

**THE HOUSING AND REDEVELOPMENT
AUTHORITY OF ST. CLOUD
ST. CLOUD, MINNESOTA**

ANNUAL FINANCIAL REPORT

December 31, 2022



THE HOUSING AND REDEVELOPMENT AUTHORITY OF ST. CLOUD
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I. INTRODUCTORY SECTION

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THE HOUSING AND REDEVELOPMENT AUTHORITY OF ST. CLOUD
ORGANIZATION
DECEMBER 31, 2022

<u>Position</u>	<u>Name</u>	<u>Term Expires</u>
Board of Commissioners:		
Chair	Nancy Gohman	October 31, 2025
Vice Chair	Jeff Goerger	January 31, 2025
Secretary	George Hontos	January 31, 2025
Commissioner	Mike Conway	January 31, 2023
Commissioner	Seal Dwyer	October 31, 2024
Commissioner	Hani Jacobson	October 31, 2024
Commissioner	John Dvorak	October 31, 2026
Executive Director	Louise Reis	Appointed

Appointments are made by the Mayor and approved by the City Council.

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II. FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
The Housing and Redevelopment Authority of St. Cloud
St. Cloud, Minnesota

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the business-type activities of The Housing and Redevelopment Authority of St. Cloud, a component unit of the City of St. Cloud, Minnesota, as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise The Housing and Redevelopment Authority of St. Cloud 's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of The Housing and Redevelopment Authority of St. Cloud, as of December 31, 2022, and the respective changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of The Housing and Redevelopment Authority of St. Cloud and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about The Housing and Redevelopment Authority of St. Cloud's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Governmental Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of The Housing and Redevelopment Authority of St. Cloud's internal control. Accordingly, no such opinion is expressed.

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- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about The Housing and Redevelopment Authority of St. Cloud's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Change in Accounting Principle

As described in Note 11 to the financial statements, The Housing and Redevelopment Authority of St. Cloud adopted new accounting guidance for the year ended December 31, 2022, Governmental Accounting Standards Board Statement No. 87, *Leases*. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

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Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise The Housing and Redevelopment Authority of St. Cloud's basic financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are 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 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 schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

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

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

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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 19, 2023 on our consideration of The Housing and Redevelopment Authority of St. Cloud's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of The Housing and Redevelopment Authority of St. Cloud's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The Housing and Redevelopment Authority of St. Cloud's internal control over financial reporting and compliance.

Redpath and Company, Ltd.

REDPATH AND COMPANY, LTD.
St. Paul, Minnesota

April 19, 2023

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**THE HOUSING AND REDEVELOPMENT AUTHORITY OF ST. CLOUD
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2022**

As management of The Housing and Redevelopment Authority of St. Cloud (HRA), a component unit of the City of St. Cloud, Minnesota, we offer readers of the HRA's financial statements this narrative overview and analysis of the financial activities of the HRA for the year ended December 31, 2022.

Financial Highlights

- The assets of the HRA exceeded its liabilities and deferred inflows of resources at the close of the most recent calendar year by \$29,861,667 (net position). Of this amount, \$9,540,454 (unrestricted net position) may be used to meet the HRA's ongoing obligations.
- The HRA's total net position decreased by \$1,480,645.
- The HRA's bonds and loans outstanding decreased by \$409,060 during the current year due to regularly scheduled principal retirements on outstanding debt.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the HRA's basic financial statements. The HRA's basic financial statements are comprised of two components: 1) statement of net position; statement of revenues, expenses, and changes in net position; and statement of cash flows and 2) notes to the financial statements.

Basic financial statements. The basic financial statements are designed to provide readers with a broad overview of the HRA's finances.

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

The statement of revenues, expenses, and changes in net position presents information showing how the HRA'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 the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods. For example, unused paid leave is reported as an expense of this period but will not actually be paid until some future period.

The statement of cash flows reports cash receipts, cash payments, and net changes in cash resulting from operating, investing, and financing activities. It also provides insight into where cash came from, how it was used, and what the change in cash balance was during the reporting period.

Notes to the financial statements. The accompanying notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the financial statements can be found on pages 28-42 of this report.

Financial Net Position 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 HRA, assets exceeded liabilities by \$29,861,667, at the close of the most recent fiscal year. This represents a decrease in net position of \$1,480,645 from the prior year.

Fifty-four percent of the HRA's net position reflects its significant investment in capital assets (e.g., land, land improvements, buildings, furniture and equipment, and construction in progress) less any related debt used to acquire those assets that is still outstanding. The HRA primarily utilizes these capital assets to provide affordable housing to eligible citizens within the City of St. Cloud; consequently, these assets are not considered available to fund future spending.

Management's Discussion and Analysis

While the HRA's investment in capital assets is reported net of debt, it should be noted that the resources needed to repay this debt will need to be provided from other resources, since the capital assets themselves are not expected to be used to liquidate these liabilities. The capital related debt of the HRA consists primarily of revenue bonds. The resources to repay this debt are expected to come from rental and intergovernmental revenue.

Condensed Statements of Net Position

	<u>2022</u>	<u>2021</u>
Current and other assets	\$16,148,507	\$16,916,218
Capital assets	<u>20,461,909</u>	<u>21,156,256</u>
Total assets	<u>36,610,416</u>	<u>38,072,474</u>
Long-term liabilities outstanding	4,731,795	4,897,821
Other liabilities	<u>1,677,465</u>	<u>1,832,004</u>
Total liabilities	<u>6,409,260</u>	<u>6,729,825</u>
Deferred inflows of resources	<u>339,489</u>	<u>337</u>
Net position:		
Net investment in capital assets	16,247,560	17,025,069
Restricted	4,073,653	4,186,487
Unrestricted	<u>9,540,454</u>	<u>10,130,756</u>
Total net position	<u>\$29,861,667</u>	<u>\$31,342,312</u>

An additional category of the HRA net position (14%) represents resources that are subject to external restrictions on how they may be utilized. In the case of the HRA, these restrictions are primarily related amounts restricted for the payment of debt service by bond covenants or amounts restricted for operations by the federal and state grant agreement.

The remaining category of the HRA's net position (32%) represents accumulated unrestricted resources that may be used to meet the government's ongoing obligations. As of December 31, 2022, the unrestricted component of the HRA's net assets totaled \$9,540,454.

Financial Operational Analysis

The HRA is primarily supported by intergovernmental revenues from HUD and rental income. Total operating revenue decreased by \$1,836,175. This decrease is primarily attributable to the recognition of income in 2021 related to wholly-owned properties that previously had outside limited partners, which was previously considered uncollectible. Operating grants and subsidies increased by \$328,204 due to an increase of operating subsidies for federally funded voucher programs.

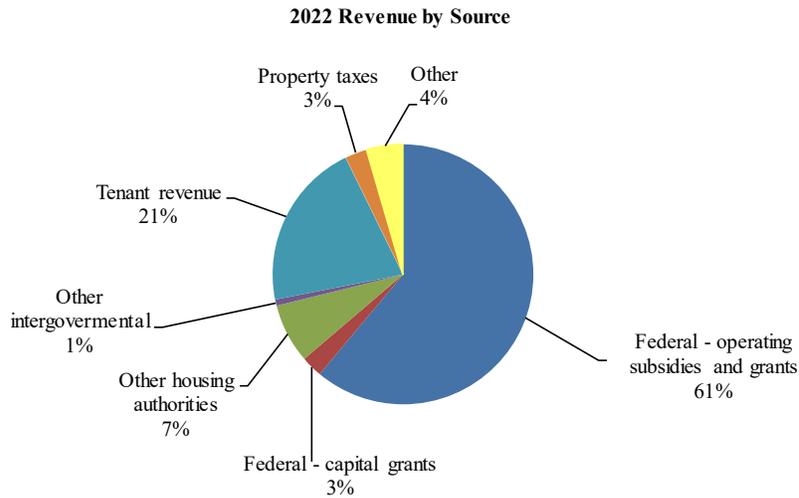
Total operating expenses increased by \$2,066,484. The major components of that increase are as follows:

- Increased administrative costs of approximately \$195,000 due to increasing the average number full-time equivalent employees by nearly three;
- Increased utility costs of approximately \$210,000;
- Parking lot maintenance at all properties of approximately \$140,000;
- Water heater and valve replacement and brick repair at Grace McDowall Apartments totaling approximately \$188,000;
- HVAC and water heater replacement at scattered site single-family homes totaling approximately \$88,000;
- Roof repair at The Brownstones totaling approximately \$60,000;
- Fire pump replacement at Empire totaling approximately \$35,000;
- A general increase in the cost of maintenance and repair projects; and
- Increased housing assistance payments of approximately \$280,000.

