

State of Minnesota



Office of the State Auditor

Julie Blaha
State Auditor

**Community Housing Resources
Minneapolis, Minnesota
(A Component Unit of the Minneapolis
Public Housing Authority)**

Year Ended December 31, 2020

Description of the Office of the State Auditor

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

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

The State Auditor performs approximately 100 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

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

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

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

Pension – monitors investment, financial, and actuarial reporting for Minnesota’s local public pension funds; and

Tax Increment Financing – promotes compliance and accountability in local governments’ use of tax increment financing through financial and compliance audits.

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

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**Community Housing Resources
Minneapolis, Minnesota
(A Component Unit of the Minneapolis
Public Housing Authority)**

Year Ended December 31, 2020



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

**COMMUNITY HOUSING RESOURCES
MINNEAPOLIS, MINNESOTA**

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**COMMUNITY HOUSING RESOURCES
MINNEAPOLIS, MINNESOTA**

ORGANIZATION
DECEMBER 31, 2020

Board of Directors

| | | <u>Term Expires</u> |
|-----------------|------------------------|---------------------|
| Sharmarke Issa | Chair | December 31, 2021 |
| Abdi Warsame | Director and President | Indefinite |
| Andrea Brennan | Director | December 31, 2022 |
| Mikkel Beckmen | Director | December 31, 2021 |
| Abdullahi Isse | Director | December 31, 2020 |
| Cara Letofsky | Director | December 31, 2022 |
| Tamir Mohamud | Director | December 31, 2021 |
| James Rosenbaum | Director | December 31, 2020 |
| Tessa Wetjen | Director | December 31, 2022 |
| Faith Xiong | Director | December 31, 2020 |



INDEPENDENT AUDITOR'S REPORT

Board of Directors
Community Housing Resources
Minneapolis, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the Community Housing Resources (CHR), a component unit of the Minneapolis Public Housing Authority, Minnesota, as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the CHR's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the CHR's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the CHR's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the CHR as of December 31, 2020, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2021, on our consideration of the CHR'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 CHR'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 CHR's internal control over financial reporting and compliance.

/s/Julie Blaha

JULIE BLAHA
STATE AUDITOR

/s/Dianne Syverson

DIANNE SYVERSON, CPA
DEPUTY STATE AUDITOR

December 21, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS

COMMUNITY HOUSING RESOURCES MINNEAPOLIS, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2020 (Unaudited)

This section of the Community Housing Resources, Incorporated (CHR) annual financial report presents our Management's Discussion and Analysis (MD&A) of the organization's financial performance during the calendar year on December 31, 2020. The MD&A is designed to assist the reader in focusing on significant financial issues, to provide an overview of the financial activity and position, and to identify financial trends and concerns. Since this section is designed to focus on the current year's activities, resulting changes, and currently known facts, please read it in conjunction with the financial statements.

The financial statements are presented in accordance with accounting principles generally accepted in the United States of America (GAAP). As provided under GAAP, the CHR uses the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned, and expenses, including depreciation, are recognized in the period in which they are incurred.

FINANCIAL HIGHLIGHTS

- On October 1, 2020, the Minneapolis Public Housing Authority (MPHA) donated 707 scattered site public housing units to the CHR and executed a long-term housing assistance contract with the CHR for the continued operation and rental of the units to low-income families. Since the CHR is a blended component unit of the MPHA, the donation is presented within the primary government's (MPHA) financial statements and results in no net change in capital assets.

OVERVIEW OF THE FINANCIAL STATEMENTS

The basic financial statements are designed to provide readers with a broad overview of the CHR's finances in a manner similar to a private sector business. These statements include:

- Statement of Net Position – which presents information on all of the CHR's assets and liabilities, with the difference between the two reported as net position. Current assets in comparison to current liabilities provides a measure of the CHR's ability to cover current obligations if the obligations became immediately due and payable. On December 31, 2020, the CHR's current ratio was 1.75. The Statement of Net Position is shown as Exhibit 1.

