

HOWARD HOUSING & REDEVELOPMENT COMMISSION  
HOWARD, SOUTH DAKOTA

PROJECT CODE: SD013  
ANNUAL CONTRIBUTION CONTRACT NUMBER: C-811

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FINANCIAL REPORT  
FOR THE ONE YEAR ENDING MARCH 31, 2013  
WITH INDEPENDENT AUDITOR'S REPORTS

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**INDEPENDENT AUDIT SERVICES, P.C.**

Benjamin Elliott, CPA  
P.O. Box 262  
Madison, South Dakota 57042

HOWARD HOUSING & REDEVELOPMENT COMMISSION  
A COMPONENT UNIT OF THE CITY OF HOWARD, SOUTH DAKOTA

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FOR THE ONE YEAR ENDING MARCH 31, 2013

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NOTE: All figures shown in this financial report are in U.S. dollars.  
For space considerations, the "\$" symbol is not used.

# INDEPENDENT AUDIT SERVICES, P.C.

Benjamin Elliott, CPA  
P.O. Box 262  
Madison, South Dakota 57042  
605.483.3225

Board of Commissioners  
Howard Housing & Redevelopment Commission  
Howard, South Dakota

## INDEPENDENT AUDITOR'S REPORT

### Report on the Financial Statements

I have audited the accompanying financial statements of the major fund of the Howard Housing & Redevelopment Commission (Commission), a component unit of the City of Howard, Miner County, South Dakota, as of and for the one year ending March 31, 2013, and the related notes to the financial statements, which collectively comprise the Commission'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 misstatements, whether due to fraud or error.

### Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my 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 I 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 judgement, including the assessment of the risk 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 Commission's internal control. Accordingly, I 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.

I believe that the audit evidence I obtained is sufficient and appropriate to provide a basis for my audit opinion.

### Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the major fund of the Howard Housing & Redevelopment Commission, a component unit of the City of

Howard, South Dakota, as of March 31, 2013, 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.

Other Matters - Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (page 3 and 4) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board who considers it to be an essential part of financial reporting by placing the basic financial statements in an appropriate operational, economic, or historical context. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Matters - Other Supplementary Information

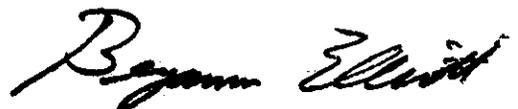
My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commission's basic financial statements. The financial data schedules (page 18 and 19) are presented for purposes of additional analysis, as required by the U.S. Department of Housing and Urban Development, and are not a required part of the basic financial statements.

The financial data schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subject 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 my opinion, the financial data schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated August 9, 2013 (page 15) on my tests of its compliance with certain provisions of laws, regulations, contracts, and other matters and my consideration of the Commission's internal control over financial reporting. The purpose of that report is to describe the scope of my testing of compliance and internal control over financial reporting, and the results of that testing, and not to provide an opinion on compliance or internal control over financial reporting. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commission's compliance and internal control over financial reporting.

Independent Audit Services, PC  
Benjamin Elliott, CPA  
Madison, South Dakota  
August 9, 2013



HOWARD HOUSING & REDEVELOPMENT COMMISSION  
 A COMPONENT UNIT OF THE CITY OF HOWARD, SOUTH DAKOTA

PROJECT CODE: SD013  
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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
 FOR THE ONE YEAR ENDING MARCH 31, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

The Howard Housing & Redevelopment Commission (Commission) is a component unit of the City of Howard, South Dakota. Its basic financial statements account for activity of 20 low income subsidized rental housing units.

The subsidy is from the U.S. Department of Housing and Urban Development (HUD). The Commission received the following operating subsidy and "capital fund program" (CFP) subsidies from HUD during the year ending March 31, 2013.

Operations	\$ 7,182
CFP for operations	1,621
CFP for site and dwelling improvements	12,461
	-----
	\$ 21,264

The Commission has no governmental funds so only enterprise fund financial statements are presented in these basic financial statements. Enterprise funds operate similar to a private business. The basic financial statements consist of: (1) a Statement of Net Position, (2) a Statement of Revenues, Expenses, and Changes in Net Position, (3) a Statement of Cash Flows, and (4) Notes to the Financial Statements. The accounting is full accrual with a focus on all economic resources of the Commission. These basic financial statements present all assets and liabilities, both financial and capital, and both short-term and long-term. These basic financial statements also present all revenues and expenses of the year, regardless of when cash was received or paid.

