



Financial Statements
December 31, 2012 and 2011

Homestead Heights Housing Project
SDHDA Project No. SD 99-H001-
007

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Independent Auditor's Report

The Board of Directors
Homestead Heights Housing Project
Bison, South Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of Homestead Heights Housing Project (the Project), SDHDA Project No. SD 99-H001-007, which comprise the balance sheets as of December 31, 2012 and 2011, and the related statements of profit and loss, changes in capital surplus, and cash flows for the years then ended, and the related notes to the financial statements.

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

Except as discussed below, our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 entity'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 entity'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.

Management has presented the financial statements based on generally accepted accounting principles for for-profit enterprises. The Project is controlled by the Housing and Redevelopment Commission of Bison, South Dakota, which is a governmental agency. Accordingly, the Project should follow the accounting principles prescribed by the Governmental Accounting Standards Board (GASB). The reporting model, including disclosures, prescribed by GASB differs from the financial statements and disclosures presented. The effect of presenting the financial statements in accordance with accounting standards prescribed by GASB is not reasonably determinable.

Opinion

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to previously do not present fairly, the financial position of Homestead Heights Housing Project as of December 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America and in accordance with South Dakota Housing Development Authority requirements.

The financial statements present only the balance sheets and statements of profit and loss and cash flows of the Homestead Heights Housing Project. They do not purport to, and do not, present fairly the financial position of the Bison Housing and Redevelopment Commission as of December 31, 2012 and 2011 and the results of its operations and its cash flows, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental information on pages 11 through 20 is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, because of the significance of the matter disclosed above, it is inappropriate to, and the audit does not express an opinion on the supplementary information.

In accordance with *Government Auditing Standards*, we have also issued a report dated April 12, 2013 on our consideration of Homestead Heights Housing Project's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be read in conjunction with this report in considering the results of our audits.



Sioux Falls, South Dakota
April 12, 2013

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	2012	2011
Assets		
Current Assets		
Cash - operations	\$ 7,150	\$ 5,292
Accounts receivable - supplement	-	1,148
Prepaid insurance	5,187	4,600
Tenant deposit held in trust	873	750
Total current assets	<u>13,210</u>	<u>11,790</u>
Restricted Deposits and Funded Reserves		
Tax escrow	2,242	2,205
Insurance escrow	4,680	8,790
Reserve for replacements	44,934	38,983
Reserve for painting	25,961	25,097
Development cost escrow	6,408	17,263
Residual receipts reserve	17,310	17,358
Total restricted deposits and funded reserves	<u>101,535</u>	<u>109,696</u>
Property and Equipment		
Land and improvements	91,135	91,135
Buildings	577,329	568,043
Building equipment - fixed	260,061	260,061
Building equipment - portable	3,974	3,974
Furnishings	11,980	11,980
Maintenance equipment	11,943	11,943
	<u>956,422</u>	<u>947,136</u>
Less accumulated depreciation	<u>(643,801)</u>	<u>(602,782)</u>
	<u>312,621</u>	<u>344,354</u>
Other Asset		
Investments - capital credits	<u>26,056</u>	<u>24,468</u>
	<u>\$ 453,422</u>	<u>\$ 490,308</u>

See Notes to Financial Statements

Homestead Heights Housing Project
SDHDA Project No. SD 99-H001-007
Balance Sheets
December 31, 2012 and 2011

	2012	2011
Liabilities and Capital Surplus		
Current Liabilities		
Accrued interest	\$ 529	\$ 613
Mortgage payable - current portion	17,790	16,747
Accrued property taxes	2,049	1,313
Tenant deposit held in trust	823	750
Prepaid revenue	-	369
Total current liabilities	21,191	19,792
Mortgage Payable, less current maturities	86,870	104,660
Capital Surplus	345,361	365,856
	\$ 453,422	\$ 490,308

Homestead Heights Housing Project
SDHDA Project No. SD 99-H001-007
Statements of Profit and Loss
Years Ended December 31, 2012 and 2011

	2012	2011
Rental revenue		
Rent revenue - net of vacancies	\$ 54,025	\$ 51,926
Housing assistance payments	35,016	40,708
Net rental revenue	89,041	92,634
Financial revenue	2,748	3,036
Other revenue	2,742	1,558
Total revenue	94,531	97,228
Expenses		
Administrative	26,074	25,685
Utilities	14,420	16,004
Operating and maintenance	16,938	22,337
Depreciation	41,019	45,069
Taxes and insurance	9,762	9,474
Financial	6,813	7,825
Total expenses	115,026	126,394
Net Loss	\$ (20,495)	\$ (29,166)