- Statement of Revenues, Expenses, and Changes in Net Position – which presents information showing how the CHR’s net position changed during the most recent period. Over time, increases or decreases in net position usually serve as a useful indicator of whether the financial position of the CHR is improving or deteriorating. This statement shows the total revenues and total expenses of the CHR, and the difference between them is the CHR’s net income or loss. This statement is shown as Exhibit 2.
- Statement of Cash Flows – which presents changes in cash and cash equivalents resulting from operations, capital and noncapital financing activities, and investing activities. This statement is shown as Exhibit 3.

The Notes to the Financial Statements provide additional information essential to the full understanding of the data provided in the CHR’s basic financial statements. The Notes to the Financial Statements can be found on page 11.

Financial Position

The following table provides an analysis of the CHR’s financial position as of December 31, 2020. It provides a summary of the economic resources (assets), the claims on these resources (liabilities) by outside creditors, and the net resources (equity) available to the organization. The CHR resumed operations on October 1, 2020. Comparative information will be provided in future years.

Statement of Net Position

| | |
|--|----------------------|
| Assets | |
| Current and other assets | \$ 2,367,162 |
| Restricted assets | 252,517 |
| Capital assets (net of accumulated depreciation) | <u>33,390,690</u> |
| Total Assets | <u>\$ 36,010,369</u> |
| Liabilities | |
| Current liabilities | <u>\$ 1,494,814</u> |
| Total Liabilities | <u>\$ 1,494,814</u> |
| Net Position | |
| Investment in capital assets | \$ 33,390,690 |
| Unrestricted | <u>1,124,865</u> |
| Total Net Position | <u>\$ 34,515,555</u> |

OPERATING ACTIVITIES

The CHR's tenant rental revenues include both the rent paid by the tenant and the housing assistance paid by the MPHA. The rental revenues are used to support the enterprise. The following table summarizes the CHR's operating activities in 2020. Comparative information will be provided in future years.

Operating Revenues and Expenses

| | |
|-------------------------------------|--------------|
| Operating Revenues | |
| Tenant rental revenue | \$ 3,380,070 |
| Operating Expenses | |
| Administrative | \$ 486,675 |
| Tenant services | 31,734 |
| Utilities | 571,963 |
| Ordinary maintenance and operations | 830,885 |
| General | 210,754 |
| Depreciation | 296,513 |
| Total Operating Expenses | \$ 2,428,524 |
| Operating Income (Loss) | \$ 951,546 |

CONTACTING COMMUNITY HOUSING RESOURCES' FINANCIAL MANAGEMENT

The financial report is designed to provide a general overview of the CHR's finances and to demonstrate the CHR's accountability for the rental revenues it receives. If you have any questions about this report or need additional financial information, contact Community Housing Resources, Inc., ATTN: Finance Department, 1001 Washington Ave North, Minneapolis, Minnesota 55401.

BASIC FINANCIAL STATEMENTS

**COMMUNITY HOUSING RESOURCES
MINNEAPOLIS, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2020**

Assets

Current assets

| | | |
|-----------------------------|----|-----------|
| Cash and cash equivalents | \$ | 719,036 |
| Tenant receivables – net | | 78,544 |
| Due from primary government | | 1,236,685 |
| Prepaid items | | 332,897 |
| Restricted assets | | |
| Cash and cash equivalents | | 252,517 |

Total current assets **\$ 2,619,679**

Capital assets

| | | |
|--|----|--------------|
| Land – not depreciated | \$ | 11,635,193 |
| Buildings | | 71,109,809 |
| Furniture, equipment, and machinery | | 824,344 |
| Less: accumulated depreciation | | (50,336,036) |
| Construction in progress – not depreciated | | 157,380 |

