

**VERMILLION HOUSING AND REDEVELOPMENT
COMMISSION – A COMPONENT UNIT OF
THE CITY OF VERMILLION**

**FINANCIAL STATEMENTS
AND
AUDITOR'S REPORT**

JUNE 30, 2019 and 2018

QUAM, BERGLIN & POST, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

**VERMILLION HOUSING AND REDEVELOPMENT COMMISSION –
A COMPONENT UNIT OF THE MUNICIPALITY OF VERMILLION
COMMISSION OFFICIALS
JUNE 30, 2019**

Board of Commissioners

Cindy Benzel

Craig DeVelder

Joan Holter

Maria Trowbridge

Elizabeth Abbott

Executive Director

David Thiesse

**VERMILLION HOUSING AND REDEVELOPMENT COMMISSION -
A COMPONENT UNIT OF THE MUNICIPALITY OF VERMILLION
HUD PROJECT NO. SD-055
TABLE OF CONTENTS**

| | <u>Page</u> |
|---|-------------|
| Independent Auditor's Report | 1 |
| Management's Discussion and Analysis | 3 |
| BASIC FINANCIAL STATEMENTS: | |
| Statement of Net Position - Proprietary Funds | 7 |
| Statement of Revenues, Expenses and Changes in Net Position - Proprietary Funds | 8 |
| Statement of Cash Flows-Proprietary Funds | 9 |
| Notes to Financial Statements | 10 |
| SUPPLEMENTARY INFORMATION: | |
| Schedule of Expenditures of Federal Awards | 17 |
| Financial Data Schedule | 18 |
| 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 <i>Government Auditing Standards</i> | 21 |
| Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on The Major Program and on Internal Control Over Compliance in Accordance With the Uniform Guidance | 23 |
| Schedule of Prior Audit Findings | 25 |
| Schedule of Current Audit Findings and Questioned Costs | 26 |
| Corrective Action Plan | 28 |

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INDEPENDENT AUDITOR'S REPORT

Vermillion Housing and Redevelopment Commission
Vermillion, South Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the business type activities and the major fund of Vermillion Housing and Redevelopment Commission (a component unit of the City of Vermillion, South Dakota) as of June 30, 2019, and 2018, and for the years then ended, and the related notes to the financial statements, which collectively comprise the Vermillion Housing and Redevelopment Commission's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

The Commission's 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 controls 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

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 of material misstatement.

An audit includes 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 Commission'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, 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 statement.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business type activities and the major fund of the Vermillion Housing and Redevelopment Commission as of June 30, 2019, and 2018 and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (MD&A), listed in the Table of Contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the 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 the 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements as a whole. The HUD-required financial data schedules are presented for the purposes of additional analysis and are not a required part of the financial statements. The accompanying Schedule of Expenditures of Federal Awards, as required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), listed in the Table of Contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 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 or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is 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*, we have also issued our report dated February 13, 2020, on our consideration of the Commission'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 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 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 Vermillion Housing and Redevelopment Commission's internal control over financial reporting and compliance.



Quam, Berglin & Post, P.C.
Certified Public Accountants

February 13, 2020

**THE VERMILLION HOUSING AND REDEVELOPMENT COMMISSION
FOR THE CITY OF VERMILLION, SOUTH DAKOTA**

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Vermillion Housing and Redevelopment Commission (VHA) offers readers of the Authority's financial statements this overview and analysis of the financial activities for the fiscal year ended June 30, 2019.

The primary focus of the VHA's financial statement (summarized fund-type information) has been discarded. The new and clearly preferable focus is on both the VHA as a whole (Authority-wide) and the major individual funds. Both perspectives (authority-wide and major fund) allow the user to address relevant questions, broaden a basis for comparison (year to year or Authority to Authority) and enhance the VHA's accountability.

Financial Statements

The financial statements are designed to be corporate-like in nature and activities are shown for the entire Authority.

These Statements include a Statement of Net Position. The Statement of Net Position reports all financial and capital resources for the Authority. The statement is presented in the format where assets, equals liabilities, plus "Net Position", formerly known as net assets/equity. Assets and liabilities are presented in order of liquidity, and are classified as "Current" (convertible into cash within one year), and "Non-current".