Homestead Heights Housing Project
SDHDA Project No. SD 99-H001-007
Statements of Changes in Capital Surplus
Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Balance, Beginning of Year	\$ 365,856	\$ 395,022
Net Loss	<u>(20,495)</u>	<u>(29,166)</u>
Balance, End of Year	<u>\$ 345,361</u>	<u>\$ 365,856</u>

Homestead Heights Housing Project
SDHDA Project No. SD 99-H001-007
Statements of Cash Flows
Years Ended December 31, 2012 and 2011

	2012	2011
Operating Activities		
Net loss	\$ (20,495)	\$ (29,166)
Charges to net loss not affecting cash		
Depreciation and amortization	41,019	45,069
Capital credit allocations	(1,588)	(436)
Changes in assets and liabilities		
Receivables	1,148	6,103
Prepaid insurance	(587)	(3,014)
Accrued interest	(84)	(80)
Accrued taxes	736	248
Prepaid rent	(369)	304
Net Cash from Operating Activities	19,780	19,028
Investing Activities		
Changes in tenant security deposits, net	(50)	-
Deposits into restricted deposits and funded reserves	(11,976)	(17,224)
Disbursements from restricted deposits and funded reserves	22,885	70,808
Interest earned on reserves	(2,317)	(2,234)
Interest earned on development cost escrow	(431)	(802)
Property and equipment purchases	(9,286)	(49,067)
Net Cash from (used for) Investing Activities	(1,175)	1,481
Net Cash used for Financing Activities		
Principal payments on mortgage payable	(16,747)	(15,765)
Net Change in Cash and Cash Equivalents	1,858	4,744
Cash and Cash Equivalents at Beginning of Year	5,292	548
Cash and Cash Equivalents at End of Year	\$ 7,150	\$ 5,292
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for interest	\$ 6,897	\$ 7,880

Note 1 - Principal Activity and Significant Accounting Policies

Principal Business Activity

The Homestead Heights Housing Project (the “Project”) was organized in March 1977 by the Housing and Redevelopment Commission of Bison, South Dakota, a South Dakota housing and redevelopment commission. The Commission owns and operates a 16-unit housing development in Bison, South Dakota, for families with low or moderate income. The Project is financed and regulated by the South Dakota Housing Development Authority (SDHDA).

Basis of Accounting

The financial statements of the Project are prepared on the accrual basis of accounting and in accordance with accounting principles generally accepted in the United States of America.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Rental Income

Rental income is recognized as it accrues. Advance receipts of rental income are deferred as liabilities until earned.

Receivables and Credit Policy

Tenant receivables are rents and charges currently due from residential tenants. Payments on tenant receivables are applied to specific months. Management reviews tenant receivables monthly and charges operations with those considered uncollectible. All remaining tenant receivables are considered collectible.

Property and Equipment

Property and equipment is stated at cost. Depreciation is computed using the straight-line over the following estimated useful lives:

Buildings	10-40 years
Land improvements	15 years
Equipment and furnishings	5-10 years

FASB Accounting Standards Codification Topic ASC 360-10 requires that long-lived assets held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If the value is less than the carrying amount of the asset, an impairment loss is recognized for the difference. No impairment loss has been recognized during the years ended December 31, 2012 and 2011.

Advertising and Organizational Costs

The Project expenses advertising and organizational costs as incurred.

Subsequent Events

The Project has evaluated subsequent events through April 12, 2013, the date which the financial statements were available to be issued.

Note 2 - Restricted Deposits and Funded Reserves

In accordance with mortgage restrictions, the project has money held in reserve by the mortgagor for the purpose of making tax and insurance payments when due, and a reserve for painting and replacement of the buildings should the need arise.

The mortgage also provides that all cash in excess of current needs shall be remitted to SDHDA at such times as SDHDA shall designate for deposit to a residual receipts fund. Such funds may be utilized for the payment of operating expenses and such other costs and expenses as approved by SDHDA.