Condensed financial information, comparing the current year to the prior year, is presented on page 4. Based on a materiality threshold of \$10,000 significant changes from FY12 to FY13 are:

	Increase (Decrease)	
Current assets	(262,711)	Used certificates of deposits to pay for expansion of two apartments and other dwelling improvements. See page 14.
Capital assets	188,414	Expansion of two apartments and other dwelling improvements. See page 14.
HUD operating subsidy	(18,694)	HUD reduced operating subsidy because of excess reserves.
Maintenance and repair	17,254	Upgrading of dwelling units.

On April 5, 2013 a \$20,000 certificate of deposit matured and was cashed in to pay for dwelling improvements. On May 6, 2013 a \$11,000 certificate of deposit matured and was cashed in to pay for dwelling improvements. In 2013 the flat (ceiling) rent for a one bedroom apartment was raised from \$250 to \$275 per month.

This financial report is designed to provide users with a general overview of the Commission's finances and to demonstrate the Commission's accountability for the money it receives. If you have questions about this report, or need additional information, contact the Commission's business office at 117 North Arthur Street, Howard, South Dakota 57349.

HOWARD HOUSING AND REDEVELOPMENT COMMISSION  
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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
CONDENSED FINANCIAL INFORMATION -- ENTERPRISE FUND  
FOR THE ONE YEAR ENDING MARCH 31, 2013

	3-31-2013	3-31-2012
	-----	-----
<b>Assets:</b>		
Current assets	140,137	402,848
Capital assets	410,224	221,810
	-----	-----
Total assets	550,361	624,658
	=====	=====
<b>Liabilities:</b>		
Current liabilities	8,638	5,572
Long-term liabilities	0	0
	-----	-----
Total liabilities	8,638	5,572
	=====	=====
<b>Net position:</b>		
Net invested in capital assets	410,224	221,810
Unrestricted	131,499	397,276
	-----	-----
Total net position	541,723	619,086
	=====	=====
<b>Revenue:</b>		
Tenant revenue	41,048	42,887
HUD operating subsidies	8,803	27,497
Interest earned	2,394	2,923
Other	2,319	220
	-----	-----
Total revenue	54,564	73,527
	-----	-----
<b>Expenses:</b>		
Administration	33,040	27,201
Tenant services	2,039	86
Utilities	22,614	23,151
Maintenance and repair	42,040	24,786
General	8,992	9,974
Depreciation	35,663	27,656
	-----	-----
Total expenses	144,388	112,854
	-----	-----
Net income (loss) before contributions	(89,824)	(39,327)
HUD capital contributions	12,461	15,585
	-----	-----
Change in net position	(77,363)	(23,742)
<b>Net position:</b>		
March 31, 2011		642,828
		-----
March 31, 2012	619,086	619,086
	-----	=====
March 31, 2013	541,723	
	=====	

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STATEMENT OF NET POSITION -- ENTERPRISE FUND  
AS OF MARCH 31, 2013

ASSETS

Current assets:

Cash:

Checking	31,001.55
Checking - laundry	1,285.03
Checking - security deposits	1,900.00
Savings	1,622.03
	-----

Total cash	35,808.61
------------	-----------

Certificates of deposit	103,707.02
Accounts receivable, tenant occupied	170.00
Accrued interest receivable	67.69
Prepaid insurance	383.70
	-----

Total current assets	140,137.02
	-----

Capital assets:

Land	7,996.44
Buildings	991,391.40
Improvements	10,244.90
Equipment	8,804.33
Accumulated depreciation	(612,180.72)
Construction-in-progress	3,967.80
	-----

Total capital assets	410,224.15
	-----

Total assets	550,361.17
	=====

LIABILITIES

Current liabilities:

Accounts payable	380.95
Payroll deductions payable	800.65
Accrued payment in lieu of taxes	1,843.41
Accrued utilities payable	3,713.32
Tenant security deposits	1,900.00
	-----

Total current liabilities	8,638.33
	-----

Noncurrent liabilities:

None	0.00
	-----

Total liabilities	8,638.33
	=====

NET POSITION

Net invested in capital assets	410,224.15
Unrestricted	131,498.69
	-----

Total net position	541,722.84
	=====

See accompanying notes.