Total capital assets – net of accumulated depreciation **\$ 33,390,690**

Total Assets **\$ 36,010,369**

Liabilities

Current liabilities – payable from current assets

| | | |
|---------------------------|----|-----------|
| Due to primary government | \$ | 1,105,733 |
| Unearned revenue | | 11,665 |
| Other current liabilities | | 124,899 |

Total current liabilities – payable from current assets **\$ 1,242,297**

Current liabilities – payable from restricted assets

| | | |
|------------------|--|---------|
| Accounts payable | | 252,517 |
|------------------|--|---------|

Total Liabilities **\$ 1,494,814**

Net Position

| | | |
|------------------------------|----|------------|
| Investment in capital assets | \$ | 33,390,690 |
| Unrestricted | | 1,124,865 |

Total Net Position **\$ 34,515,555**

**COMMUNITY HOUSING RESOURCES
MINNEAPOLIS, MINNESOTA**

EXHIBIT 2

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2020**

| | |
|--|-----------------------------|
| Operating Revenues | |
| Tenant rental revenue | <u>\$ 3,380,070</u> |
| Operating Expenses | |
| Administrative | \$ 486,675 |
| Tenant services | 31,734 |
| Utilities | 571,963 |
| Ordinary maintenance and operations | 830,885 |
| General | 210,754 |
| Depreciation Expense | <u>296,513</u> |
| Total Operating Expenses | <u>\$ 2,428,524</u> |
| Operating Income (Loss) | <u>\$ 951,546</u> |
| Nonoperating Revenues (Expenses) | |
| Investment income | <u>9</u> |
| Income (loss) before capital contribution | <u>\$ 951,555</u> |
| Capital contribution | <u>33,525,540</u> |
| Change in Net Position | <u>\$ 34,477,095</u> |
| Net Position – January 1 | <u>38,460</u> |
| Net Position – December 31 | <u><u>\$ 34,515,555</u></u> |

**COMMUNITY HOUSING RESOURCES
MINNEAPOLIS, MINNESOTA**

EXHIBIT 3

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2020**

| | |
|---|----------------------------|
| Cash Flows from Operating Activities | |
| Receipts from tenants and other customers | \$ 2,329,023 |
| Payments to suppliers | <u>(1,234,276)</u> |
| Net cash provided by (used in) operating activities | <u>\$ 1,094,747</u> |
| Cash Flows from Capital and Related Financing Activities | |
| Acquisition of capital assets | \$ (33,687,203) |
| Capital Contributions | <u>33,525,540</u> |
| Net cash provided by (used in) capital and related financing activities | <u>\$ (161,663)</u> |
| Cash Flows from Investing Activities | |
| Interest received | <u>\$ 9</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | \$ 933,093 |
| Cash and Cash Equivalents at January 1 | <u>38,460</u> |
| Cash and Cash Equivalents at December 31 | <u>\$ 971,553</u> |
| Reconciliation of Cash and Cash Equivalents to the Statement of Net Position | |
| Cash and Cash Equivalents | |
| Cash and cash equivalents | \$ 719,036 |
| Restricted cash and cash equivalents | <u>252,517</u> |
| Total Cash and Cash Equivalents | <u>\$ 971,553</u> |

**COMMUNITY HOUSING RESOURCES
MINNEAPOLIS, MINNESOTA**

**EXHIBIT 3
(Continued)**

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2020**

| | |
|--|-----------------------------------|
| Reconciliation of operating income (loss) to net cash provided by (used in) operating activities | |
| Operating income (loss) | <u>\$ 951,546</u> |
| Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities | |
| Depreciation expense | \$ 296,513 |
| Changes in assets and liabilities | |
| (Increase) decrease in assets | |
| Tenant receivables – net | (78,544) |
| Due from primary government | (1,236,685) |
| Prepaid items | (332,897) |
| Increase (decrease) in liabilities | |
| Accounts payable | 252,517 |
| Due to primary government | 1,105,733 |
| Other/accrued liabilities | <u>136,564</u> |
| Total adjustments | <u>\$ 143,201</u> |
| Net Cash Provided by (Used in) Operating Activities | <u><u>\$ 1,094,747</u></u> |

**COMMUNITY HOUSING RESOURCES
MINNEAPOLIS, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2020**

1. Summary of Significant Accounting Policies

The Community Housing Resources, Incorporated (CHR) financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for the year ended December 31, 2020. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by the CHR are discussed below.

