2029	105,980	-	105,980
Foregivable Debt	1,167,220	-	1,167,220
Total	\$ 2,129,853	\$ 113,361	\$ 2,243,214

Changes in Long-Term Debt

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

	Balance 01/01/17, as previously stated	Prior Period Adjustment	Balance 01/01/17, as restated	Additions	Deletions	Balance 12/31/17	Due Within One Year
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	-
2016 MHFA	-	442,486	442,486	-	-	442,486	-
2002 CDA	250,000	-	250,000	-	-	250,000	-
Energy Performance Lease - PNC	954,327	-	954,327	-	97,674	856,653	104,790
Total business-type activities long-term debt	\$ 1,785,041	\$ 442,486	\$ 2,227,527	\$ -	\$ 97,674	\$ 2,129,853	\$ 104,790

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, 2017, 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.

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

NOTE 7 – PRIOR PERIOD ADJUSTMENT

In 2016, \$442,486 was received by the Low Rent Public Housing enterprise fund from MHFA to provide funding for capital expenditures within the buildings. This amount was recorded as revenue in 2016. Subsequent to year end, it was discovered that this money was provided as a forgivable loan to the Low Rent Housing, subject to the requirements of the loan agreement. This was 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 loan agreement. This adjustment resulted in a reduction of the beginning net position of the Low Rent Public Housing enterprise fund of \$442,486, from \$6,000,213 to \$5,557,727.

SUPPLEMENTARY INFORMATION

The Housing and Redevelopment Authority of South St. Paul
Financial Data Schedule
Combining Balance Sheet - All Programs
As of December 31, 2017

Line Item No.	Account Descriptions	Project Total	14.170 Congregate Housing Service Program	Subtotal	Eliminations	Total
ASSETS						
Current assets						
111	Cash - unrestricted	\$ 1,807,646	\$ 12,600	\$ 1,820,246	\$ -	\$ 1,820,246
114	Cash - Tenant Security Deposits	68,919	-	68,919	-	68,919
100	Total cash	<u>1,876,565</u>	<u>12,600</u>	<u>1,889,165</u>	<u>-</u>	<u>1,889,165</u>
Accounts and Notes Receivable						
125	Accounts Receivable - Miscellaneous	-	-	-	-	-
126	Accounts Receivable - Tenants	31,296	-	31,296	-	31,296
126.1	Allowance for Doubtful Accounts - Tenants	(7,721)	-	(7,721)	-	(7,721)
126.2	Allowance for Doubtful Accounts - Other	-	-	-	-	-
120	Total Receivables, Net of Allowances for Doubtful Accounts	<u>23,575</u>	<u>-</u>	<u>23,575</u>	<u>-</u>	<u>23,575</u>
Investments and Other Assets						
142	Prepaid Expenses and Other Assets	68,979	-	68,979	-	68,979
150	Total Current Assets	<u>1,969,119</u>	<u>12,600</u>	<u>1,981,719</u>	<u>-</u>	<u>1,981,719</u>
Noncurrent assets						
161	Land	265,675	-	265,675	-	265,675
162	Buildings	19,978,850	-	19,978,850	-	19,978,850
163	Furniture, Equipment & Machinery - Dwellings	69,832	-	69,832	-	69,832
166	Accumulated Depreciation	(14,052,776)	-	(14,052,776)	-	(14,052,776)
167	Construction in Progress	-	-	-	-	-
160	Total Capital Assets, Net of Accumulated Depreciation	<u>6,261,581</u>	<u>-</u>	<u>6,261,581</u>	<u>-</u>	<u>6,261,581</u>
180	Total Noncurrent Assets	<u>6,261,581</u>	<u>-</u>	<u>6,261,581</u>	<u>-</u>	<u>6,261,581</u>
290	TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	<u>\$ 8,230,700</u>	<u>\$ 12,600</u>	<u>\$ 8,243,300</u>	<u>\$ -</u>	<u>\$ 8,243,300</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, 2017

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	\$ 72,093	\$ 12,600	\$ 84,693	\$ -	\$ 84,693
325	Accrued Interest Payable	11,490	-	11,490	-	11,490
341	Tenant Security Deposits	68,919	-	68,919	-	68,919
Current Portion of Long-term Debt - Capital						
343	Projects/Mortgage Revenue	104,790	-	104,790	-	104,790
345	Other Current Liabilities	89,394	-	89,394	-	89,394
310	Total Current Liabilities	<u>346,686</u>	<u>12,600</u>	<u>359,286</u>	<u>-</u>	<u>359,286</u>
Noncurrent Liabilities						
Long-term Debt, Net of Current - Capital						
351	Projects/Mortgage Revenue	2,025,063	-	2,025,063	-	2,025,063
350	Total Noncurrent Liabilities	<u>2,025,063</u>	<u>-</u>	<u>2,025,063</u>	<u>-</u>	<u>2,025,063</u>
300	Total Liabilities	<u>2,371,749</u>	<u>12,600</u>	<u>2,384,349</u>	<u>-</u>	<u>2,384,349</u>
Net Position						
508.4	Net investment in capital assets	4,131,728		4,131,728	-	4,131,728
512.4	Unrestricted net position	1,727,223		1,727,223	-	1,727,223
513	Total Equity - Net Assets/Position	<u>5,858,951</u>	<u>-</u>	<u>5,858,951</u>	<u>-</u>	<u>5,858,951</u>
600	TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND EQUITY - NET ASSETS / POSITION	<u>\$ 8,230,700</u>	<u>\$ 12,600</u>	<u>\$ 8,243,300</u>	<u>\$ -</u>	<u>\$ 8,243,300</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, 2017