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STATEMENT OF REVENUES, EXPENSES, AND  
CHANGES IN NET POSITION -- ENTERPRISE FUND  
FOR THE YEAR ENDING MARCH 31, 2013

Operating revenues:	
Dwelling rents	41,048.00
Other income	2,318.50
	-----
Total operating revenues	43,366.50
	-----
Operating expenses:	
Administration	33,040.26
Tenant services	2,038.39
Utilities	22,613.93
Maintenance and operations	42,039.58
General expenses	8,992.20
Depreciation	35,663.19
	-----
Total operating expenses	144,387.55
	-----
Operating income (loss):	(101,021.05)
Nonoperating revenues (expenses):	
HUD - operating subsidy	8,802.61
Interest earned	2,393.95
	-----
Total nonoperating revenues (expenses):	11,196.56
	-----
Net income (loss) before contributions	(89,824.49)
HUD capital contribution - CFP 511	493.25
HUD capital contribution - CFP 512	11,967.80
	-----
Change in net position	(77,363.44)
Net position:	
April 1, 2012	619,086.28
	-----
March 31, 2013	541,722.84
	=====

See accompanying notes.

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STATEMENT OF CASH FLOWS -- ENTERPRISE FUND  
FOR THE YEAR ENDING MARCH 31, 2013

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash receipts from renters	43,873.85
Payments to employees for services	(34,271.42)
Payments to suppliers for goods and services	(66,721.97)
	-----
Net cash provided (used) by operating activities	(57,119.54)
	-----
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
HUD operating subsidy	8,802.61
	-----
Net cash provided (used) by non-capital financing activities	8,802.61
	-----
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES	
HUD capital subsidy (CFPs)	12,461.05
Cash paid for buildings	(209,864.80)
Cash paid for improvements	(10,244.90)
Cash paid for construction-in-progress	(3,967.80)
	-----
Net cash provided (used) by capital financing activities	(211,616.45)
	-----
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received	2,630.13
Redeemed certificates of deposit	223,747.77
Purchase certificates of deposit	(2,289.83)
	-----
Net cash provided (used) by investing activities	224,088.07
	-----
	-----
Net increase (decrease) in cash	(35,845.31)
	-----
Cash and cash equivalents:	
April 1, 2012	71,653.92
	-----
March 31, 2013	35,808.61
	=====
RECONCILIATION OF OPERATING (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
Operating income (loss)	(101,021.05)
Adjustments required for reconciliation:	
Depreciation expense	35,663.19
Change in:	
Accounts receivable	157.35
Prepaid insurance	5,014.43
Accounts payable	(344.42)
Accrued salary and benefits	248.99
Accrued expenses	2,811.97
Tenant security deposits	350.00
	-----
Net cash provided (used) by operating activities	(57,119.54)
	=====
Noncash financing, capital, and investing activities:	
None	
See accompanying notes.	

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Reporting Entity:

The funds included in this report are controlled by or dependent upon the Howard Housing & Redevelopment Commission's (Commission) Board of Commissioners. The Commission is a component unit of the City of Howard, South Dakota which owns the project and approves all members of the Commission's Board.

The Commission is a Public Housing Authority, established under the authority of SDCL 11-7, to operate 20 low-income public housing units, know as Sunrise Terrace. These units are subsidized by the U.S. Dept. of Housing and Urban Development (HUD) to provide housing to low income, elderly and disabled persons.

At March 31, 2013, the Commission's officials were:

Mayor, City of Howard  
Andrew Dold

Executive Director:  
Larry Holland

Board of Commissioners:  
John Mengershausen, Chairperson  
Maynard Bender  
Mae Brummett  
Jerry Hodges  
Randy Leith

Attorney:  
Howard City Attorney

The Commission complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements.

b. Fund Accounting:

The accounts are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, net position, revenues, and expenses. The funds in this financial report are classified as an "enterprise" fund type.

Enterprise funds:

Enterprise funds are used to account for activity for which a fee is charged to external users for goods or services. The Commission maintains Sunrise Terrace fund with 20 subsidized rental units. This is the only fund maintained by the Commission and is a major fund.

c. Measurement Focus and Basis of Accounting:

Measurement focus refers to what financial resources make up a fund. Basis of accounting refers to when revenues and expenses are recognized by a fund and reported in the financial statements.

Enterprise Funds:

Measurement Focus - All enterprise funds are accounted for using a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with a fund are included in its statement of net position. Enterprise fund operating statements present increases (revenues) and decreases (expenses) in total net position.