Management's Discussion and Analysis

Condensed Statements of Revenues, Expenses, and Changes in Net Position

	<u>2022</u>	<u>2021</u>
Operating Revenues:		
Dwelling rents	\$3,510,084	\$3,450,345
Operating grants & subsidies	12,680,604	12,352,400
Taxes	502,871	486,222
Other	1,177,491	3,418,258
Total operating revenues	<u>17,871,050</u>	<u>19,707,225</u>
Operating Expenses:		
Administration	3,290,206	3,095,343
Utilities	998,628	788,259
Maintenance and operations	3,812,140	2,489,127
Housing assistance payments	9,044,735	8,764,074
Other	924,780	824,953
Depreciation	1,668,760	1,711,009
Total expenses	<u>19,739,249</u>	<u>17,672,765</u>
Operating income (loss)	<u>(1,868,199)</u>	<u>2,034,460</u>
Nonoperating revenue (expenses):		
Investment earnings	94,116	40,771
Net decrease in the fair value of investments	(152,729)	(39,512)
Grants & subsidies	1,132	18,178
Gain on disposal of capital assets	19,358	2,509
Interest expense	(63,864)	(98,471)
Total nonoperating expenses	<u>(101,987)</u>	<u>(76,525)</u>
Increase (decrease) in net assets before capital contributions	<u>(1,970,186)</u>	<u>1,957,935</u>
Capital contributions	<u>489,541</u>	<u>23,822</u>
Change in net position	<u>(1,480,645)</u>	<u>1,981,757</u>
Net position - beginning	<u>31,342,312</u>	<u>29,360,555</u>
Net position - ending	<u>\$29,861,667</u>	<u>\$31,342,312</u>



Management's Discussion and Analysis

Capital Asset and Debt Administration

Capital assets. The HRA's investment in capital assets as of December 31, 2022, amounts to \$20,461,909 (net of accumulated depreciation). This investment in capital assets includes land, land improvements, buildings, furniture and equipment, and construction projects in progress. The total decrease in the HRA's investment in capital assets for the current fiscal year was \$694,347.

Major capital asset events during the current fiscal year included the following expenses in approximate amounts:

- Accessibility upgrades at Wilson Apartments \$430,000;
- Generator at Wilson Apartments \$51,000;
- Radon mitigation at Riverside Apartments \$30,000;
- Rental home built \$437,000; and
- Depreciation on capital assets of \$1,668,760 during the current year.

Capital Assets (net of depreciation)

	2022	2021
Land	\$2,568,158	\$2,568,158
Construction in progress	489,355	292,677
Land improvements	528,237	599,931
Building and structures	16,718,039	17,574,455
Equipment, furniture, and fixtures	158,120	121,035
Total	<u>\$20,461,909</u>	<u>\$21,156,256</u>

Additional information on the HRA's capital assets can be found in Note 4 of this report.

Long-term debt. At the end of the fiscal year, the HRA had debt outstanding of \$4,139,043 including \$2,260,000 of bonds payable and \$1,756,210 of loans payable.

Outstanding Debt (bonds and loans payable)

	2022	2021
Revenue bonds payable	\$2,260,000	\$2,655,000
Bond premiums, discounts, and other charges	122,833	129,630
Loans payable	1,756,210	1,763,473
Total	<u>\$4,139,043</u>	<u>\$4,548,103</u>

Additional information on the Agency's long-term debt can be found in Note 5 of this report.

Economic Factors and Next Year's Budgets

Federal appropriation levels, particularly funding from HUD for the Voucher Programs, Public Housing, and Community Development Block Grant will continue to have a major impact on the HRA's economic position. The HRA received approximately \$12,545,000 in direct and flow-through federal funding for the year ended December 31, 2022. This federal funding represents a significant portion of total revenues. 2023 intergovernmental revenues are expected to be relatively comparable to 2022. However, it is difficult to anticipate what total intergovernmental revenues will be.

Request for Information

This report is designed to provide a general overview of the HRA's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Finance Director of The Housing and Redevelopment Authority of St. Cloud, 1225 West St. Germain Street, St. Cloud, Minnesota 56301.

BASIC FINANCIAL STATEMENTS

THE HOUSING AND REDEVELOPMENT AUTHORITY OF ST. CLOUD

STATEMENT OF NET POSITION

DECEMBER 31, 2022

Assets:

Current assets:

Cash and investments	\$7,935,116
Receivables:	
Accounts, net of allowance for uncollectible	207,716
Interest	19,446
Due from other governmental units	540,618
Prepaid items	<u>127,156</u>
Total current assets	<u>8,830,052</u>

Restricted assets:

Cash and cash equivalents	382,190
Cash with fiscal agents	782,402
Cash - tenant security deposits	<u>325,279</u>
Total restricted assets	<u>1,489,871</u>

Capital assets:

Capital assets - nondepreciable	3,057,513
Capital assets - net of accumulated depreciation	<u>17,404,396</u>
Total capital assets	<u>20,461,909</u>

Other assets:

Land held for resale	825,823
Lease receivable due from primary government	339,489
Loans receivable, net of allowance for uncollectible	<u>4,663,272</u>
Total other assets	<u>5,828,584</u>

Total assets	<u><u>\$36,610,416</u></u>
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The notes to the financial statements are an integral part of this statement.

Liabilities:

Current liabilities:

Accounts and contracts payable	\$571,810
Due to other governmental units	179,138
Accrued wages and benefits	100,210
Accrued interest payable	22,425
Unearned revenue	146,951
Revenue bonds payable	125,000
Compensated absences	177,920
Total current liabilities	<u>1,323,454</u>

Current liabilities payable from restricted assets:

Due to other governmental units	31,466
Security deposits payable	322,545
Total current liabilities payable from restricted assets	<u>354,011</u>

Noncurrent liabilities:

Unearned revenue	442,466
Accrued interest payable	275,286
Revenue bonds payable	2,257,833
Loans payable	1,756,210
Total noncurrent liabilities	<u>4,731,795</u>
Total liabilities	<u>6,409,260</u>

Deferred inflows of resources	<u>339,489</u>
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Net position:

Net investment in capital assets	16,247,560
Restricted for debt service	90,085
Restricted for operations	3,980,834
Restricted for deposits	2,734
Unrestricted	9,540,454
Total net position	<u>29,861,667</u>

Total liabilities, deferred inflows of resources, and net position	<u><u>\$36,610,416</u></u>
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THE HOUSING AND REDEVELOPMENT AUTHORITY OF ST. CLOUD