The focus of the Statement of Net Position (the "Unrestricted Net Position") is designed to represent the net available liquid (non-capital) assets, net of liabilities, for the entire Authority. Net Position (formerly net assets/equity) are reported in three broad categories:

Net Investment in Capital Assets: This component of Net Position consists of all Capital Assets 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.

Restricted: This component of Net Position consists of restricted assets, caused by constraints placed on the assets by creditors (such as debt covenants), grantors, contributors, laws, regulations, etc.

Unrestricted: Consists of Net Position that does not meet the definition of "Net Investment in Capital Assets", or "Restricted Net Position".

The financial statements also include a Statement of Revenues, Expenses and Changes in Net Position (similar to an Income Statement). This Statement includes Operating Revenues, such as the authority's share of fraud recovery, Operating Expenses, such as administrative, housing assistance payments, and depreciation, and Non-Operating Revenue and Expenses, such as grant revenue, investment income and interest expense.

The focus of the Statement of Revenues, Expenses and Changes in Net Position is the “Change in Net Position”, which is similar to Net Income or Loss.

Finally, a Statement of Cash Flows is included, which discloses net cash provided by, or used for operating activities, non-capital financing activities, capital and related financing activities, and investing activities.

The Authority’s Funds

Housing Choice Voucher Program – Under the Housing Choice Voucher Program, the Vermillion Housing and Redevelopment Commission (VHA) administers contracts with independent landlords that own the property. The VHA subsidizes the family’s rent through a Housing Assistance Payment Contract made with the landlord. The program is administered under a contract with HUD based on data submitted by the agency through the Voucher Management System (VMS) and PIH Information Center (PIC). HUD provides Annual Contributions Funding to enable the VHA to structure a lease that sets the participants’ gross rent at no more than 40% of their adjusted monthly income.

AUTHORITY-WIDE STATEMENT

Statement of Net Position

The following table reflects the condensed Statement of Net Position compared to prior year. The Authority is engaged only in Business-Type Activities.

Table A-1

Statement of Net Position

Table 1

| | <u>2019</u> | <u>2018</u> |
|---|-------------------|------------------|
| Current and Other Assets | \$ 136,642 | \$ 71,836 |
| Total Assets | <u>136,642</u> | <u>71,836</u> |
| Current Liabilities | 10,872 | 6,888 |
| Non Current Liabilities | <u>2,522</u> | <u>2,354</u> |
| Total Liabilities | <u>13,394</u> | <u>9,242</u> |
| Net Position: | | |
| Restricted | 64,440 | 34,796 |
| Unrestricted | 50,203 | 19,193 |
| Unrestricted- Local Funds | <u>8,605</u> | <u>8,605</u> |
| Total Net Position | <u>123,248</u> | <u>62,594</u> |
| Total Liabilities and Net Position | <u>\$ 136,642</u> | <u>\$ 71,836</u> |

The following schedule compares the revenues and expenses for the current and previous fiscal year. The Vermillion Housing & Redevelopment Commission is engaged only in Business-Type Activities.

Table 2

| | <u>2019</u> | <u>2018</u> |
|--------------------------------------|-------------------|------------------|
| Revenue | | |
| HUD PHA Grants | \$ 1,228,302 | \$ 1,095,887 |
| Contribution from City of Vermillion | 7,600 | 7,300 |
| Fraud Recovery | | |
| Interest Income | 374 | 262 |
| Management Fee Earned | | |
| Miscellaneous Income | 469 | 1,048 |
| Total Revenues | <u>1,236,745</u> | <u>1,104,497</u> |
| Expense | | |
| Administrative | 121,426 | 115,234 |
| Housing Assistance Payments | 1,054,665 | 1,105,225 |
| Total Expenses | <u>1,176,091</u> | <u>1,220,459</u> |
| Change in Net Position | <u>60,654</u> | <u>(115,962)</u> |
| Beginning Net Position | <u>62,594</u> | <u>178,556</u> |
| Ending Net Position | <u>\$ 123,248</u> | <u>\$ 62,594</u> |

**Major Factors Affecting the Statement of Revenue, Expenses
And Changes in Net Position**

The specific economic factors that can affect the VHA are as follows:

- Federal funding of the Department of Housing and Urban Development.
- Local inflationary, recessionary and employment trends, which can affect resident incomes and therefore the amount of assistance current participants, are eligible for.
- Inflationary pressure on utility rates, supplies and other costs.