Basis of Accounting - All enterprise funds are accounted for using the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash is received or paid. Revenues from grants, entitlements, and donations are recognized in the year in which all eligibility requirements are satisfied.

d. Capital Assets and Depreciation:

Capital assets must cost at least \$1,000. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at estimated fair value on the date donated.

Approximately 0% of the March 31, 2013 enterprise fund capital assets are determined by estimates of historical cost.

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

Depreciation of all exhaustible capital assets used by the enterprise funds is charged as an expense against that fund's operation. Depreciation has been provided over estimated useful life using the straight-line method. Buildings are given a useful life of 15 or 40 years. Improvements are given a useful life of 5 to 15 years. Equipment is given a useful life of 5 years. Accumulated depreciation is reported on the enterprise fund statement of net position.

Interest cost incurred during construction of capital assets is capitalized along with other capital asset costs.

e. Long-term Liabilities:

The Commission has not long-term liabilities.

f. Operating and Nonoperating Revenues:

Operating revenues are those associated with tenant activity such as rents, utilities, and laundry. Nonoperating revenues are those not associated with tenant activity such as the HUD subsidy, interest income and interest expense.

Sunrise Terrace rental units generally are subsidized based on the higher of 30% of adjusted gross income (based on HUD guidelines) or 10% of gross income. HUD pays the remainder of the rent.

g. Net Position Classifications:

Net position is displayed in up to three components:

1. Net Invested in Capital Assets - Consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

2. Restricted Net Position - Consists of net position with constraints placed on their use by either (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted Net Position - All other net position that does not meet the criteria of 1 or 2 above.

h. Application of Net Position:

It is the Commission's policy to first use restricted net position, prior to the use of unrestricted net position, when an expense is incurred which can be charged to either restricted or unrestricted net position.

i. Allowance for Doubtful Accounts:

Write-off of any unpaid rent is minimal. Consequently these financial statements do not have an allowance for doubtful accounts.

j. Accounting Estimates:

The presentation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual amounts could differ from those estimates and assumptions. Following is an accounting estimate made by management during the year: Depreciation -- estimated service lives

2. DEPOSITS, INVESTMENTS, RISK AND CASH FLOWS

Deposits - The Commission deposits are made in qualified public depositories as defined by SDCL 4-6A-1. Qualified depositories are required by SDCL 4-6A-3 to maintain, at all times, segregated from their other assets, eligible collateral with a value equal to at least 100 percent of the public deposit accounts that exceed deposit insurance such as FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank's public debt rating which may not be less than "AA" or better, or a qualified public depository may furnish a corporate surety bond from a corporation authorized to do business in South Dakota.

Deposits are reported at costs, plus interest, if the account is an add-on type.

The actual bank balances at March 31, 2013 were: Insured \$152,563 and Collateralized\*\* \$0.00 for a total of \$152,563.

\*\* Uninsured, collateral jointly held by state's/Commission's agent in the name of the state and the pledging financial institution. The carrying amount of these deposits at March 31, 2013 was \$139,516.

Investments - In general, SDCL 11-7-31 permits Housing & Redevelopment Commission funds ". . .to invest any funds held in reserves or debt service funds, or any funds not required for immediate disbursement, in property or securities in which savings banks may legally invest funds subject to their control."

Additionally, SDCL 4-5-6 permits Housing & Redevelopment Commission funds to be invested only in (a) securities of the United States and securities guaranteed by the United States Government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a) above; or in shares of an open-end, no-load fund administered by an investment company whose

investments are in securities described in (a) above and repurchase agreements described in (b) above. Also, SDCL 4-5-9 requires investments to be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

Because certificates of deposit are insured, they are considered to be deposits. The Commission had no investments during the year ending March 31, 2013.

Investment Risk - State law limits eligible investments for the Commission as discussed above. The Commission has no investment policy that would further limit its investment choices.

Interest Rate Risk - The Commission does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. All certificates of deposits are at fixed interest rates for a specified term.

Concentration of Credit Risk - The Commission places no limit on the amount that may be deposited or invested in any one institution. At March 31, 2013, all of the Commission's cash and certificates of deposit are deposited in Miner County Bank.

Credit Risk - The Commission had no credit risks because the Commission had no investments during the year ending March 31, 2013.

Custodial Risk - The risk that, in the event of a depository failure, the Commission's deposits may not be returned to it. As of March 31, 2013, the Commission's deposits in financial institutions were not exposed to custodial credit risk.