Funds maintained in a development cost escrow from the financial draws on the mortgage note payable shall be expended by SDHDA as they deem appropriate. It is SDHDA’s intention that the funds will be used in the following priority:

1. Payment for necessary amenities and design modifications of the project.
2. Payment of delinquent principal and interest on the mortgage note payable.
3. Payment of operating expenses if other funds are unavailable.

Note 3 - Other Asset

Other asset consists of the following:

	2012	2011
Patronage capital credits from other non-profit service organizations	\$ 26,056	\$ 24,468
	\$ 26,056	\$ 24,468

Patronage capital credits represent Homestead Heights Housing Project’s accumulated patronage allocations from their cooperative suppliers of electricity and telephone service. Each year the project receives a notice of the amount of patronage allocation, which the project records as “Other Assets” and as a reduction in the related expense accounts. When the suppliers refund these patronage allocations in cash in future years, the “Other Assets” will be decreased by the amount received.

Note 4 - Mortgage Payable

The mortgage payable, with an outstanding balance due of \$104,660 and \$121,407 at December 31, 2012 and 2011, respectively, is payable to the South Dakota Housing Development Authority. The loan is secured by the housing project's land, buildings, and equipment. The loan bears interest at the rate of 6.06% per annum and is being repaid at \$1,970 monthly over a period of 40 years, with the last installment due February 1, 2018. The principal due in the next five years is as follows:

<u>Years Ending December 31,</u>	<u>Amount</u>
2013	\$ 17,790
2014	18,899
2015	20,077
2016	21,328
2017	22,657
Thereafter	<u>3,909</u>
	<u><u>\$ 104,660</u></u>

The Department of Housing and Urban Development (HUD) has also agreed to make housing assistance payments to the Project on behalf of qualified tenants as agreed to in the housing assistance payments contract with the Project. The contract provides for a maximum annual contribution, which when exceeded can be supplemental from the "project account" and such other steps authorized as may be necessary. The Project received \$35,016 and \$40,708 in housing assistance payments for the years ended December 31, 2012 and 2011, respectively.

Note 5 - Payment in Lieu of Taxes

Under South Dakota Codified Law 11-7-72, housing and redevelopment commissions are exempt from property tax but are required by SDCL 11-7-73 to pay to the county in which it resides 10% of any excess of rent received from the tenants less any operating and certain maintenance expenses incurred. The amount of taxes due on May 1 following the years ended December 31, 2012 and 2011 is as follow:

	<u>2012</u>	<u>2011</u>
Income	\$ 54,025	\$ 51,926
Expense	(33,533)	(38,796)
	<u>20,492</u>	<u>13,130</u>
	<u>10%</u>	<u>10%</u>
Tax Due	<u><u>\$ 2,049</u></u>	<u><u>\$ 1,313</u></u>

Note 6 - Current Vulnerability Due to Certain Concentrations

The Project's sole asset is Homestead Heights Housing Project. The Project's operations are concentrated in the low-income real estate market. In addition, the Project operates in a heavily regulated environment. The operations of the Project are subject to the administrative directives, rules and regulations of federal and state regulatory agencies, including, but not limited to, the state housing financing agency. Such administrative directives, rules and regulations are subject to change by federal and state agencies. Such changes may occur with little notice or inadequate funding to pay for the related cost, including the additional administrative burden, to comply with a change.



Supplementary Information
December 31, 2012 and 2011

Homestead Heights Housing Project
SDHDA Project No. SD 99-H001-
007

Homestead Heights Housing Project
SDHDA Project No. SD 99-H001-007
Balance Sheets – SDHDA Format
December 31, 2012 and 2011

	2012	2011
Assets		
1100 Current Assets		
1120 Cash - operations	\$ 7,051	\$ 5,208
1125 Cash - manager's account	99	84
1140 Accounts receivable - supplement	-	1,148
1190 Prepaid insurance	5,187	4,600
1191 Tenant deposit held in trust	873	750
Total current assets	13,210	11,790
1300 Restricted Deposits and Funded Reserves		
1310 Tax escrow	2,242	2,205
1310 Insurance escrow	4,680	8,790
1320 Reserve for replacements	44,934	38,983
1330 Other reserve (reserve for painting)	25,961	25,097
1330 Other reserve (development cost escrow)	6,408	17,263
1340 Residual receipts reserve	17,310	17,358
Total restricted deposits and funded reserves	101,535	109,696
1400 Property and Equipment		
1410 Land and improvements	91,135	91,135
1420 Buildings	577,329	568,043
1420 Building equipment - fixed	260,061	260,061
1440 Building equipment - portable	3,974	3,974
1460 Furnishings	11,980	11,980
1470 Maintenance equipment	11,943	11,943
	956,422	947,136
Less accumulated depreciation	(643,801)	(602,782)
	312,621	344,354
1500 Other Asset		
1510 Investments - capital credits	26,056	24,468
	\$ 453,422	\$ 490,308