**Table 3
Capital Assets at Year- End**

| | <u>2019</u> | <u>2018</u> | <u>Change</u> |
|--|----------------|----------------|---------------|
| Equipment – Administrative | \$ 3,628 | \$ 3,628 | \$ 0 |
| Accumulated Depreciation | <u>(3,628)</u> | <u>(3,628)</u> | <u>0</u> |
| Capital Assets - (Net of Depreciation) | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 0</u> |

FINANCIAL CONTACT

The individual to be contacted regarding this report is Dave Thiesse, Executive Director for the Vermillion Housing and Redevelopment Commission, at (605) 677-7191. Specific requests may be submitted to Dave Thiesse, The Vermillion Housing and Redevelopment Commission, 25 Center St., Vermillion SD, 57069.

**VERMILLION HOUSING AND REDEVELOPMENT COMMISSION-
A COMPONENT UNIT OF THE CITY OF VERMILLION
HUD PROJECT NO. SD-055
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2019 AND 2018**

| | Enterprise Fund | |
|--|------------------------|---------------------|
| | 2019 | 2018 |
| ASSETS: | | |
| Current Assets | | |
| Cash and Cash Equivalents | \$ 60,963.94 | \$ 20,522.93 |
| Cash and Cash Equivalents-Management | 8,604.64 | 8,604.64 |
| Accounts Receivable-Tenants, (net of allowance for doubtful accounts) | | 614.93 |
| Accounts Receivable | | 4,973.00 |
| Prepaid Insurance | <u>2,633.85</u> | <u>2,324.94</u> |
| Total Current Assets | <u>72,202.43</u> | <u>37,040.44</u> |
| Restricted Assets | | |
| Restricted Cash | <u>64,439.90</u> | <u>34,795.86</u> |
| Capital Assets | | |
| Office Equipment | 3,627.85 | 3,627.85 |
| Accumulated Depreciation | <u>(3,627.85)</u> | <u>(3,627.85)</u> |
| Capital Assets, Net of Depreciation | <u>0.00</u> | <u>0.00</u> |
| TOTAL ASSETS | <u>136,642.33</u> | <u>71,836.30</u> |
| LIABILITIES AND NET POSITION: | | |
| Current Liabilities: | | |
| Accounts Payable | 3,264.25 | 2,900.35 |
| Wages and Taxes Payable | 2,153.57 | 1,827.08 |
| Unearned Revenue | 3,190.00 | |
| Accrued Compensated Absences-Current | <u>2,264.53</u> | <u>2,160.71</u> |
| Total Current Liabilities | <u>10,872.35</u> | <u>6,888.14</u> |
| Non Current Liabilities: | | |
| Accrued Compensated Absences-Non-Current | <u>2,522.32</u> | <u>2,354.44</u> |
| Total Liabilities | <u>13,394.67</u> | <u>9,242.58</u> |
| Net Position: | | |
| Restricted | 64,439.90 | 10,632.86 |
| Unrestricted | 50,203.12 | 43,356.22 |
| Unrestricted-Management | <u>8,604.64</u> | <u>8,604.64</u> |
| Total Net Position | <u>\$ 123,247.66</u> | <u>\$ 62,593.72</u> |

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

**VERMILLION HOUSING AND REDEVELOPMENT COMMISSION-
A COMPONENT UNIT OF THE CITY OF VERMILLION
HUD PROJECT NO. SD-055
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018**

| | Enterprise Fund | |
|---|------------------------|----------------|
| | 2019 | 2018 |
| Operating Revenues: | | |
| Other Income | \$ 469.00 | \$ 1,047.46 |
| Operating Expenses: | | |
| Administration Expenses | 121,426.45 | 115,234.36 |
| Housing Assistance Payments | 1,054,665.46 | 1,105,224.72 |
| Total Expenses | 1,176,091.91 | 1,220,459.08 |
| Operating Income (Loss) | (1,175,622.91) | (1,219,411.62) |
| Non Operating Revenue (Expense) | | |
| Revenue from Local Sources: | | |
| Earnings on Investments and Deposits | 374.85 | 262.22 |
| Contributions from the City of Vermillion | 7,600.00 | 7,300.00 |
| Revenue from Federal Sources: | | |
| Annual Housing Voucher Subsidies-HUD | 1,228,302.00 | 1,095,887.00 |
| Total Non Operating Revenue (Expense) | 1,236,276.85 | 1,103,449.22 |
| Change in Net Position | 60,653.94 | (115,962.40) |
| Net Position - Beginning | 62,593.72 | 178,556.12 |
| Net Position - Ending | \$ 123,247.66 | \$ 62,593.72 |