STATEMENT OF REVENUES, EXPENSES, AND

Statement 2

CHANGES IN NET POSITION

YEAR ENDED DECEMBER 31, 2022

Operating revenues:	
Dwelling rents	\$3,510,084
Operating grants & subsidies	12,680,604
Taxes	502,871
Other	1,177,491
Total operating revenues	<u>17,871,050</u>
Operating expenses:	
Administration	3,290,206
Tenant services	30,578
Utilities	998,628
Ordinary maintenance and operations	3,343,615
General expense	894,202
Nonroutine maintenance	468,525
Housing assistance payments	9,044,735
Depreciation	1,668,760
Total operating expenses	<u>19,739,249</u>
Operating loss	<u>(1,868,199)</u>
Nonoperating revenues (expenses):	
Investment earnings	94,116
Net decrease in the fair value of investments	(152,729)
Grants & subsidies	1,132
Gain on disposal of capital assets	19,358
Interest expense	(63,864)
Total nonoperating expenses	<u>(101,987)</u>
Loss before capital contributions	<u>(1,970,186)</u>
Capital contributions	489,541
Change in net position	(1,480,645)
Net position - beginning	<u>31,342,312</u>
Net position - ending	<u>\$29,861,667</u>

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

THE HOUSING AND REDEVELOPMENT AUTHORITY OF ST. CLOUD

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2022

Cash flows from operating activities:	
Cash received from HUD and other governments	\$12,661,340
Cash received from tenants and other revenue	5,241,472
Cash payments to employees	(2,396,243)
Other payments for operations	(15,407,997)
Net cash flows from operating activities	<u>98,572</u>
Cash flows from capital and related financing activities:	
Proceeds from sale of capital assets	19,358
Capital grants received	466,540
Acquisition of capital assets	(850,771)
Proceeds from food and beverage tax	298,485
Principal payments on long-term debt	(402,263)
Interest payments on long-term debt	(62,855)
Net cash flows from capital and related financing activities	<u>(531,506)</u>
Cash flows from investing activities:	
Purchase of investments	(732,000)
Investment income	87,247
Net cash flows from investing activities	<u>(644,753)</u>
Net decrease in cash and cash equivalents	(1,077,687)
Cash and cash equivalents - beginning	<u>5,788,474</u>
Cash and cash equivalents - ending	<u>\$4,710,787</u>
Reconciliation to Statement 1	
Cash and investments	\$7,935,116
Restricted cash and cash equivalents	382,190
Restricted cash with fiscal agents	782,402
Restricted cash - tenant security deposits	325,279
Total cash and investments	<u>9,424,987</u>
Less: investments	(4,714,200)
Total cash and cash equivalents	<u>\$4,710,787</u>

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

THE HOUSING AND REDEVELOPMENT AUTHORITY OF ST. CLOUD

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2022

Statement 3

Reconciliation of operating income to net cash provided	
by operating activities:	
Operating loss	(\$1,868,199)
Adjustments to reconcile operating income to net cash flows from	
operating activities:	
Depreciation	1,668,760
Change in accounts receivable	423,705
Change in due from other governments	(72,702)
Change in loans receivable	(91,410)
Change in prepaid items	81,708
Change in lease receivable due from primary government	(339,489)
Change in payables and accrued liabilities	(12,108)
Change in due to other governments	46,188
Change in unearned revenue	(77,033)
Change in deferred inflow of resources	339,152
Net cash flows from operating activities	<u>\$98,572</u>
Noncash investing, capital and financing activities:	
Unrealized loss on investments	\$152,729
Trade-in of vehicle	18,000
Total noncash transactions	<u>\$170,729</u>

THE HOUSING AND REDEVELOPMENT AUTHORITY OF ST. CLOUD
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Housing and Redevelopment Authority of St. Cloud (HRA) have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies of the HRA.

A. PRIMARY GOVERNMENT

The HRA is a local unit of government created by the City of St. Cloud in 1966 under the Minnesota Housing and Redevelopment Authority Act of 1947. The HRA's primary operations are administering federal, state, and local housing programs. The HRA is governed by a seven-member board of commissioners appointed by the Mayor to serve five-year terms.

B. COMPONENT UNITS

Component units are either classified as blended component units or discretely presented component units.

Blended Component Unit

The HRA established a legally separate entity, St. Cloud HRA Holdings, LLC (LLC) with the HRA being the sole member and governing body for the primary purpose of owning and operating multiple workforce housing townhome and apartment projects that were developed by the HRA through various limited partnerships.

Discretely Presented Component Unit

There are no organizations considered to be discretely presented component units of the HRA. The HRA is reported as a discretely presented component unit in the City of St. Cloud's annual comprehensive financial report.

C. BASIS OF PRESENTATION, MEASUREMENT FOCUS, AND BASIS OF ACCOUNTING

The financial statements report information of the HRA. For financial reporting purposes, the HRA reports all its operations and activities as a single business activity reported in a single enterprise fund.

The HRA's financial statements are accounted for using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Dwelling rents and other charges for services, and interest associated with the current calendar year are all considered to be susceptible to accrual and so have been recognized as revenues of the current calendar year. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met.

An enterprise fund distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the enterprise fund's principal ongoing operations. The principal operating revenues of the HRA's enterprise fund are charges to customers for services related to rental activity, including

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subsidies received from the Department of Housing and Urban Development (HUD) for administrating these services. Operating expenses for the enterprise fund include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. CASH AND INVESTMENTS

The HRA'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 that are not specifically restricted as to use.

Minnesota Statutes allow investment in obligations guaranteed by the U.S. Treasury or its agencies, mutual funds, general obligations of state and local governments, bankers' acceptances, commercial paper, repurchase agreements, guaranteed investment contracts, and the Minnesota Municipal Money Market Fund (4M Fund) which is an external investment pool not registered with the Securities and Exchange Commission (SEC) that follows the same regulatory rules of the SEC under rule 2a7. Oversight of the 4M Fund is provided by the Board of Directors of the League of Minnesota Cities and investments are restricted to those authorized by Minnesota State Statutes. All investments except money-market funds and the 4M Fund are reported at fair value based on quoted market prices. Money-market funds and the 4M Fund are reported at amortized cost.

E. PROPERTY TAXES

The HRA Board of Commissioners annually adopts a tax levy, which is approved by the City Council, and certifies it to the counties in December (levy/assessment date) of each year for collection in the following year. The counties are responsible for billing and collecting all property taxes for itself, the HRA, the local school district, and other taxing authorities. Such taxes become a lien on January 1 and are recorded as receivables by the HRA at that date. Revenue is recognized in the calendar year for which it is levied. Real property taxes are payable (by property owners) on May 15 and October 15 of each calendar year. Personal property taxes are payable by taxpayers on February 28 and June 30 of each year. These taxes are collected by the counties and remitted to the HRA on or before July 7 and December 2 of the same year. Delinquent collections for November and December are received the following January. The HRA has no ability to enforce payment of property taxes by property owners. The counties possess this authority.

F. LAND HELD FOR RESALE

Land is acquired by the HRA for subsequent resale for redevelopment purposes. Land held for resale is reported as an asset at the lower of cost or estimated realizable value in the fund that acquired it.

G. RESTRICTED ASSETS

Restricted assets represent cash held by either the HRA or a fiscal agent which is used for revenue bond debt service payments, tenant security deposits, and other restricted purposes.

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H. CAPITAL ASSETS

Capital assets are defined by the government as assets having an estimated useful life in excess of one year and an initial individual cost of more than \$5,000 for equipment or more than \$25,000 for land improvement, building, and leasehold improvement assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

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.

Land and construction in progress are not depreciated. The other property, plant, and equipment are depreciated using the straight-line method over the following estimated useful lives:

Land Improvements	5-30 years
Building, structures, and improvements	10-40 years
Equipment, furniture, and fixtures	3-20 years

I. LEASE RECEIVABLE

The HRA's lease receivable is measured at the present value of lease payments expected to be received during the lease term. A deferred inflow of resources is recorded for the lease. The deferred inflow of resources is recorded at the commencement of the lease in an amount equal to the initial recording of the lease receivable, and is recognized as revenue over the lease term.

J. DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

In addition to assets, the statement of net position can report a separate section for deferred outflows of resources. The separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenses) until then. The HRA has no items that qualify for reporting in this category as of December 31, 2022.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. The separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until then. The HRA has \$339,489 of lease revenues that qualify for reporting in this category as of December 31, 2022.

K. COMPENSATED ABSENCES

It is the HRA's policy to permit employees to accumulate earned but unused paid leave. Paid leave is expensed when earned and the accrued compensated absences are recorded as a current liability. For all compensated absences, the liability is valued using pay rates in effect at the end of the calendar year.

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L. NET POSITION

Net position is classified in three components. Net investment in capital assets consists of capital assets net of accumulated depreciation, and reduced by the outstanding balances of any related debt attributable to the acquisition, construction, or improvement of those assets. Restricted net position is noncapital net position that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the HRA or through law via constitutional provisions or enabling legislation. Unrestricted net position is the remaining net position that does not meet the definition of the previous two categories.

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

M. USE OF ESTIMATES

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates that affect the amounts reported with financial statements during the reporting period. Actual results could differ from such estimates.

Note 2 DEPOSITS AND INVESTMENTS

A. DEPOSITS

Custodial Credit Risk - 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. The HRA follows Minnesota Statutes which require that all deposits including certificates of deposit with financial institutions be collateralized in an amount equal to 110 percent of the deposits in excess of FDIC insurance. At year end, all the HRA's deposits were adequately protected by pledged collateral and federal-depository insurance.

B. INVESTMENTS

The HRA may also invest funds as authorized by Minnesota Statutes, as follows:

- a) Direct obligations or obligations guaranteed by the United States or its agencies.
- b) Shares of investment companies registered under the Federal Investment Company Act of 1940 and whose only investments are in securities described in a) above.
- c) General obligations of the State of Minnesota or any of its municipalities.
- d) Bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System.
- e) Commercial paper, issued by United States corporations or their Canadian subsidiaries, of the highest quality and maturing in 270 days or less.
- f) Repurchase or reverse repurchase agreements with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities in the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.
- g) Guaranteed investment contracts (GIC) issued or guaranteed by a United States commercial bank or domestic branch of a foreign bank or a United States insurance company or its Canadian or United States subsidiary.

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- h) Mortgage-backed securities that are direct obligations or guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress.

As of December 31, 2022, the HRA had the following investments and maturities:

Investment Type	Credit Rating	Fair Value	Investment Maturities (in Years)			
			Less Than 1	1-5	6-10	Over 10 years
Certificates of deposit	N/A	\$4,714,200	\$2,384,821	\$2,329,379	\$ -	\$ -
Money market funds	N/A	361,103	361,103	-	-	-
External investment pool - 4M Liquid	N/A	1,107,601	1,107,601	-	-	-
External investment pool - 4M PLUS	N/A	638,363	638,363	-	-	-
Total investments		6,821,267	\$4,491,888	\$2,329,379	\$ -	\$ -
Deposits		1,819,918				
Restricted cash with fiscal agents		782,402				
Petty cash		1,400				
Total cash and investments		\$9,424,987				

Some investments listed have call dates prior to maturity.

These amounts are presented on the statement of net position as follows:

Cash and investments	\$7,935,116
Restricted cash and cash equivalents	382,190
Restricted cash with fiscal agents	782,402
Restricted cash - tenant security deposits	325,279
	<u>\$9,424,987</u>

C. INVESTMENT RISKS

The HRA's investment policy is to follow Minnesota State Statutes as described above which reduces the HRA's exposure to credit, custodial credit, and interest rate risks. Specific risk information for the HRA is as follows:

Credit risk – Credit risk is the risk that an issuer or other counterparty to an investment will be unable to fulfill its obligation to the holder of the investment. The HRA's policy does not address credit risk. However, state law limits investments of commercial paper to those rated in the highest quality category by at least two nationally recognized rating agencies; in any security of the State of Minnesota or any of its municipalities which is rated "A" or better by a national bond rating service for general obligation and rated "AA" or better for a revenue obligation; a general obligation of the Minnesota Housing Finance Agency to those rated "A" or better by a national bond rating agency; mutual funds or money market funds whose investments are restricted to securities described in MS 118A.04.

The HRA's external investment pool investment is with the 4M Fund which is regulated by Minnesota Statutes and the Board of Directors of the League of Minnesota Cities. The 4M Liquid Asset Fund is an unrated pool and the fair value of the position in the pool is the same as the value of pool shares. The pool is managed to maintain a portfolio weighted average maturity of no greater than 60 days and

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seeks to maintain a constant net asset value (NAV) per share of \$1. The pool measures their investments in accordance with Government Accounting Standards Board Statement No. 79, at amortized cost. The 4M Liquid Asset Fund has no redemption requirements.

The 4M PLUS Fund series of the 4M Fund is an unrated pool and the fair value of the position in the pool is the same as the value of pool shares. The pool is managed to maintain a portfolio weighted average maturity of no greater than 60 days and seeks to maintain a constant net asset value (NAV) per share of \$1. The pool measures their investments in accordance with Government Accounting Standards Board Statement No. 79, at amortized cost. The 4M PLUS Fund requires funds to be deposited for a minimum of 14 calendar days. Withdrawals prior to the 4-day restriction period are subject to a penalty equal to 7 days interest on the amount withdrawn.

Custodial credit risk – For an investment, this is the risk that in the event of the failure of the counterparty, the HRA will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The HRA’s policy does not address this risk. At December 31, 2022, all investments, evidenced by individual securities, are at all times insured or registered in the name of the HRA.

Interest rate risk – Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. The HRA has no formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The HRA minimizes its exposure to interest rate risk by investing in both short-term and long-term investments and by timing cash flows from maturities to meet cash requirements.

Concentration of credit risk – The concentration of credit risk is the risk of loss that may be caused by the HRA’s investment in a single issuer. The HRA places no limit on the amount it may invest in any one approved issuer. The HRA has no investments in any one issuer that represent five percent or more of the HRA’s investments.

Fair value reporting – The HRA categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. A financial instrument’s level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following describes the hierarchy of inputs used to measure fair value and primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

Level 1: Investments whose values are based on quoted prices (unadjusted) for identical assets (liabilities) in active markets that a government can access at measurement date.

Level 2: Investments with inputs, other than quoted prices included within Level 1 that are observable for an asset (liability), either directly or indirectly.

Level 3: Investments classified as Level 3 have unobservable inputs for an asset (liability) and may require a degree of professional judgment.

At December 31, 2022, the certificates of deposit totaling \$4,714,200 were classified as level 2. The money market funds of \$361,103 and external investment pool of \$1,745,964 were not subject to leveling.

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Note 3 RECEIVABLES

Accounts receivable are shown net of an allowance for uncollectible of \$23,692 at December 31, 2022. All significant receivable balances are expected to be collected within one year with the exception of loans receivable which are described below.