Homestead Heights Housing Project
SDHDA Project No. SD 99-H001-007
Balance Sheets – SDHDA Format
December 31, 2012 and 2011

	2012	2011
Liabilities and Capital Surplus		
2100 Current Liabilities		
2130 Accrued interest	\$ 529	\$ 613
2160 Mortgage payable - current portion	17,790	16,747
2190 Accrued property taxes	2,049	1,313
2191 Tenant deposit held in trust	823	750
2210 Prepaid revenue	-	369
	-	369
Total current liabilities	21,191	19,792
2320 Mortgage Payable, less current maturities	86,870	104,660
3130 Capital surplus	345,361	365,856
	\$ 453,422	\$ 490,308

Homestead Heights Housing Project
SDHDA Project No. SD 99-H001-007
Statements of Profit and Loss – SDHDA Format
Years Ended December 31, 2012 and 2011

	2012	2011
5100 Rental revenue:		
5120 Rent revenue - gross potential	\$ 77,116	\$ 67,160
5190 Housing assistance payments	35,016	40,708
Total rental revenue	112,132	107,868
5200 Total vacancies:		
5220 Apartment vacancies	(23,091)	(15,234)
5152 Net rental revenue	89,041	92,634
5400 Financial revenue:		
5410 Financial revenue - project operations	2,317	2,234
5490 Revenue from investments - development cost escrow	431	802
Total financial revenue	2,748	3,036
5900 Other revenue:		
5990 Miscellaneous revenue - capital credits	2,692	436
5990 Miscellaneous revenue - forfeited security deposits	50	1,122
Total other revenue	2,742	1,558
Total revenue	94,531	97,228
6263 Administrative expenses:		
6210 Advertising	1,122	1,211
6250 Other renting expenses - STAR program	384	-
6250 Other renting expenses - cable	505	455
6311 Office expense	2,191	2,366
6320 Management fee	2,900	2,850
6330 Manager salaries	8,481	9,287
6340 Legal expenses	14	14
6350 Audit expenses	7,200	6,000
6351 Bookkeeping fees/accounting services	1,500	1,425
6390 Other administrative fees	1,777	1,777
6390 Other administrative	-	300
Total administrative expenses	26,074	25,685

Homestead Heights Housing Project
SDHDA Project No. SD 99-H001-007
Statements of Profit and Loss – SDHDA Format
Years Ended December 31, 2012 and 2011

	2012	2011
6400 Utilities expenses:		
6450 Electricity	\$ 12,053	\$ 13,398
6451 Water	1,746	2,067
6453 Sewer	621	539
	14,420	16,004
6500 Operating and maintenance expenses:		
6510 Payroll	7,833	12,141
6515 Supplies	6,052	3,609
6520 Contracts	1,437	4,873
6525 Garbage and trash removal	1,205	803
6530 Security payroll/contracts	203	138
6546 Heating/cooling repairs and maintenance	-	159
6548 Snow removal	-	146
6570 Vehicle and maintenance equipment operations and repairs	208	468
	16,938	22,337
6611 Depreciation:		
6600 Depreciation	41,019	45,069
	41,019	45,069
6700 Taxes and insurance:		
6710 Property taxes	2,049	1,313
6711 Payroll taxes	1,670	776
6720 Property and liability insurance	3,923	5,776
6721 Fidelity bond insurance	125	125
6722 Workmen's compensation	1,039	1,100
6790 Miscellaneous taxes, licenses, permits, and insurance	956	384
	9,762	9,474
6800 Financial expenses:		
6820 Interest on mortgage payable	6,813	7,800
6890 Miscellaneous financial expenses	-	25
	6,813	7,825
Total financial expenses	6,813	7,825
Total costs of operations	115,026	126,394
Net loss	\$ (20,495)	\$ (29,166)

Homestead Heights Housing Project
SDHDA Project No. SD 99-H001-007
Schedule of Cash Operating Receipts and Disbursements
Year Ended December 31, 2012