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

VERMILLION HOUSING AND REDEVELOPMENT COMMISSION-
A COMPONENT UNIT OF THE CITY OF VERMILLION
HUD PROJECT NO. SD-055
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

| | <u>Enterprise Fund</u> | |
|---|-------------------------|--------------------------|
| | <u>2019</u> | <u>2018</u> |
| Cash Flows from Operating Activities: | | |
| Other Operating Cash Receipts | \$ 6,056.93 | \$ 3,788.45 |
| Cash Payments to Employees for Services | (96,175.72) | (90,711.20) |
| Cash Payments to Suppliers of Goods or Services | <u>(1,079,263.01)</u> | <u>(1,136,657.34)</u> |
| Net Cash Provided (Used) by Operating Activities | <u>(1,169,381.80)</u> | <u>(1,223,580.09)</u> |
| Cash Flows from Noncapital Financing Activities: | | |
| Operating Subsidies | <u>1,239,092.00</u> | <u>1,110,724.43</u> |
| Cash Flows from Investing Activities: | | |
| Interest Earnings | <u>374.85</u> | <u>262.22</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | <u>\$ 70,085.05</u> | <u>\$ (112,593.44)</u> |
| | | |
| Cash and Cash Equivalents at Beginning of Year | \$ 63,923.43 | \$ 176,516.87 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | <u>134,008.48</u> | <u>63,923.43</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | <u>\$ 70,085.05</u> | <u>\$ (112,593.44)</u> |
| | | |
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES: | | |
| Operating Income (Loss) | \$(1,175,622.91) | \$(1,219,411.62) |
| Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities: | | |
| Change in Assets and Liabilities: | | |
| Accounts Receivable | 4,973.00 | 2,711.00 |
| Accounts Receivable-Tenants | 614.93 | 29.99 |
| Prepaid Insurance | (308.91) | (95.00) |
| Accounts Payable | 363.90 | (7,416.63) |
| Accrued Payroll and Benefits Payable | <u>598.19</u> | <u>602.17</u> |
| Net Cash Provided (Used) by Operating Activities | <u>\$(1,169,381.80)</u> | <u>\$ (1,223,580.09)</u> |

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

**VERMILLION HOUSING AND REDEVELOPMENT COMMISSION-
A COMPONENT UNIT OF THE CITY OF VERMILLION
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Reporting Entity

Vermillion Housing and Redevelopment Commission (Commission), is a component unit of the City of Vermillion, South Dakota. In July 1990, the City of Vermillion adopted a resolution to establish the Vermillion Housing and Redevelopment Commission to administer the United States Department of Housing and Urban Development, Section 8 Existing Certificate, Voucher, and Moderate Rehabilitation Program. The program became operational in January 1991.

The funds included in this report are controlled by or dependent upon the Vermillion Housing and Redevelopment Commission's governing board. The governing board of the commission is made up of five residents of the area of operation of the commission who have been appointed by the mayor of the City of Vermillion and approved by the City Council.

The financial reporting entity consists of the primary government, organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The Commission is financially accountable if its governing body has a voting majority which is appointed by another governing board. This governing board has the ability to impose its will on the organization, or there is a potential for that organization to provide specific financial benefits to or impose specific financial burden on the primary government of the Commission. The Commission presently has no component unit included within its reporting entity, however it is a component unit of the City of Vermillion, South Dakota.

b. Basis of Presentation

The Commission represents a public housing Commission engaged in a single government program that provides financial assistance for low- income public housing. As such, the Commission presents a combined net position financial statement and a government-wide statement.

The Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position display information about the reporting entity as a whole. They include all funds of the reporting entity. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The Statement of Net Position reports all financial and capital resources in a net position form. Net position is displayed in three components, as applicable, net investment in capital assets, restricted (distinguishing between major categories of restrictions), and unrestricted.

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into a fund, each of which is considered to be a separate accounting entity. This fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund net position, revenues, and expenses. There is only one major proprietary fund. A fund is considered major if it is the primary operating fund of the organization or it meets the following criteria:

1. Total assets, liabilities, revenues, or expenses of the individual enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
2. Total assets, liabilities, revenues, or expenses of the individual enterprise fund are at least 5 percent of the corresponding total for all enterprise funds combined, or
3. Management has elected to classify one or more enterprise fund as major for consistency in reporting from year to year, or because of public interest in the fund's operations.