A. LOANS RECEIVABLE

	<u>December 31, 2022 Balance</u>		
	<u>Gross</u>	<u>Allowance</u>	<u>Net</u>
Deferred loans to property owners bear interest at 3% up to a maximum of \$1,500 and are not payable unless and until the property is sold or refinanced by the owner.	\$20,000	\$8,000	\$12,000
Deferred loans to property owners bear interest at 3% up to a maximum of \$300 and are not payable unless and until the property is sold or refinanced by the owner.	37,338	10,000	27,338
Deferred loans to property owners which bear no interest, do not require monthly payments, and are repayable upon sale, other reasons, or the end of 30 years. No principal is forgiven.	4,620,468	439,000	4,181,468
Deferred loans to property owners which bear no interest, do not require monthly payments, and are due in full upon sale or refinancing of the property. Principal is forgiven on the loans, if owned by the original borrower, beginning in year 16 at a rate of 1/15th of the principal balance each year until year 30, at which time the note is fully forgiven.	442,466	-	442,466
Unrecorded loans - neighborhood stabilization down payment assistance loans of \$514,000, were made to home buyers in the program target area, which bear no interest, do not require monthly payments, and are only required to pay the unforgiven balance if the borrower sells or refinances the property within 10 or 15 years of the date of the loan. These loans have not been recorded as loans receivable at December 31, 2022, since management has determined that it is highly unlikely these properties will be sold or refinanced within 10 or 15 years due to the terms of the loan agreement. The unforgiven balance of the loans is \$10,267 at December 31, 2022.	-	-	-
	<u>\$5,120,272</u>	<u>\$ 457,000</u>	<u>\$4,663,272</u>

B. LEASE RECEIVABLE

The HRA leases space at its Germain Towers Apartments to the City of St. Cloud for its Paramount Theater operations. The lease is non-cancelable for a period of 50 years, ending December 2058. The agreement calls for annual lease payments of \$16,740. The lease receivable is measured at the present value of the future minimum lease payments expected to be received during the lease term at a discount rate of 3.58%. At December 31, 2022 the HRA recorded \$339,489 in lease receivable and deferred inflows of resources for these arrangements.

Total revenue recognized in relation to this lease is as follows:

	<u>December 31, 2022</u>
Total revenue recognized resulting from deferred inflow amortization	\$5,574
Interest revenue	11,166
Total revenue recognized in relation to leased asset	<u>\$16,740</u>

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Note 4 CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2022 was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets, not being depreciated:				
Land	\$2,568,158	\$ -	\$ -	\$2,568,158
Construction in progress	292,677	425,214	228,536	489,355
Total capital assets, not being depreciated	<u>2,860,835</u>	<u>425,214</u>	<u>228,536</u>	<u>3,057,513</u>
Capital assets, being depreciated:				
Land improvements	2,045,596	-	-	2,045,596
Buildings and structures	57,579,030	711,770	-	58,290,800
Equipment, furniture, and fixtures	739,676	65,968	38,623	767,021
Total capital assets, being depreciated	<u>60,364,302</u>	<u>777,738</u>	<u>38,623</u>	<u>61,103,417</u>
Less accumulated depreciation for:				
Land improvements	1,445,665	71,694	-	1,517,359
Buildings and structures	40,004,575	1,568,186	-	41,572,761
Equipment, furniture, and fixtures	618,641	28,880	38,620	608,901
Total accumulated depreciation	<u>42,068,881</u>	<u>1,668,760</u>	<u>38,620</u>	<u>43,699,021</u>
Total capital assets being depreciated - net	<u>18,295,421</u>	<u>(891,022)</u>	<u>3</u>	<u>17,404,396</u>
Total capital assets - net	<u>\$21,156,256</u>	<u>(\$465,808)</u>	<u>\$228,539</u>	<u>\$20,461,909</u>

Depreciation expense for the year ended December 31, 2022 was \$1,668,760.

Note 5 LONG-TERM DEBT

A. BONDS PAYABLE

The HRA has issued revenue bonds to provide funds for the refinancing of major capital facilities. Revenue bonds currently outstanding are as follows:

	Interest Rates	Final Maturity	12/31/22 Balance	Due Within One Year
Governmental Housing Project Bonds, Series 2021A	1.50% - 3.00%	02/01/37	2,260,000	125,000

The Governmental Housing Project Bonds were issued April 15, 2021 by the HRA in the original amount of \$2,360,000 to payoff the Riverside Apartments' first and second mortgages held by Minnesota Housing. The total cash savings is \$719,169 with a net present value savings of \$647,114. All required payments on the bonds are guaranteed by the City of St. Cloud's general obligation pledge.

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Annual debt service requirements to maturity for revenue bonds are as follows:

Year Ending December 31	Principal	Interest	Total
2023	125,000	51,945	176,945
2024	130,000	48,120	178,120
2025	130,000	44,220	174,220
2026	135,000	40,245	175,245
2027	140,000	36,120	176,120
2028-2032	765,000	117,300	882,300
2033-2037	835,000	37,705	872,705
Total	<u>\$2,260,000</u>	<u>\$375,655</u>	<u>\$2,635,655</u>

B. LOANS PAYABLE

The HRA had the following loans payable outstanding at December 31, 2022:

<p>Minnesota Housing - loans payable issued in 2001 and made as no-interest loans. The funds were used by the HRA for the purpose of making deferred loans to provide affordable gap financing for the Westwood Village project. Any program monies received by the HRA upon resale are due and payable to Minnesota Housing if the funds cannot be utilized within the target area.</p>	\$116,578
<p>Minnesota Housing - loan payable issued in 2004 in the original amount of \$196,000 as a no-interest loan. These funds were used in the Eastwood Apartments Fund. The entire loan is due in a lump sum on the earlier of a) the sale, transfer, or refinance of the property; or b) November 10, 2032; unless there is a default as described in the agreement, in which case it becomes due immediately. This loan is secured by a mortgage.</p>	196,000
<p>Minnesota Housing - mortgage payable issued in July 2000. These funds were used to finance the Plum Creek Family Housing, LP in the original amount of \$250,000. Interest rate is 1%; entire principal and accrued interest is deferred and due July 2030. Collateral pledged is substantially all assets of the Partnership. The principal balance may be prepaid in full or in part without any prepayment penalty.</p>	250,000
<p>Minnesota Housing - mortgage payable issued in October 2000. These funds were used to finance the Brownstones Family Housing, LP in the original amount of \$255,902. Interest rate is 1%; entire principal and accrued interest is deferred and due October 2030. Collateral pledged is substantially all assets of the Partnership. The principal balance may be prepaid in full or in part without any prepayment penalty.</p>	255,902
<p>Minnesota Housing - mortgage payable issued in December 2003. These funds were used to finance the Swisshelm Village Apartments One, LP in the original amount of \$531,658. Interest rate is 1%; entire principal and accrued interest is deferred and due December 2033. Collateral pledged is substantially all assets of the Partnership. The principal balance may be prepaid in full or in part without any prepayment penalty.</p>	531,658
<p>Minnesota Housing - mortgage payable issued in August 2003. These funds were used to finance the Westwood Village Apartments One, LP in the original amount of \$406,072. Interest rate is 1%; entire principal and accrued interest is deferred and due August 2033. Collateral pledged is substantially all assets of the Partnership. The principal balance may be prepaid in full or in part without any prepayment penalty.</p>	406,072

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B. LOANS PAYABLE (CONTINUED)

Unrecorded loan - Minnesota Housing - A loan received to construct the Al Loehr Veterans and Community Studio Apartments totaling \$6,000,000 is only required to be repaid if the HRA does not comply with the terms of the agreement through 2025. As it is the HRA's intent to comply with the terms and conditions of the agreement throughout the 20 year term, no liability has been recorded for this forgivable loan. -

Unrecorded loan - Greater Minnesota Housing Fund - A loan received to construct the Al Loehr Veterans and Community Studio Apartments totaling \$240,000 is only required to be repaid if the HRA does not comply with the terms of the agreement through 2025. As it is the HRA's intent to comply with the terms and conditions of the agreement throughout the 20 year term, no liability has been recorded for this forgivable loan. -

Unrecorded loan - Minnesota Housing - A loan received to make improvements at three properties totaling \$112,100 is only required to be repaid if the HRA does not comply with the terms of the agreement through 2030. As it is the HRA's intent to comply with the terms and conditions of the agreement throughout the 20 year term, no liability has been recorded for this forgivable loan. -