Sources of Funds

Operating

Revenue

Rent revenue - gross potential	\$ 54,025
Housing assistance payments	35,795
Miscellaneous revenue - other income	1,154
Revenue from investments - development cost escrow	431
Revenue from investments - other reserves	2,317

Total receipts	93,722
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Expenditures

Administrative	26,074
Utilities	14,420
Operating and maintenance expenses	16,938
Real estate taxes	1,313
Payroll taxes	1,670
Property and liability insurance	4,510
Miscellaneous taxes, licenses, permits, and insurance	2,120
Interest on mortgage payable	6,897

Total expenditures	73,942
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Cash provided by operations before debt service	19,780
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Amortization of mortgage	(16,747)
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Cash provided by operations after debt service	3,033
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Other

Withdrawals from taxes escrow	1,313
Withdrawals from insurance escrow	4,510
Withdrawals from replacement reserve	191
Withdrawals from development costs escrow	384
Withdrawals from residual receipts reserve	16,487

Total sources of funds	25,918
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Homestead Heights Housing Project
SDHDA Project No. SD 99-H001-007
Schedule of Cash Operating Receipts and Disbursements
Year Ended December 31, 2012

Uses of Funds	
Tenant security deposits	\$ 50
Property and equipment purchases	9,286
Deposits to taxes escrow	1,350
Deposits to insurance escrow	400
Deposits to reserve for replacements	5,052
Deposits to reserve for decorating	864
Deposits to residual receipts reserve	4,310
Interest earned on development cost escrow	431
Interest earned on other reserves	2,317
	<hr/>
Total uses of funds	24,060
	<hr/>
Change in Cash and Cash Equivalents	1,858
Cash and Cash Equivalents at Beginning of Year	5,292
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Cash and Cash Equivalents at End of Year	\$ 7,150
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Homestead Heights Housing Project
SDHDA Project No. SD 99-H001-007
Computation of Surplus Cash and Residual Receipts Computation
December 31, 2012

Add: Cash

Cash on hand and in banks (accounts 1120, 1125, and 1191)	\$ 8,023
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Less: Current Obligations

Mortgage interest payable first of next month (account 2130)	529
Tenant security deposits (account 2191)	823

Total current obligations	1,352
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Cash Surplus	6,671
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Required deposit to residual receipts fund	\$ 6,671
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Homestead Heights Housing Project
SDHDA Project No. SD 99-H001-007
Schedule of Bank Accounts
December 31, 2012

<u>Type</u>	<u>Bank</u>	<u>Account Name</u>	<u>Account No.</u>	<u>Amount</u>
Checking	Dacotah Bank Bison, SD	Bison Housing and Redevelopment Commission	77743	\$ 7,051
Checking - Manager's Account	Dacotah Bank Bison, SD	Bison Housing and Redevelopment Commission	520009517	99
Security deposits	Dacotah Bank Bison, SD	Bison Housing and Redevelopment Commission	520009401	<u>873</u>
Total cash				<u><u>\$ 8,023</u></u>

Homestead Heights Housing Project
SDHDA Project No. SD 99-H001-007
Schedule of Tenant Security Deposits Held in Trust
Year Ended December 31, 2012

Security Deposits Held in Trust

Beginning Balance	\$	750
Add (Deduct)		
Deposits received		323
Deposits paid		(200)
		<u> </u>
Ending Balance	\$	<u>873</u>

Security Deposits Liability (Contra)

Beginning Balance	\$	750
Add (Deduct)		
Deposits received		323
Deposits paid		(200)
Deposits forfeited		(50)
		<u> </u>
Ending Balance	\$	<u>823</u>

Homestead Heights Housing Project
SDHDA Project No. SD 99-H001-007
Schedule of Changes in Fixed Assets
Year Ended December 31, 2012

Assets

	Balance 12/31/11	Additions*	Deductions	Balance 12/31/12
Land	\$ 7,989	\$ -	\$ -	\$ 7,989
Land Improvements	83,146	-	-	83,146
Buildings	568,043	9,286	-	577,329
Building Equipment				
Fixed	260,061	-	-	260,061
Portable	3,974	-	-	3,974
Furnishings	11,980	-	-	11,980
Maintenance Equipment	11,943	-	-	11,943
	<u>\$ 947,136</u>	<u>\$ 9,286</u>	<u>\$ -</u>	<u>\$ 956,422</u>