All of the Commission's activities are accounted for within the proprietary fund.

Proprietary Funds:

Enterprise Funds - enterprise funds may be used to report any activity for which a fee is charged to external users for goods or services. Activities are required to be reported as enterprise funds if any one of the following criteria is met.

- a. *The activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity. Debt that is secured by a pledge of net revenues from fees and charges and the full faith and credit of a related primary government or component unit—even if that government is not expected to make any payments—is not payable solely from fees and charges of the activity. (Some debt may be secured, in part, by a portion of its own proceeds but should be considered as payable "solely" from the revenues of the activity.)*
- b. *Laws or regulations require that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues.*
- c. *The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).*

c. Measurement Focus and Basis of Accounting:

Measurement focus is a term used to describe "how" transactions are recorded within the various financial statements. Basis of accounting refers to "when" revenues and expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus.

Measurement Focus:

Fund Financial Statements:

In the fund financial statements, the "economic resources" measurement focus and the accrual basis of accounting are applied to the proprietary funds.

Basis of Accounting:

Fund Financial Statements

In the Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position, activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues and related assets are recorded when earned (usually when the right to receive cash vests); and, expenses and related liabilities are recorded when an obligation is incurred (usually when the obligation to pay cash in the future vests).

d. Capital Assets:

Capital assets include equipment and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period.

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 their estimated fair value on the date donated. Reported cost values include ancillary charges necessary to place the asset into its intended location and condition for use. Subsequent to initial capitalization, improvements or betterments that are significant, and which extend the useful life of a capital asset are also capitalized.

The total June 30, 2019 balance of capital assets for business type activities are all valued at original cost.

Depreciation of all exhaustible capital assets is recorded as an expense in the Statement of Revenues, Expenses and Changes in Net Position with net capital assets reflected in the Statement of Net Position. Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the financial statements are as follows:

| | <u>Capitalization Threshold</u> | <u>Depreciation Method</u> | <u>Estimated Useful Life</u> |
|-------------------------|-------------------------------------|--------------------------------|----------------------------------|
| Machinery and Equipment | \$ 500.00 | Straight Line | 5-12 years |

e. Program Revenues:

In the Statement of Revenues, Expenses and Changes in Fund Net Position, reported program revenues derive directly from the program itself or from parties other than the organization's citizenry, as a whole. Program revenues are classified into three categories, as follows:

1. Charges for services – These arise from charges to customers, applicants, or others who purchase, use, or directly benefit from the goods, services, or privileges provided, or are otherwise directly affected by the services.
2. Program-specific operating grants and contributions – These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for use in a particular program.
3. Program-specific capital grants and contributions – These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for the acquisition of capital assets for use in a particular program.

f. Proprietary Funds Revenue and Expense Classifications:

In the proprietary fund's Statement of Revenues, Expenses and Changes in Fund Net Position, revenues and expenses are classified in a manner consistent with how they are classified in the Statement of Cash Flows. That is, transactions for which related cash flows are reported as capital and related financing activities, noncapital financing activities, or investing activities are not reported as components of operating revenues or expenses.

g. Cash and Cash Equivalents:

For the purpose of preparing the Statement of Cash Flows, the Commission considers all highly liquid investments (including restricted assets) with a term to maturity of three months or less when purchased to be cash equivalents.

h. Equity Classifications:

Fund Financial Statements:

Equity is classified as net position and is displayed in three components

1. Net Investment in capital assets - Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) 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 either by (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 definition of "restricted" or "net investment in capital assets."

i. 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 for purposes for which both restricted and unrestricted net position are available.

NOTE 2 - DEPOSITS AND INVESTMENTS CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK

Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below:

Deposits - The Commission's deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 13-16-15, 13-16-15.1 and 13-16-18.1. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 120 percent of the public deposit accounts which exceed deposit insurance such as the 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 a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

Investments – Under SDCL 12-7-31, the Commission has the power to invest reserve and debt service funds. A commission shall have further power 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. In general, SDCL 4-5-6 permits local governments' funds to be invested only in (a) securities of 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.