Unrecorded loan - Minnesota Housing - A loan received to make improvements at Empire Apartments totaling \$341,096 is only required to be repaid if the HRA does not comply with the terms of the agreement through 2034. As it is the HRA's intent to comply with the terms and conditions of the agreement throughout the 20 year term, no liability has been recorded for this forgivable loan. -

Unrecorded loan - Minnesota Housing - A loan received to make improvements at Wilson Apartments totaling \$275,697 is only required to be repaid if the HRA does not comply with the terms of the agreement through December 2039. As it is the HRA's intent to comply with the terms and conditions of the agreement throughout the 20 year term, no liability has been recorded for this forgivable loan. -

Unrecorded loan - Minnesota Housing - A loan received to make improvements at Empire Apartments totaling \$281,640 is only required to be repaid if the HRA does not comply with the terms of the agreement through March 2040. As it is the HRA's intent to comply with the terms and conditions of the agreement throughout the 20 year term, no liability has been recorded for this forgivable loan. -

Total loans payable \$1,756,210

According to the repayment terms of the loans payable described above, some repayment dates are not estimable. Annual debt service requirements to maturity for notes and loans payable are as follows:

Year Ending December 31	Principal	Interest	Total
2023	\$ -	\$ -	\$ -
2024	-	-	-
2025	-	-	-
2026	-	-	-
2027	-	-	-
2028-2032	701,902	151,847	853,749
2033-2037	937,730	263,841	1,201,571
Not Determinable	116,578	-	116,578
Total	<u>\$1,756,210</u>	<u>\$415,688</u>	<u>\$2,171,898</u>

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C. LONG-TERM LIABILITY ACTIVITY

A summary of long-term liability activity for the year ended December 31, 2022 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue bonds	\$2,655,000	\$ -	(\$395,000)	\$2,260,000	\$125,000
Less bond discount	(1,925)	-	1,925	-	-
Plus bond premium	131,555	-	(8,722)	122,833	-
Total bonds payable	2,784,630	-	(401,797)	2,382,833	125,000
Loans payable	1,763,473	-	(7,263)	1,756,210	-
Total long-term liabilities	\$4,548,103	\$ -	(\$409,060)	\$4,139,043	\$125,000

D. PLEDGED REVENUE ON DEBT

A summary of pledged revenue on recorded debt is as follows:

Debt Issue	Use of Proceeds	Type	Revenue Pledged			Remaining Principal and Interest	Current Year	
			% of Total Debt Services	Debt Service as of % of Net Revenues	Term of Pledge		Principal and Interest Paid	Pledged Revenue Received
MN Housing Loan	Construction of Brownstones Townhomes	Rents and leases	100%	0%	2000-2030	\$332,708	\$ -	\$75,945
MN Housing Loan	Construction of Creeks Townhomes	Rents and leases	100%	0%	2000-2030	325,041	-	163,550
MN Housing Loan	Construction of Swisshelm One Apartments	Rents and leases	100%	0%	2002-2033	673,666	-	211,993
MN Housing Loan	Construction of Westwood One Apartments	Rents and leases	100%	N/A	2003-2033	527,905	-	201,025
Series 2021A Bonds	Refinance construction of Riverside Apartments	Rents and leases	100%	N/A	2021-2037	2,635,655	172,050	524,435

E. CONDUIT DEBT

From time to time, the HRA has issued Revenue Bonds to provide financial assistance to private-sector or other governmental entities for the acquisition and construction of industrial, commercial, or housing facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. The HRA is not obligated, in any manner, for repayment of the bonds. Accordingly, such bonds are not reported as liabilities in the accompanying financial statements. The amount of outstanding conduit debt at December 31, 2022 is \$22,160,000.

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Note 6 BLENDED COMPONENT UNIT

The condensed financial statements for St. Cloud HRA Holdings, LLC is as follows:

CONDENSED STATEMENT OF NET POSITION

Assets:	
Current Assets	\$1,283,295
Due from primary government	1,209
Capital assets, net	7,686,004
Other	219,639
Total assets	<u>9,190,147</u>
Liabilities:	
Current liabilities	481,505
Due to primary government	234,448
Long-term liabilities	3,976,751
Advances from primary government	5,440,632
Total liabilities	<u>10,133,336</u>
Net position:	
Net investment in capital assets	3,859,539
Restricted	296,364
Unrestricted	(5,099,092)
Total net position	<u>(\$943,189)</u>

**CONDENSED STATEMENT OF REVENUES,
EXPENSES, AND CHANGES IN NET POSITION**

Operating revenues:	
Dwelling rents	\$1,620,272
Operating grants & subsidies	337,798
Other	258,747
Depreciation expense	(796,279)
Other operating expenses	(2,210,557)
Operating loss	<u>(790,019)</u>
Nonoperating revenues (expenses):	
Investment income	3,121
Interest expense	(231,122)
Total nonoperating expenses	<u>(228,001)</u>
Loss before transfer	(1,018,020)
Transfer from primary government	90,000
Change in net position	(928,020)
Beginning net position	(15,169)
Ending net position	<u>\$ (943,189)</u>

CONDENSED STATEMENT OF CASH FLOWS

Net cash provided (used) by:	
Operating activities	\$138,467
Capital and related financing activities	(366,728)
Investing activities	3,121
Net decrease	(225,140)
Beginning cash and cash equivalents	1,446,470
Ending cash and cash equivalents	<u>\$1,221,330</u>

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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

Note 7 SEGMENT INFORMATION

Condensed financial statements relating to the Al Loehr Veterans and Community Studio Apartments, which was financed through forgivable loans from Minnesota Housing and Greater Minnesota Housing Fund is as follows:

CONDENSED STATEMENT OF NET POSITION

Assets:	
Current assets	\$855,839
Capital assets, net	3,624,626
Total assets	<u>4,480,465</u>
Liabilities:	
Current liabilities	54,009
Due to primary government	9,531
Total liabilities	<u>63,540</u>
Net position:	
Net investment in capital assets	3,624,626
Restricted	782,594
Unrestricted	9,705
Total net position	<u>\$4,416,925</u>

**CONDENSED STATEMENT OF REVENUES,
EXPENSES, AND CHANGES IN NET POSITION**

Operating revenues:	
Dwelling rents	\$285,403
Other	33,465
Depreciation expense	(154,806)
Other operating expenses	(331,301)
Operating loss	<u>(167,239)</u>
Nonoperating revenues:	
Investment income	11,461
Gain on disposal of capital assets	1,358
Total nonoperating revenue	<u>12,819</u>
Change in net position	(154,420)
Beginning net position	4,571,345
Ending net position	<u>\$4,416,925</u>

CONDENSED STATEMENT OF CASH FLOWS

Net cash provided (used) by:	
Operating activities	(\$1,986)
Capital and related financing activities	1,358
Investing activities	11,461
Net increase	10,833
Beginning cash and cash equivalents	828,982
Ending cash and cash equivalents	<u>\$839,815</u>

THE HOUSING AND REDEVELOPMENT AUTHORITY OF ST. CLOUD
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

Note 8 EMPLOYEE RETIREMENT PLAN

The HRA provides a defined contribution plan through participation in the Housing Agency Retirement Trust Plan to all regular full-time employees after they complete six months of employment. The Plan is a nonprofit trust serving housing and redevelopment agencies that is governed by a board of trustees and utilizes a private sector third party administrator. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Plan provisions and contribution requirements are established and may be amended by the HRA's Board of Commissioners.

Plan participants become vested at the rate of 20% for each completed year of participation in the Plan. Employee contributions are fully vested at the time of contribution. Forfeitures under the Plan for each year, if any, will be used to pay the HRA's administrative expenses under the Plan. Any balance remaining after payment of expenses will either be returned to the HRA or credited to the HRA's account under the Plan and used to offset required HRA contributions for the following year, as directed by the HRA.