Accumulated Depreciation

	Balance 12/31/11	Additions	Deductions	Balance 12/31/12	Net Book Value
Land	\$ -	\$ -	\$ -	\$ -	\$ 7,989
Land Improvements	63,784	3,603	-	67,387	15,759
Buildings	302,577	14,207	-	316,784	260,545
Building Equipment					
Fixed	212,903	21,559	-	234,462	25,599
Portable	3,974	-	-	3,974	-
Furnishings	7,601	1,650	-	9,251	2,729
Maintenance Equipment	11,943	-	-	11,943	-
	<u>\$ 602,782</u>	<u>\$ 41,019</u>	<u>\$ -</u>	<u>\$ 643,801</u>	<u>\$ 312,621</u>

* Additions Include:

Shingles	\$ 9,286
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CPAs & BUSINESS ADVISORS

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*

The Board of Directors
Homestead Heights Housing Project
Bison, South Dakota

We have audited the financial statements of Homestead Heights Housing Project as of and for the year ended December 31, 2012, and have issued our report thereon dated April 12, 2013, which was adverse because of the departures from generally accepted accounting principles. 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.

Internal Control Over Financial Reporting

Management of Homestead Heights Housing Project, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Homestead Heights Housing Project's internal control over financial reporting as a basis for designing our auditing procedures 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 Project's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Project's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all such deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as Finding 12-1, Finding 12-2, and Finding 12-3 to be material weaknesses.

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.

Compliance and Other Matters

Management's Responsibility for Compliance

Compliance with certain provisions of laws, regulations, contracts, and grant agreements related to the entity is the responsibility of Homestead Heights Housing Project's management.

Auditor's Responsibility

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

Homestead Heights Housing Project's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit Homestead Heights Housing Project's response and, accordingly, we express no opinion on it.

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and on compliance and other matters, and the results of that testing, and not to provide an opinion on the effectiveness of Homestead Heights Housing Project's internal control over financial reporting or on compliance and other matters. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Homestead Heights Housing Project's internal control over financial reporting and on compliance and other matters. Accordingly, this report is not suitable for any other purpose. However, as required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.



Sioux Falls, South Dakota
April 12, 2013

Findings – Financial Statement Audit

Material Weaknesses

12-1 Segregation of Duties

Statement of Condition and Criteria: An effective internal control structure contemplates an adequate segregation of duties so that no one individual handles a transaction from its inception to its completion. The Project has a limited number of office personnel and, accordingly, does not have adequate internal controls in certain areas because of a lack of segregation of duties. This is not unusual in projects of your size, but management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from a control point of view. Under these conditions, the most effective controls lie in management's knowledge of the operations.

Effect: Inadequate segregation of duties could adversely affect the Project's ability to detect misstatements in amounts that would be significant in relation to the financial statements in a timely period by employees in the normal course of performing their assigned task.

Cause: Due to cost constraints and the limited size of staff, the Project does not facilitate the segregation of duties necessary to achieve a low level of control risk.

Auditor's Recommendation: While we recognize that your staff may not be large enough to permit complete segregation of duties in all respects for an effective system of internal accounting control, all accounting functions should be reviewed to determine if additional segregation is feasible and to improve efficiency and effectiveness of financial management of the Project.

Management Response: The Project agrees with the finding and will continue to monitor the Project's operations and procedures.

12-2 Preparation of Financial Statements

Statement of Condition and Criteria: A good system of internal control contemplates an adequate system for reporting and processing the financial statements. The Project has elected not to have an internal control system designed to provide for the preparation of the financial statements and related footnotes being audited. As auditors, we were requested to draft the financial statements and accompanying notes.

Effect: The control deficiency could result in a misstatement to the financial statements that would not be prevented or detected.

Cause: Due to cost and other considerations, the Project has requested we draft the financial statements and related footnotes.

Auditor's Recommendation: This circumstance is not unusual in a Project of your size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Management Response: Due to cost constraints, the Project will continue to have the auditors draft the financial statements and accompanying notes.

12-3 Material Adjusting Journal Entries

Statement of Condition and Criteria: The Project maintains cash basis financial statements for internal financial statements throughout the year and requests that the auditors adjust the financial statements to the accrual basis. A good system of internal control contemplates an adequate system for identifying and posting the required accrual adjusting journal entries, and for maintaining an updated balance sheet. During the course of our engagement, we proposed significant audit adjustments that may not have been identified as a result of the Project's existing internal controls, and therefore could have resulted in a misstatement of the Project's financial statements.