A. Financial Reporting Entity

The Community Housing Resources, Incorporated (CHR) is a public nonprofit corporation created by the Minneapolis Public Housing Authority (MPHA) on June 18, 2001. The CHR's primary purpose is to support the MPHA in the development and operation of affordable housing.

The CHR is governed by a ten-member Board of Directors, which consists of those persons serving as members of the Board of Commissioners of the MPHA and the Executive Director of the MPHA. The Board is organized with a chair and a president. The chair is the person who serves as the Chair of the Board of Commissioners of the MPHA, and the president is the person who serves as the Executive Director of the MPHA.

The CHR is a blended component unit of the MPHA and is included in the MPHA's annual financial report for the year ended December 31, 2020. The MPHA provides staffing and administrative services for the CHR in accordance with an operating agreement.

B. Basis of Presentation

The CHR's accounts are organized as an enterprise fund. The operations are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, net position, revenues, and expenses. Enterprise funds are used to account for operations that provide a service to the public financed by charges to users of that service and activities where the periodic measurement of net income is deemed appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

**COMMUNITY HOUSING RESOURCES
MINNEAPOLIS, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting

The CHR's enterprise fund is reported using the economic resources measurement focus and the full accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

D. Cash and Cash Equivalents

The CHR's Cash and cash equivalents (including restricted assets) 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.

E. Tenant Receivables

Tenant receivables have been shown net of an allowance for uncollectible accounts of \$76,732.

F. Due To/From Primary Government

Amounts from the primary government, the MPHA, consist of payments for tenant revenues from the CHR's properties. Amounts to the primary government consist of payments for the property management, maintenance, and administration to operate the CHR and CHR properties.

G. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

H. Restricted Assets

Restricted assets are those whose use is restricted, generally for capital purposes, either legally or by grant agreement. Corresponding obligations are shown as current liabilities payable from restricted assets. Tenant security deposits reflect amounts which may eventually be returned to tenants and are reported as an equal and offsetting restricted asset and liability.

**COMMUNITY HOUSING RESOURCES
MINNEAPOLIS, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

I. Capital Assets

Land, buildings and structures, and equipment are recorded as capital assets on the statement of net position. The CHR defines capital assets as assets with an initial, individual cost of more than \$2,500 and an estimated useful life in excess of two years. Purchased capital assets are stated at historical cost. Donated capital assets are recorded at acquisition value (entry price) at the date of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed and are added to the cost basis of the asset improved.

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

Depreciation on capital assets is charged as an expense over the following periods using the straight-line method.

| <u>Assets</u> | <u>Years</u> |
|-------------------------|--------------|
| Buildings | 39 |
| Building improvements | 20 |
| Furniture and equipment | 3 - 7 |

Accumulated depreciation is offset against the original cost of the capital assets on the statement of net position.

K. Equity Classifications

Equity is classified as net position and displayed in two components:

1. Investment in capital assets – the amount of net position representing capital assets, net of accumulated depreciation.
2. Unrestricted – the amount of net position that is not included in the net investment in capital assets.

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

**COMMUNITY HOUSING RESOURCES
MINNEAPOLIS, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

L. Operating and Nonoperating Revenues and Expenses

The CHR distinguishes operating revenues and expenses from nonoperating revenues and expenses. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary activity's principal ongoing operations. Operating revenues for the CHR consist of tenant rental revenue, which includes both payments from tenants and federal program subsidies. Operating expenses 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.