Employees are required to contribute 5% of their basic compensation and the HRA contributes 7%. Employees may also elect to contribute additional amounts as governed by the Plan. Employer and employee contributions to the plan during the year were \$130,139 and \$93,629, respectively. The amount recorded in accrued benefits at December 31, 2022 is \$2,685.

Note 9 RISK MANAGEMENT

The HRA is exposed to various risks of loss related to torts, thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The HRA purchases commercial insurance for all risks of loss. During 2022 there were no significant reductions in insurance coverage from the prior year. Settled claims have not exceeded this commercial coverage for the last three years. Insurance recoveries of \$590,499 are included as other income.

Note 10 COMMITMENTS AND CONTINGENCIES

A. ARBITRAGE REBATE LIABILITY

The Tax Reform Act of 1986 requires governmental entities to pay to the federal government income earned on the proceeds from the issuance of debt in excess of interest costs, pending the expenditure of the borrowed funds. This rebate of interest income (known as arbitrage) applies to governmental debt issued after August 31, 1986.

Management does not expect to incur significant arbitrage rebate liability on any outstanding debt.

B. LEGAL CLAIMS

The HRA is subject to certain legal claims in the normal course of business. Management does not expect the ultimate resolution of these claims will have a material impact on the HRA's financial condition or results of operations.

THE HOUSING AND REDEVELOPMENT AUTHORITY OF ST. CLOUD
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

C. FEDERAL AND STATE FUNDS

Amounts received or receivable from federal and state agencies are subject to agency audit and adjustment. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of funds which may be disallowed by the agencies cannot be determined at this time although the HRA expects such amounts, if any, to be immaterial.

D. COMMITMENTS

The HRA has commitments totaling approximately \$729,000 for various improvement projects.

E. AGREEMENT

The HRA entered into an agreement with the Central Minnesota Task Force on Battered Women (Task Force) for Anna Marie's Shelter in May 1999. The initial agreement term is 20 years and commenced February 2000. The agreement contains options to extend for two ten-year periods. Monthly rent payments during the initial agreement term from the Task Force are offset by payments on a note payable from the HRA to the Task Force. No monies are exchanged. No additional rent payments are required after the initial 20 year agreement term. The HRA has the right at the conclusion of the agreement to offset any remaining principal and interest on the note payable with the property. Thus, the receivable and note payable are offset with each other and therefore no balance is included on the statement of net assets.

Note 11 ADOPTION OF NEW ACCOUNTING STANDARD

The HRA implemented GASB statement No. 87 for the year ended December 31, 2022. As a result, a lease receivable and deferred inflows of resources are reported on the Statement of Net Position.

III. SINGLE AUDIT AND OTHER REQUIRED REPORTS SECTION

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MINNESOTA LEGAL COMPLIANCE REPORT

To the Board of Commissioners
The Housing and Redevelopment Authority of St. Cloud
St. Cloud, 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 business-type activities of The Housing and Redevelopment Authority of St. Cloud, a component unit of the City of St. Cloud, Minnesota, as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the HRA's basic financial statements, and have issued our report thereon dated April 19, 2023.

In connection with our audit, we noted that The Housing and Redevelopment Authority of St. Cloud failed to comply with provisions of the contracting – bid laws section of the *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*, promulgated by the State Auditor pursuant to Minnesota Statute § 6.65, insofar as they relate to accounting matters as described in the Schedule of Findings and Responses as item 2022-002. Also, in connection with our audit, nothing came to our attention that caused us to believe that The Housing and Redevelopment Authority of St. Cloud failed to comply with the provisions of the depositories of public funds and public investments, conflicts of interest, claims and disbursements, miscellaneous provisions sections of the *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding The Housing and Redevelopment Authority of St. Cloud's noncompliance with the above referenced provisions, insofar as they relate to accounting matters.

Government Auditing Standards requires the auditor to perform limited procedures on The Housing and Redevelopment Authority of St. Cloud's response to the legal compliance findings identified in our audit and described in the accompanying Schedule of Findings and Questioned Costs. The Housing and Redevelopment Authority of St. Cloud's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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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 communication is not suitable for any other purpose.

Redpath and Company, Ltd.
REDPATH AND COMPANY, LTD.
St. Paul, Minnesota

April 19, 2023

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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
The Housing and Redevelopment Authority of St. Cloud
St. Cloud, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of The Housing and Redevelopment Authority of St. Cloud, a component unit of the City of St. Cloud, Minnesota, as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise The Housing and Redevelopment Authority of St. Cloud's basic financial statements, and have issued our report thereon dated April 19, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered The Housing and Redevelopment Authority of St. Cloud's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of The Housing and Redevelopment Authority of St. Cloud's internal control. Accordingly, we do not express an opinion on the effectiveness of The Housing and Redevelopment Authority of St. Cloud'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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. *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.

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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 or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

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

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


REDPATH AND COMPANY, LTD.

St. Paul, Minnesota

April 19, 2023

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Commissioners
The Housing and Redevelopment Authority of St. Cloud
St. Cloud, Minnesota

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited The Housing and Redevelopment Authority of St. Cloud's, a component unit of the City of St. Cloud, Minnesota, compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of The Housing and Redevelopment Authority of St. Cloud's major federal programs for the year ended December 31, 2022. The Housing and Redevelopment Authority of St. Cloud's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, The Housing and Redevelopment Authority of St. Cloud complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2022.

Basis for Opinion on Each Major Federal Program

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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of The Housing and Redevelopment Authority of St. Cloud and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of The Housing and Redevelopment Authority of St. Cloud's compliance with the compliance requirements referred to above.

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Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to The Housing and Redevelopment Authority of St. Cloud's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on The Housing and Redevelopment Authority of St. Cloud's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about The Housing and Redevelopment Authority of St. Cloud's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding The Housing and Redevelopment Authority of St. Cloud's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of The Housing and Redevelopment Authority of St. Cloud's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 The Housing and Redevelopment Authority of St. Cloud's internal control over compliance. Accordingly, no such opinion is expressed.

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We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we did identify a certain deficiency in internal control over compliance that we consider to be a significant deficiency.

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 a 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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2022-001 to be a significant deficiency.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on The Housing and Redevelopment Authority of St. Cloud's response to the internal control over compliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. The Housing and Redevelopment Authority of St. Cloud's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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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.

Redpath and Company, Ltd.

REDPATH AND COMPANY, LTD.

St. Paul, Minnesota

April 19, 2023

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THE HOUSING AND REDEVELOPMENT AUTHORITY OF ST. CLOUD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2022

Federal Funding Source/ Pass-Through Agency/ Program Title	Federal Assistance Listings Number	Entity Identifying Number	Federal Expenditures
U. S. Department of Housing and Urban Development:			
Direct:			
Housing Voucher Cluster			
Housing Choice Voucher Program	14.871	N/A - Direct	\$ 7,857,280
Mainstream Voucher Program	14.879	N/A - Direct	251,634
Emergency Housing Voucher Program	14.EHV	N/A - Direct	434,101
Total Housing Voucher Cluster			<u>8,543,015</u>
Section 8 Project-Based Cluster			
Section 8 New Construction and Substantial Rehabilitation	14.182	N/A - Direct	611,992
Public and Indian Housing	14.850	N/A - Direct	663,179
Public Housing Capital Fund Program	14.872	N/A - Direct	729,121
Continuum of Care Program	14.267	N/A - Direct	364,600
Pass-through the City of St. Cloud:			
CDBG - Entitlement Grants Cluster			
Community Development Block Grant	14.218	2019-01	101,980
Community Development Block Grant	14.218	2020-01	253,478
Total Community Development Block Grant			<u>355,458</u>
Pass-through the State of MN:			
ARRA - Community Development Block Grant - NSP 1	14.228	02-2009-20C-NSP	378,504
Total Expenditures of Federal Awards:			<u><u>\$ 11,645,869</u></u>

Note 1: This Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal award activity of the Housing and Redevelopment Authority of St. Cloud (the "HRA") under programs of the federal government for the year ended December 31, 2022. The information in this Schedule is presented in accordance with the 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). Because the Schedule presents only a selected portion of the operations of the HRA, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the HRA.