Cash Flows - For the purposes of the statement of cash flows, the Commission considers all highly liquid investments and deposits (including restricted assets) with a term to maturity of three months or less when purchased to be cash equivalents.

### 3. RECEIVABLES AND PREPAID EXPENSES

Receivables are not aggregated in these financial statements. The Commission expects to collect all receivables within one year.

Prepaid expenses of \$384 is for prepaid insurance.

### 4. PAYABLES, ACCRUED EXPENSES, AND DEPOSITS

Payables are not aggregated in these financial statements. Payables are for amounts due to vendors of \$381 and payroll deductions of \$801 for a total of \$1,182.

Accrued expenses are for payment-in-lieu of taxes of \$1,843 and utility costs of \$3,713.

Tenant security deposits are \$1,900.

### 5. CHANGES IN CAPITAL ASSETS

A summary of the changes in capital assets for the one year ending March 31, 2013 is presented in schedule one at the end of these footnotes. See page 14 for a list of capital asset additions. Construction-in-progress of \$3,968 at March 31, 2013 is for dwelling improvements.

6. ECONOMIC DEPENDENCY AND HUD GRANTS

The Commission receives approximately 32% of its revenues from HUD. If the amount of revenues received from HUD falls, the Commissions operations would be adversely affected.

In FY13 the Commission received from HUD an operating subsidy of \$7,182, an operating subsidy from CFP soft costs of \$1,621, and a capital subsidy from CFPs for \$12,461 for a total of \$21,264.

7. PAYMENT IN LIEU OF TAXES

The Commission does not pay property taxes based tax levies against the real property owned by the Commission. Instead, in 2012 they made payments in lieu of taxes (PILOT) based on a percentage of gross rents less utility costs.

PILOT for the FY13 year was determined as follows:

Rental income	\$ 41,048
Less: utility costs	(22,614)
	-----
Net shelter rent	18,434
	=====
PILOT percentage	x 10%
	-----
PILOT for FY13	1,843
	=====

Because the Commission is a component unit of the City of Howard, it is a governmental entity and is exempt from federal income taxes. The State of South Dakota does not have an income tax.

8. COMMITMENTS AND CONTINGENCIES

Litigation:

The Commission was not involved in any litigation at March 31, 2013.

Examination:

The Commission is subject to possible examination made by federal and state authorities who determine compliance with terms, conditions, laws and regulations governing grants given to the Commission in the current and prior years. There were no examinations during the year ending March 31, 2013.

Grant Disallowances:

Amounts received or receivable from HUD are subject to audit and adjustment by HUD. Any disallowed claims, including amounts already collected, may constitute a liability of the Commission. The amount of expenditures, if any, which may be disallowed by HUD cannot be determined at this time. The Commission would expects such amounts, if any, to be immaterial.

## 9. RISK MANAGEMENT

The Commission is exposed to various risks of loss related to torts; theft, damage, or destruction of assets; errors and omissions; injuries to employees' and natural disasters. During the one year ending March 31, 2013, the Commission managed its risks as follows:

Health insurance: None

Property and Liability insurance: The Commission maintains property and liability insurance through a commercial carrier. Settled claims have not exceeded this commercial coverage in any of the past 3 years.

Worker's compensation: The Commission maintains worker's compensation insurance through a commercial carrier. Settled claims have not exceeded this commercial coverage in any of the past 3 years.

Unemployment benefits: The Commission maintains unemployment insurance through the State of South Dakota.

## 10. OTHER DISCLOSURES AND SUBSEQUENT EVENTS

The Commission's executive director and part-time office clerk are married. Other than normal payroll, there were no transactions between these related parties. The Department of Housing and Urban Development (HUD) is aware of this relationship and has concluded that the Commission has satisfied HUD's conflict of interest requirements enumerated in Section 19(B) of the Commission's Annual Contribution Contract if also permitted by State and local law.

On April 5, 2013 a \$20,000 certificate of deposit matured and was cashed in to pay for dwelling improvements. On May 6, 2013 a \$11,000 certificate of deposit matured and was cashed in to pay for dwelling improvements.

In 2013 the flat (ceiling) rent for a one bedroom apartment was raised from \$250 to \$275 per month.

In FY14 there is an expected reduction in the HUD subsidy.

The Commission is not involved in any litigation. However, as discussed in the risk management note above, the Commission has liability coverage which would mitigate any material adverse affect on the financial statements from such litigation.