M. Use of Estimates

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

2. Deposits

The CHR is authorized by Minn. Stat. §§ 118A.02 and 118A.04 to designate a depository for public funds and to invest in certificates of deposit. Minnesota statutes require that all CHR deposits be covered by deposit insurance, surety bond, or pledged collateral. At December 31, 2020, the carrying amount of the CHR's deposits was \$971,553; the bank balance of the CHR's deposits was \$971,553.

Custodial credit risk is the risk that in the event of a financial institution failure, the CHR's deposits may not be returned to it. The CHR does not have a policy on custodial credit risk on deposits. As of December 31, 2020, the CHR's bank balance was completely covered by Federal Deposit Insurance Corporation insurance and collateral and, therefore, not exposed to custodial credit risk.

**COMMUNITY HOUSING RESOURCES
MINNEAPOLIS, MINNESOTA**

3. Capital Assets

Capital asset activity for the year ended December 31, 2020, was as follows:

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|--|------------------------------|-----------------------------|--------------------|-----------------------------|
| Capital assets not depreciated | | | | |
| Land | \$ - | \$ 11,635,193 | \$ - | \$ 11,635,193 |
| Construction in progress | - | 157,380 | - | 157,380 |
| Total capital assets not depreciated | <u>\$ -</u> | <u>\$ 11,792,573</u> | <u>\$ -</u> | <u>\$ 11,792,573</u> |
| Capital assets depreciated | | | | |
| Buildings | \$ - | \$ 71,109,809 | \$ - | \$ 71,109,809 |
| Furniture, equipment, and machinery | - | 824,344 | - | 824,344 |
| Total capital assets depreciated | <u>\$ -</u> | <u>\$ 71,934,153</u> | <u>\$ -</u> | <u>\$ 71,934,153</u> |
| Less: accumulated depreciation for | | | | |
| Buildings | \$ - | \$ 49,607,475 | \$ - | \$ 49,607,475 |
| Furniture, equipment, and machinery | - | 728,561 | - | 728,561 |
| Total accumulated depreciation | <u>\$ -</u> | <u>\$ 50,336,036</u> | <u>\$ -</u> | <u>\$ 50,336,036</u> |
| Total capital assets depreciated – net | <u>\$ -</u> | <u>\$ 21,598,117</u> | <u>\$ -</u> | <u>\$ 21,598,117</u> |
| Capital Assets – Net | <u><u>\$ -</u></u> | <u><u>\$ 33,390,690</u></u> | <u><u>\$ -</u></u> | <u><u>\$ 33,390,690</u></u> |

Depreciation expense during the three-month period the CHR operated the 707 single-family scattered site properties was \$296,513.

On October 1, 2020, the MPHA donated 707 single-family scattered site properties to the CHR for a nominal value of \$1 per unit from the MPHA. The CHR recognized a capital contribution of \$33,525,540 from this transaction.

4. Property Management Agreement and Grant

The CHR and the MPHA entered into a property management agreement on October 1, 2020, whereby the CHR agreed to provide the MPHA with reimbursement for actual costs the MPHA incurs for the property management, maintenance, and administration needed in the operation of the CHR and the property owned by the CHR. This agreement remains in force until either party terminates it by thirty-day written notice to the other party.

**COMMUNITY HOUSING RESOURCES
MINNEAPOLIS, MINNESOTA**

4. Property Management Agreement and Grant (Continued)

During the year ended December 31, 2020, the CHR did not have any employees.

5. Risk Management

The CHR is exposed to various risks of loss related to theft of, damage to, and destruction of assets and natural disasters. The CHR manages its risk of these types of losses through the purchase of commercial insurance. The CHR retains risk for the deductible portions of the insurance. The amounts of these deductibles are considered immaterial to the financial statements. There have been no significant reductions in insurance from the prior year. There were no settlements in excess of insurance coverage for the past three fiscal years.