Custodial Credit Risk – The risk, that in the event of a depository failure, the Commission's deposits may not be returned to it. The Commission does not have a deposit policy for custodial credit risk.

As of June 30, 2019, the VHA had no uninsured deposits.

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.

Credit 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. As of June 30, 2019, the Commission had no investments.

Concentration of Credit Risk- The Commission places no limit on the amount that may be invested with any one issuer. As of June 30, 2019, the Commission had no investments.

NOTE 3 – RESTRICTED CASH

Assets restricted to use for a specific purpose through segregation of balances in separate accounts are as follows:

| <u>Amount</u> | <u>Purpose</u> |
|---------------|-------------------|
| \$ 64,439.90 | Restricted by HUD |

NOTE 4 – RECEIVABLES AND PAYABLES

Receivables and payables are not aggregated in these financial statements. Appropriate allowances for estimated uncollectibles have been established as follows:

| <u>Description</u> | <u>Amount</u> |
|---------------------------------|--------------------|
| Fraud Receivables | \$ 25,026.50 |
| Allowance for Doubtful Accounts | <u>(25,026.50)</u> |
| Total Fraud Receivable | <u>\$</u> |

NOTE 5 – CHANGES IN CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2019 is as follows:

| Capital Assets, being | Balance | | | Balance |
|-------------------------------------|---------------------|------------------|------------------|----------------------|
| Depreciated: | July 1, 2018 | Additions | Deletions | June 30, 2019 |
| Furniture and Equipment | \$ 3,627.85 | \$ | \$ | \$ 3,627.85 |
| Total | <u>3,627.85</u> | <u></u> | <u></u> | <u>3,627.85</u> |
| Accumulated Depreciation | | | | |
| Furniture and Equipment | (3,627.85) | <u></u> | <u></u> | (3,627.85) |
| Total | <u>(3,627.85)</u> | <u></u> | <u></u> | <u>(3,627.85)</u> |
| Capital Assets, Net of Depreciation | <u>\$ 0.00</u> | <u>\$</u> | <u>\$</u> | <u>\$ 0.00</u> |

NOTE 6 - RISK MANAGEMENT

The Vermillion Housing and Redevelopment Commission is exposed to various risks of loss related to tort; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the period ended June 30, 2019, the Vermillion Housing and

Redevelopment Commission managed its risks as follows:

Liability Insurance:

The Commission purchases liability insurance for risks related to torts; theft of or damage to property; and errors and omissions of public officials from a commercial insurance carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Unemployment Benefits

The Commission provides coverage for unemployment benefits by paying into the Unemployment Compensation Fund established by state law and managed by the State of South Dakota.

Worker's Compensation

The Commission purchases liability insurance for worker's compensation insurance from a commercial carrier.

NOTE 7 – RESTRICTED NET POSITION

Restricted Net Position for the year ended June 30, 2019 was as follows:

| | |
|----------------------|---------------------|
| <u>Restricted By</u> | <u>Amount</u> |
| HUD Requirements | <u>\$ 64,439.90</u> |

NOTE 8 – SUBSEQUENT EVENTS

In preparing these financial statements, the VHA has evaluated events and transactions for potential recognition or disclosure through February 13, 2020, the date the financial statements were available to be issued.

NOTE 9 – UNRESTRICTED NET POSITION

RECONCILIATION OF UNRESTRICTED NET POSITION ACCOUNT BALANCES

| | <u>Pre - 2004</u> | <u>Post - 2003</u> | <u>Total</u> |
|--|-------------------|--------------------|--------------|
| Unrestricted Net Asset Balance at 6/30/03 | \$ 11,628 | \$ | \$ 11,628 |
| Net Admin Fee Operating Income (Loss) for the year ended 6/30/04 | (6,604) | | (6,604) |
| Net Admin Fee Operating Income (Loss) for the year ended 6/30/05 | (5,024) | (1,089) | (6,113) |
| Net Admin Fee Operating Income (Loss) for the year ended 6/30/06 | | 6,159 | 6,159 |
| Net Admin Fee Operating Income (Loss) for the year ended 6/30/07 | | 788 | 788 |
| Net Admin Fee Operating Income (Loss) for the year ended 6/30/08 | | 3,471 | 3,471 |
| Net Admin Fee Operating Income (Loss) for the year ended 6/30/09 | | (20,785) | (20,785) |