HOWARD HOUSING AND REDEVELOPMENT COMMISSION  
A COMPONENT UNIT OF THE CITY OF HOWARD, SOUTH DAKOTA  
HOWARD, SOUTH DAKOTA

NOTES TO THE FINANCIAL STATEMENTS -- SCHEDULE ONE  
CHANGES IN CAPITAL ASSETS  
FOR THE YEAR ENDING MARCH 31, 2013

	Beginning 3-31-2012	Book Adjustments	Additions	(Deletions)	Ending 3-31-2013	Accumulated Depreciation 3-31-2012	Book Adjustments	(Additions )	Deletions	Ending 3-31-2013	Remaining Cost 3-31-2013
Land	7,996.44				7,996.44					-	7,996.44
Buildings	781,526.60		209,864.80		991,391.40	(567,713.19)		(35,321.70)		(603,034.89)	388,356.51
Improvements	-		10,244.90		10,244.90	-		(341.50)		(341.50)	9,903.40
Equipment	8,804.33				8,804.33	(8,804.33)				(8,804.33)	-
Construction-in-progress	-		3,967.80		3,967.80					-	3,967.80
	<u>798,327.37</u>	<u>-</u>	<u>224,077.50</u>	<u>-</u>	<u>1,022,404.87</u>	<u>(576,517.52)</u>	<u>-</u>	<u>(35,663.20)</u>	<u>-</u>	<u>(612,180.72)</u>	<u>410,224.15</u>

(A)

(A) Additions:

Replace faucets	2,784.75
Carpet #11	1,629.97
Expansion #4	74,438.03
Expansion #20	64,884.54
Cabinetry	66,127.51
Parking lot	10,244.90
Construction-in-progress	3,967.80
	<u>224,077.50</u>

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

Board of Commissioners  
Howard Housing & Redevelopment Commission  
Howard, South Dakota

Independent Auditor's Report

I 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 major fund of the Howard Housing & Redevelopment Commission (Commission), a component unit of the City of Howard, Miner County, South Dakota, as of and for the year ended March 13, 2013, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements, and have issued my unqualified report thereon dated August 9, 2013.

Compliance and Other Matters:

As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion.

The results of my tests disclosed no instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting:

In planning and performing my audit of the financial statements, I considered the Commission's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, I do not express an opinion on the effectiveness of Howard Housing & Redevelopment Commission's internal control.

A deficiency in internal control exist 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 Commission'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 the attention of those charged with governance.

My 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 my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

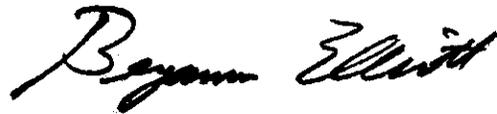
I did note minor matters involving internal control over financial reporting that I reported to the governing body and management of Howard Housing & Redevelopment Commission in a separate Letter of Comments dated August 9, 2013.

#### Purpose of the Report

The purpose of this report is solely to describe the scope of my testing of compliance and internal control and the results of that testing, and not to provide an opinion on the effectiveness of the Commission's compliance or on its internal control. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Commission's compliance and internal control. Accordingly, this communication is not suitable for any other purpose.

However, as required by SDCL 4-11-11, this report is a matter of public record and its distribution is not limited.

Independent Audit Services, PC  
Benjamin Elliott, CPA  
Madison, South Dakota



August 9, 2013

SCHEDULE OF PRIOR AUDIT FINDINGS

There is no recent prior audit report.

SCHEDULE OF CURRENT AUDIT FINDINGS

There are no current written audit findings to report.

HOWARD HOUSING AND REDEVELOPMENT COMMISSION  
 A COMPONENT UNIT OF THE CITY OF HOWARD, SOUTH DAKOTA  
 MARCH 31, 2013

Financial Data Schedule

Financial Data Schedule (FDS)  
 For the One Year Ending March 31, 2013  
 Required by the Dept. of Housing  
 and Urban Development (HUD)