Effect: The control deficiency could result in a misstatement to the financial statements that would not be prevented or detected.

Cause: Due to time and cost constraints, the Project has decided to maintain cash basis financial statements and has requested the auditors propose certain adjusting journal entries.

Auditor's Recommendation: It is the responsibility of management to make the necessary adjusting journal entries. At a minimum, management is responsible for maintaining adequate documentation for the adjusting entries needed to convert the financial statements to the accrual basis, and for taking responsibility for the adjusting entries to ensure all are adequately reflected in the financial statements.

Management's Response: The Project will continue to monitor the Project's ongoing operations on the cash basis, and review all adjusting entries and the balance sheet as adjusted by the auditors.

Prior Year Findings – Financial Statement Audit

Material Weaknesses

11-1 Segregation of Duties

Statement of Condition and Criteria: An effective internal control structure contemplates an adequate segregation of duties so that no one individual handles a transaction from its inception to its completion. The Project has a limited number of office personnel and, accordingly, does not have adequate internal controls in certain areas because of a lack of segregation of duties. This is not unusual in projects of your size, but management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from a control point of view. Under these conditions, the most effective controls lie in management's knowledge of the operations.

Effect: Inadequate segregation of duties could adversely affect the Project's ability to detect misstatements in amounts that would be significant in relation to the financial statements in a timely period by employees in the normal course of performing their assigned task.

Cause: Due to cost constraints and the limited size of staff, the Project does not facilitate the segregation of duties necessary to achieve a low level of control risk.

Auditor's Recommendation: While we recognize that your staff may not be large enough to permit complete segregation of duties in all respects for an effective system of internal accounting control, all accounting functions should be reviewed to determine if additional segregation is feasible and to improve efficiency and effectiveness of financial management of the Project.

Status: Cost constraints prevent the resolution of the finding. The Project will continue to monitor the Project's operations and procedures.

11-2 Preparation of Financial Statements

Statement of Condition and Criteria: A good system of internal control contemplates an adequate system for reporting and processing the financial statements. The Project has elected not to have an internal control system designed to provide for the preparation of the financial statements and related footnotes being audited. As auditors, we were requested to draft the financial statements and accompanying notes.

Effect: The control deficiency could result in a misstatement to the financial statements that would not be prevented or detected.

Cause: Due to cost and other considerations, the Project has requested we draft the financial statements and related footnotes.

Auditor's Recommendation: This circumstance is not unusual in a Project of your size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Status: Due to cost constraints, the Project will continue to have the auditors draft the financial statements and accompanying notes.

11-3 Material Adjusting Journal Entries

Statement of Condition and Criteria: The Project maintains cash basis financial statements for internal financial statements throughout the year and requests that the auditors adjust the financial statements to the accrual basis. A good system of internal control contemplates an adequate system for identifying and posting the required accrual adjusting journal entries, and for maintaining an updated balance sheet. During the course of our engagement, we proposed significant audit adjustments that may not have been identified as a result of the Project's existing internal controls, and therefore could have resulted in a misstatement of the Project's financial statements.

Effect: The control deficiency could result in a misstatement to the financial statements that would not be prevented or detected.

Cause: Due to time and cost constraints, the Project has decided to maintain cash basis financial statements and has requested the auditors propose certain adjusting journal entries.

Auditor's Recommendation: It is the responsibility of management to make the necessary adjusting journal entries. At a minimum, management is responsible for maintaining adequate documentation for the adjusting entries needed to convert the financial statements to the accrual basis, and for taking responsibility for the adjusting entries to ensure all are adequately reflected in the financial statements.

Status: The Project will continue to monitor the Project's ongoing operations on the cash basis, and review all adjusting entries and the balance sheet as adjusted by the auditors.

Homestead Heights Housing Project
SDHDA Project No. SD 99-H001-007
Mortgagor's Certification
December 31, 2012

We hereby certify that we have examined the foregoing financial statements and supplementary information of Homestead Heights Housing Project, SDHDA Project No. SD 99-H001-007 as of December 31, 2012, and to the best of our knowledge and belief, the same is a true statement of the financial condition as of December 31, 2012.

By: _____
General Manager

By: _____
President/Chairman