VERMILLION HOUSING AUTHORITY
RECONCILIATION OF UNRESTRICTED NET POSITION ACCOUNT BALANCES
(cont'd)

| | <u>Pre - 2004</u> | <u>Post - 2003</u> | <u>Total</u> |
|---|-------------------|--------------------|------------------|
| Net Admin Fee Operating Income (Loss) for the year ended 6/30/10 | | 1,589 | 1,589 |
| Net Admin Fee Operating Income (Loss) for the year ended 6/30/11 | | 10,660 | 10,660 |
| Net Admin Fee Operating Income (Loss) for the year ended 6/30/12 | | 5,830 | 5,830 |
| Net Admin Fee Operating Income (Loss) for the year ended 6/30/13 | | 911 | 911 |
| Net Admin Fee Operating Income (Loss) for the year ended 6/30/14 | | (6,919) | (6,919) |
| Net Admin Fee Operating Income (Loss) for the year ended 6/30/15 | | (2,832) | (2,832) |
| Net Admin Fee Operating Income (Loss) for the year ended 6/30/16 | | 3,661 | 3,661 |
| Net Admin Fee Operating Income (Loss) for the year ended 6/30/17 | | 7,962 | 7,962 |
| Net Admin Fee Operating Income (Loss) for the year ended 6/30/18 | | 9,797 | 9,797 |
| Net Admin Fee Operating Income (Loss) for the year ended 6/30/19 | | <u>31,010</u> | <u>31,010</u> |
| Balance at 6/30/19 | <u>\$</u> | <u>\$ 50,203</u> | <u>\$ 50,203</u> |

NOTE 10 - CURRENT VULNERABILITY TO CERTAIN CONCENTRATIONS

The organization's operations are concentrated in the multifamily rental market. In addition, the organization operates in a heavily regulated environment. The operations of the organization are subject to the administrative directives, rules and regulations of federal, state, and local regulatory agencies, including, but not limited to, HUD. Such administrative directives, rules and regulations, are subject to change by an act of Congress or an administrative change mandated by HUD. 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.

**VERMILLION HOUSING AND REDEVELOPMENT COMMISSION -
A COMPONENT UNIT OF THE MUNICIPALITY OF VERMILLION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDEND JUNE 30, 2019**

| | <u>Federal CFDA Number</u> | <u>Pass-Through Grantor's Number</u> | <u>2019</u> |
|---|--------------------------------|--|------------------------|
| U.S. Department of Housing and Urban Development: | | | |
| Direct Federal Funding: | | | |
| Section 8 Housing Choice Voucher Program (Note 3) | 14.871 | | <u>\$ 1,228,302.00</u> |
| Total U.S. Department of Housing and Urban Development | | | <u>\$ 1,228,302.00</u> |

Note 1: Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Vermillion Housing and Redevelopment Commission under programs of the federal government for the year ended June 30, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Organization.

Note 2: Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Organization has elected to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

Note 3: Major Federal Financial Assistance Program

This represents a major federal award program.

**VERMILLION HOUSING AND REDEVELOPMENT COMMISSION-
A COMPONENT UNIT OF THE CITY OF VERMILLION
HUD PROJECT NO. SD-055
FINANCIAL DATA SCHEDULE
FOR THE YEAR ENDED
JUNE 30, 2019**