Line Item #		Audit Low Rent Public Housing 3-31-2013	Reclass	Low Rent Public Housing CFDA # 14.850a 3-31-2013	Public Housing Capital Fund Program CFDA # 14.885 3-31-2013
<b>ASSETS</b>					
Current assets:					
111.000	Cash - unrestricted	32,286	1,285	31,001	
114.000	Cash - tenant security deposits	1,900		1,900	
126.000	Accounts rec - tenants	170		170	
129.000	Accrued interest receivable	68		68	
131.000	Investments - unrestricted	105,329		105,329	
142.000	Prepaid expenses and other assets	384		384	
150.000	Total current assets:	140,137	1,285	138,852	0
Noncurrent assets:					
161.000	Land	7,996		7,996	
162.000	Buildings	991,391	(10,246)	1,001,637	
162.000	Improvements	10,246	10,246	0	
164.000	Furniture, equipment - administration	8,804		8,804	
166.000	Accumulated depreciation	(612,181)		(612,181)	
167.000	Construction-in-progress	3,968		3,968	
160.000	Total non-current assets:	410,224	0	410,224	0
190.000	Total assets	550,361	1,285	549,076	0
<b>LIABILITIES</b>					
Current liabilities:					
312.000	Accounts payable <= 90 days	381		381	
321.000	Accrued payroll payable	801		801	
333.000	Accounts payable - other government	1,843		1,843	
341.000	Tenant security deposits	1,900		1,900	
346.000	Accrued liabilities - other	3,713		3,713	
310.000	Total current liabilities	8,638	0	8,638	0
Noncurrent liabilities:					
	None	0		0	
300.000	Total liabilities	8,638	0	8,638	0
<b>NET POSITION</b>					
508.100	Net invested in capital assets	410,224		410,224	
512.100	Unrestricted net position	131,499	1,285	130,214	
513.000	Total net position	541,723	1,285	540,438	0
Total liabilities and net position					
		550,361	1,285	549,076	0

HOWARD HOUSING AND REDEVELOPMENT COMMISSION  
A COMPONENT UNIT OF THE CITY OF HOWARD, SOUTH DAKOTA  
MARCH 31, 2013

Financial Data Schedule

Financial Data Schedule (FDS)

For the One Year Ending March 31, 2013

Required by the Dept. of Housing  
and Urban Development

Line Item #		Audit ----- Low Rent Public Housing 3-31-2013	Reclass	Low Rent Public Housing CFDA # 14.850a 3-31-2013	Public Housing Capital Fund Program CFDA # 14.885 3-31-2013
<b>REVENUE</b>					
703.000	Net tenant rental revenue	41,048		41,048	
706.000	HUD operating grant	0	(8,803)	7,182	1,621
706.100	HUD capital grant	0	(12,461)		12,461
711.000	Investment income - unrestricted	0	(2,394)	2,394	
715.000	Other revenue	2,318	1,276	1,042	
700.000	Total revenue	43,366	(22,382)	51,666	14,082
<b>EXPENSES</b>					
Expenses - administrative:					
911.000	Salaries	20,189		20,189	
915.000	Employee benefit contributions	1,411		1,411	
916.000	Office expenses	9,490		9,490	
919.000	Other	1,950		1,950	
Expenses - tenant services:					
924.000	Other	2,038		2,038	
Expenses - utilities:					
931.000	Water	5,189		5,189	
932.000	Electricity	8,123		8,123	
933.000	Gas	5,585		5,585	
936.000	Sewer	3,717		3,717	
Expenses - ordinary maint. & operation:					
941.000	Labor	14,481		14,481	
942.000	Materials and other	7,759		7,759	
943.000	Ordinary maint. & operations contracts	18,570	910	16,039	1,621
945.000	Employee benefit contributions	1,230		1,230	
Expenses - protective services:					
853.000	Other	0		0	
Expenses - general:					
961.100	Property	5,239		5,239	
961.200	Liability insurance	160		160	
961.300	Workmen's compensation insurance	1,588		1,588	
963.000	Payment in lieu of taxes	2,036		2,036	
964.000	Bad debt - tenants rents	(30)		(30)	
Other expenses:					
974.000	Depreciation	35,663		35,663	
900.000	Total expenses	144,388	910	141,857	1,621
Other financing sources (uses):					
706.000	HUD operating grant	8,803	8,803		
711.000	Investment income - unrestricted	2,394	2,394		
10100.000	Total other financing sources (uses):	11,197	11,197	0	0
10000.000	Net income (loss) before contributions	(89,825)	(12,095)	(90,191)	12,461
706.100	HUD capital grant	12,461	12,461		
10093.000	Transfer in	0	(12,461)	12,461	
10094.000	Transfer out	0	12,461		(12,461)
	Change in net position	(77,364)	366	(77,730)	0
<b>NET POSITION</b>					
1103.000	Beginning	619,087	919	618,168	
	Ending	541,723	1,285	540,438	0