Line Item No.	Account Descriptions	Project Total	14.170 Congregate Housing Service Program	Subtotal	Eliminations	Total
REVENUES						
70300	Net Tenant Rental Revenue	\$ 1,162,177	\$ -	\$ 1,162,177	\$ -	\$ 1,162,177
70500	Total Tenant Revenue	<u>1,162,177</u>	<u>-</u>	<u>1,162,177</u>	<u>-</u>	<u>1,162,177</u>
70600	HUD PHA Operating Grants	757,734	179,192	936,926	-	936,926
70610	Capital Grants	283,172	-	283,172	-	283,172
71100	Investment Income - Unrestricted	666	-	666	-	666
71500	Other Revenue	83,949	21,829	105,778	-	105,778
70000	Total Revenue	<u>2,287,698</u>	<u>201,021</u>	<u>2,488,719</u>	<u>-</u>	<u>2,488,719</u>
EXPENSES						
Administrative						
91200	Auditing Fees	30,942	-	30,942	-	30,942
91400	Advertising and Marketing	6,264	-	6,264	-	6,264
91600	Office Expenses	376,718	21,375	398,093	-	398,093
91700	Legal Expense	3,550	-	3,550	-	3,550
91800	Travel	4,246	-	4,246	-	4,246
91000	Total Operating - Administrative	<u>421,720</u>	<u>21,375</u>	<u>443,095</u>	<u>-</u>	<u>443,095</u>
Tenant Services						
92400	Tenant Services - Other	69,929	179,646	249,575	-	249,575
92500	Total Tenant Services	<u>69,929</u>	<u>179,646</u>	<u>249,575</u>	<u>-</u>	<u>249,575</u>
Utilities						
93100	Water	17,296	-	17,296	-	17,296
93200	Electricity	166,873	-	166,873	-	166,873
93300	Gas	48,607	-	48,607	-	48,607
93400	Fuel	197	-	197	-	197
93600	Sewer	35,461	-	35,461	-	35,461
93000	Total Utilities	<u>268,434</u>	<u>-</u>	<u>268,434</u>	<u>-</u>	<u>268,434</u>
Ordinary Maintenance and Operations						
Ordinary Maintenance and Operations -						
94200	Materials and Other	69,491	-	69,491	-	69,491
94300	Ordinary Maintenance and Operations Contracts	474,864	-	474,864	-	474,864
94000	Total Ordinary Maintenance and Operations	<u>544,355</u>	<u>-</u>	<u>544,355</u>	<u>-</u>	<u>544,355</u>
Protective Services						
95300	Protective Services - Other	3,322	-	3,322	-	3,322
95000	Total Protective Services	<u>3,322</u>	<u>-</u>	<u>3,322</u>	<u>-</u>	<u>3,322</u>
Insurance Premiums						
96110	Property Insurance	58,701	-	58,701	-	58,701
96120	Liability Insurance	9,506	-	9,506	-	9,506
96100	Total insurance Premiums	<u>68,207</u>	<u>-</u>	<u>68,207</u>	<u>-</u>	<u>68,207</u>

See notes to the financial data schedule

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, 2017

Line Item No.	Account Descriptions	Project Total	14.170 Congregate Housing Service Program	Subtotal	Eliminations	Total
General Expenses						
96200	Other General Expenses	(765)	-	(765)	-	(765)
96300	Payments in Lieu of Taxes	89,394	-	89,394	-	89,394
96400	Bad debt - Tenant Rents	4,331	-	4,331	-	4,331
96000	Total Other General Expenses	<u>92,960</u>	<u>-</u>	<u>92,960</u>	<u>-</u>	<u>92,960</u>
Interest Expense and Amortization Cost						
96710	Interest of Mortgage (or Bonds) Payable	29,409	-	29,409	-	29,409
96700	Total Interest Expense and Amortization Cost	<u>29,409</u>	<u>-</u>	<u>29,409</u>	<u>-</u>	<u>29,409</u>
96900	Total Operating Expenses	<u>1,498,336</u>	<u>201,021</u>	<u>1,699,357</u>	<u>-</u>	<u>1,699,357</u>
Excess of Operating Revenue over Operating Expenses						
97000		<u>789,362</u>	<u>-</u>	<u>789,362</u>	<u>-</u>	<u>789,362</u>
97100	Extraordinary Maintenance	14,186	-	14,186	-	14,186
97400	Depreciation Expense	473,952	-	473,952	-	473,952
90000	Total Expenses	<u>1,986,474</u>	<u>201,021</u>	<u>2,187,495</u>	<u>-</u>	<u>2,187,495</u>
EXCESS (DEFICIENCY) OF TOTAL REVENUE OVER (UNDER) TOTAL EXPENSES						
10000		<u>\$ 301,224</u>	<u>\$ -</u>	<u>\$ 301,224</u>	<u>\$ -</u>	<u>\$ 301,224</u>
11020	Required Annual Debt Principal Payments	\$ 97,674	\$ -	\$ 97,674	\$ -	\$ 97,674
11030	Beginning Equity	6,000,213	-	6,000,213	-	6,000,213
11040	Prior Period Adjustments, Equity Transfers and Correction	(442,486)	-	(442,486)	-	(442,486)
11190	Unit Months Available	3,576	-	3,576	-	3,576
11210	Number of Unit Months Leased	3,549	-	3,549	-	3,549
11270	Excess Cash	1,431,743	-	1,431,743	-	1,431,743
11620	Building Purchases	318,162	-	318,162	-	318,162

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.