Note 2: Expenditures reported in this Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards. The HRA has not charged any indirect costs to federal award programs for the year ended December 31, 2022. Therefore, the election of the de minimis cost rate is not applicable.

Note 3: As part of the Housing Choice Voucher Program, the HRA elected to administer portable vouchers totaling \$1,291,232 and related administration fees totaling \$68,810, as the receiving public housing authority (PHA) for various initial PHAs throughout the United States. These amounts passed through the initial PHAs have been excluded from the Housing Choice Voucher Program amount above.

Note 4: The HRA has no subrecipients.

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THE HOUSING AND REDEVELOPMENT AUTHORITY OF ST. CLOUD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended December 31, 2022

SECTION I - SUMMARY OF AUDIT RESULTS

Financial Statements

- | | | | | |
|--|-----|------------|------------------|---------------|
| A. Type of auditors' report issued: | | Unmodified | | |
| B. Internal control over financial reporting: | | | | |
| • Material weakness(es) identified? | ___ | Yes | ___ <u>X</u> ___ | No |
| • Significant deficiency(ies) identified? | ___ | Yes | ___ <u>X</u> ___ | None reported |
| C. Noncompliance material to financial statements noted? | ___ | Yes | ___ <u>X</u> ___ | No |

Federal Awards

- | | | | | |
|---|------------------|------------|------------------|---------------|
| D. Internal control over major programs: | | | | |
| • Material weakness(es) identified? | ___ | Yes | ___ <u>X</u> ___ | No |
| • Significant deficiency(ies) identified? | ___ <u>X</u> ___ | Yes | ___ ___ | None reported |
| E. Type of auditors' report issued on compliance for major programs: | | Unmodified | | |
| F. Any audit findings disclosed that are required to be reported in accordance with the 2 CFR Section 200.516(a)? | ___ <u>X</u> ___ | Yes | ___ ___ | None reported |

G. Identification of major programs:

Name of Federal Program	Assistance Listing Number
Housing Voucher Cluster	14.871, 14.879 & 14.EHV

H. Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

I. Auditee qualified as a low-risk auditee ___ X ___ Yes ___ ___ No

THE HOUSING AND REDEVELOPMENT AUTHORITY OF ST. CLOUD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended December 31, 2022

SECTION II - FINANCIAL STATEMENT FINDINGS

There are no financial statement findings for 2022.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

**2022-001 Lack of Adherence to Policies in Administrative Plan – Reopening the Waitlist
– Assistance Listing No. 14.871**

Criteria: The HRA’s Administrative Plan states that “if the waiting list has been closed, it cannot be reopened until the HRA publishes a notice in local newspapers of general circulation, minority media, and other suitable media outlets. The notice must comply with HUD fair housing requirements and must specify who may apply, where and when applications will be received.

HRA Policy

The HRA will announce the reopening of the waiting list at least 10 business days prior to the date applications will first be accepted. If the list is only being reopened for certain categories of families, this information will be contained in the notice. The HRA will give public notice by publishing the relevant information in suitable media outlets including, but not limited to: St. Cloud Times.”

Condition: The HRA opened its waitlist in 2022 and did not publish public notice of the opening in the St. Cloud Times.

Cause: HRA staff did not follow the administrative plan as outlined in the criteria. We understand that the infrequency in which the HRA opens its waitlist may be a contributing factor to the lack of publication.

Effect: The auditor is not in a position to determine the effect of the HRA not following its established policies. However, failure to follow policies increases the risk that noncompliance will occur and not be detected in a timely manner.

Recommendation: We recommend the HRA takes steps to ensure that the policies in the administrative plan are followed.

Response: The HRA intended to publish the opening of the Housing Choice Voucher waitlist in the St. Cloud Times. Due to staff error, it was not published. While we erred in not publishing notice in a local newspaper, the waitlist opening was widely advertised throughout our jurisdiction via the Central MN CoC, Adult Mental Health Initiative, FHPAP advisory committee, HousingLink, NAACP, St. Cloud Area Human Services Council, Hands Across the World, United Way 211, Emergency Food and Shelter Program Committee,

THE HOUSING AND REDEVELOPMENT AUTHORITY OF ST. CLOUD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended December 31, 2022

SCSU Multicultural Resource Center, HRA website, HRA office signage, and at all HRA properties. The HRA has implemented additional internal controls to ensure the required publication is not missed in the future.

THE HOUSING AND REDEVELOPMENT AUTHORITY OF ST. CLOUD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended December 31, 2022

SECTION IV – LEGAL COMPLIANCE FINDINGS

2022-002 Lack of Compliance With Bid Requirements – Group Insurance

Criteria: Minnesota Statute 471.6161 subdivision 2 requires every political subdivision authorized by law to purchase group insurance for its employees for 25 or more to request proposals from and enter into contracts with carriers that in the judgement of the political subdivision are best qualified to provide coverage, at least once every 60 months.

Condition: The HRA did not conduct a formal request for proposals prior to contracting with their current group insurance provider.

Cause: Since the passage of the Affordable Care Act requires insurance for small groups (under 50 employees) to be community rated, the HRA determined that informally gathering rates from various insurance providers would be an effective way to obtain the same results as a formal request for proposals.

Effect: The auditor is not in a position to determine the effect of noncompliance.

Recommendation: We recommend the HRA solicit further guidance from the League of Minnesota Cities or legal counsel regarding the requirement to conduct a formal request for proposal for group insurance.

Management Response: Prior to the passage of the Affordable Care Act (ACA), the HRA issued a request for proposal for group insurance every two to three years in order to obtain the most favorable rates, even though the HRA had less than 25 covered employees. With the passage of the ACA, insurers are no longer allowed to price insurance for small groups (under 50 employees) based on risk. Insurers are now required to price insurance for small groups based on community ratings. With the passage of the ACA, the HRA is now able to obtain the rates from the major insurers without issuing a formal request for proposal. There is no longer a reason for entities under 50 employees to issue a formal request for proposal for group insurance since insurance companies may not change the rates offered from one employer to another in the community. The rates are the rates.

In 2022, the HRA exceeded the 25 covered employee threshold. The HRA did not issue a formal request for proposal since the rates from all major insurers were obtained without issuing one. It would have been a waste of time and resources to issue a request for proposal in this case. It is unclear why the Statute has not been updated to reflect the passage of the ACA and update the threshold when a request for proposal is required from 25 to 50 employees. The HRA did switch providers with its new plan year starting January 2023, as a different company provided lower rates.

THE HOUSING AND REDEVELOPMENT AUTHORITY OF ST. CLOUD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended December 31, 2022

SECTION V – PRIOR YEAR FINDINGS
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Finding 2021-001 Lack of Compliance With Bid Requirements – Group Insurance

Criteria: Minnesota Statute 471.6161 subdivision 2 requires every political subdivision authorized by law to purchase group insurance for its employees for 25 or more to request proposals from and enter into contracts with carriers that in the judgement of the political subdivision are best qualified to provide coverage, at least once every 60 months.

Condition: The HRA did not conduct a formal request for proposals prior to contracting with their current group insurance provider.

Status: Unresolved. See 2022-002 within Section IV – Legal Compliance Findings.

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