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

Independent Auditor's Report

Board of Directors
Community Housing Resources
Minneapolis, 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 Community Housing Resources (CHR), a component unit of the Minneapolis Public Housing Authority, Minnesota, as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the CHR's basic financial statements, and have issued our report thereon dated December 21, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the CHR's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the CHR's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the CHR's internal control over financial reporting.

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

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

combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings and Recommendations as item 2020-001 to be a material weakness.

Compliance and Other Matters

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

Minnesota Legal Compliance

In connection with our audit, nothing came to our attention that caused us to believe that the CHR failed to comply with the provisions of the deposits and investments, conflicts of interest, claims and disbursements, and miscellaneous provisions sections of the *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, insofar as they relate to accounting matters. 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 CHR's noncompliance with the above referenced provisions, insofar as they relate to accounting matters.

CHR's Response to Findings

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

Purpose of This Report

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

/s/Julie Blaha

JULIE BLAHA
STATE AUDITOR

/s/Dianne Syverson

DIANNE SYVERSON, CPA
DEPUTY STATE AUDITOR

December 21, 2021

**COMMUNITY HOUSING RESOURCES
MINNEAPOLIS, MINNESOTA**

**SCHEDULE OF FINDINGS AND RECOMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2020**

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

INTERNAL CONTROL

Finding Number: 2020-001

Prior Year Finding Number: N/A

Repeat Finding Since: N/A

Audit Adjustment

Criteria: A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements of the financial statements on a timely basis. Auditing standards define a material weakness as a deficiency, or 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.

Condition: A material audit adjustment was identified that resulted in a significant change to the Community Housing Resources' (CHR) financial statements.

Context: The donation of capital assets from the Minneapolis Public Housing Authority to its blended component unit, the CHR, is a unique transaction that is recorded differently than a donation from a third party that is not closely related to the CHR. Since the CHR's accounting staff has recorded capital asset donations in the past, following the same methodology when the parties are closely related led to an accounting error. Regardless of the unusual nature, the inability to detect material misstatements in the financial statements increases the likelihood that the financial statements would not be fairly presented. The adjustment was found in the audit; however, independent external auditors cannot be considered part of the CHR's internal control.

**COMMUNITY HOUSING RESOURCES
MINNEAPOLIS, MINNESOTA**

**SCHEDULE OF FINDINGS AND RECCOMENDATIONS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2020**

Effect: The following audit adjustment was reviewed and approved by the appropriate CHR staff and is reflected in the financial statements: increased accumulated depreciation by \$49,801,648 and accounts payable by \$707 and decreased capital assets by \$66,537,369, depreciation expense by \$237,874, and capital contributions by \$116,577,598 to reflect the capital assets' current values as reported by the Minneapolis Public Housing Authority at the time of the October 1, 2020, donation to the CHR.

Cause: When the capital assets were donated to the CHR from the Minneapolis Public Housing Authority, the primary government, they were not properly valued.

Recommendation: We recommend the Community Housing Resources seek financial accounting advice for recording unusual transactions in the future to ensure that the financial information is accurately presented in the financial statements in accordance with generally accepted accounting principles.

View of Responsible Official: Concur

COMMUNITY HOUSING RESOURCES

REPRESENTATION OF COMMUNITY HOUSING RESOURCES MINNEAPOLIS, MINNESOTA

CORRECTIVE ACTION PLAN FOR THE YEAR ENDED DECEMBER 31, 2020

Finding Number: 2020-001

Finding Title: Audit Adjustment

Name of Contact Person Responsible for Corrective Action:

Tim Durose, Treasurer

Corrective Action Planned:

The nuances of this transaction required a different accounting treatment from typical donations. For unusual transactions that we are not familiar with, like the donation of these capital assets from a closely related party, we will seek accounting guidance from the Office of the State Auditor or other accounting firms.

Anticipated Completion Date:

The accounting error was discovered by the external auditor and corrected on the audited statements. Completed 12/31/2021.