| Line Item Number | Description | Total Programs | Housing Choice Vouchers | State/Local |
|--------------------------------|--|-------------------|-------------------------------|-----------------|
| Balance Sheet | | | | |
| Cash | | | | |
| 111 | Cash - Unrestricted | \$ 58,697 | \$ 50,092 | \$ 8,605 |
| 113 | Cash - Other Restricted | 64,440 | 64,440 | |
| 115 | Cash - Restricted for Pymt of Current Liabilities | 10,872 | 10,872 | |
| 100 | Total Cash | <u>134,009</u> | <u>125,404</u> | <u>8,605</u> |
| Receivables | | | | |
| 125 | Accounts Receivable - Miscellaneous | | | |
| 128 | Fraud Recovery | 24,948 | 24,948 | |
| 128.1 | Allowance for Doubtful Accounts-Fraud | (24,948) | (24,948) | |
| 120 | Total Receivables, Net of Allowance | <u></u> | <u></u> | <u></u> |
| 142 | Prepaid Expenses and Other Assets | 2,634 | 2,634 | |
| 150 | Total Current Assets | <u>136,643</u> | <u>128,038</u> | <u>8,605</u> |
| Capital Assets | | | | |
| 164 | Furniture, Equipment & Machinery-Administration | 3,628 | 3,628 | |
| 166 | Accumulated Depreciation | (3,628) | (3,628) | |
| 160 | Total Capital Assets, Net of Accumulated Depr | <u></u> | <u></u> | <u></u> |
| 190 | Total Assets | <u>136,643</u> | <u>128,038</u> | <u>8,605</u> |
| Current Liabilities | | | | |
| 312 | Accounts Payable <=90 days | 3,264 | 3,264 | |
| 322 | Accrued Wage/Payroll Taxes Payable | 2,154 | 2,154 | |
| 322 | Accrued Compensated Absences-Current | 2,266 | 2,266 | |
| 342 | Unearned Revenue | 3,190 | 3,190 | |
| 310 | Total Current Liabilities | <u>10,874</u> | <u>10,874</u> | <u></u> |
| Non Current Liabilities | | | | |
| 354 | Accrued Compensated Absences - Non Current | 2,521 | 2,521 | |
| 350 | Total Non Current Liabilities | <u>2,521</u> | <u>2,521</u> | <u></u> |
| 300 | Total Liabilities | <u>13,395</u> | <u>13,395</u> | <u></u> |
| Net Position | | | | |
| 511.1 | Restricted Net Position | 64,440 | 64,440 | |
| 512.1 | Unrestricted Net Position | 58,808 | 50,203 | 8,605 |
| 513 | Total Net Position | <u>123,248</u> | <u>114,643</u> | <u>8,605</u> |
| 300 | Total Liabilities and Net Position | <u>\$ 136,643</u> | <u>\$ 128,038</u> | <u>\$ 8,605</u> |

**VERMILLION HOUSING AND REDEVELOPMENT COMMISSION-
A COMPONENT UNIT OF THE CITY OF VERMILLION
HUD PROJECT NO. SD-055
FINANCIAL DATA SCHEDULE
FOR THE YEAR ENDED
JUNE 30, 2019**

| Line Item Number | Description | Total Programs | Housing Choice Vouchers | State/Local |
|-------------------------|---|-------------------|-------------------------------|-------------|
| Income Statement | | | | |
| Revenue | | | | |
| 70600-010 | Housing Assistance Payments | \$ 1,108,238 | \$ 1,108,238 | \$ |
| 70600-020 | Ongoing Administrative Fees Earned | <u>120,064</u> | <u>120,064</u> | |
| 70600 | HUD PHA Operating Grants | <u>1,228,302</u> | <u>1,228,302</u> | |
| 71100-020 | Administrative Fee | <u>375</u> | <u>375</u> | |
| 71100 | Total Investment Income - Unrestricted | <u>375</u> | <u>375</u> | |
| 71400-010 | Housing Assistance Payment | 235 | 235 | |
| 71400-020 | Administrative Fee | <u>234</u> | <u>234</u> | |
| 71400 | Fraud Recovery | <u>469</u> | <u>469</u> | |
| 70000 | Total Revenue | <u>1,229,146</u> | <u>1,229,146</u> | |
| Expenses | | | | |
| Administrative | | | | |
| 91100 | Administrative Salaries | 80,638 | 80,638 | |
| 91200 | Auditing Fees | 6,850 | 6,850 | |
| 91310 | Bookkeeping Fee | 3,580 | 3,580 | |
| 91500 | Employee Benefit Contributions-Administrative | 11,567 | 11,567 | |
| 91600 | Office Expenses | 6,881 | 6,881 | |
| 91800 | Travel | 698 | 698 | |
| 91900 | Other | <u>1,014.00</u> | <u>1,014</u> | |
| 91000 | Total Operating - Administrative | <u>111,228</u> | <u>111,228</u> | |
| 96110 | Property Insurance | | | |
| 96130 | Workmen's Compensation | 2,473 | 2,473 | |
| 96140 | All Other Insurance | <u>1,350</u> | <u>1,350</u> | |
| 96100 | Total Insurance Premiums | <u>3,823</u> | <u>3,823</u> | |
| 96200 | Other General Expenses | 1,317 | 1,317 | |
| 96210 | Compensated Absences | <u>4,569</u> | <u>4,569</u> | |
| 96000 | Total Other General Expenses | <u>5,886</u> | <u>5,886</u> | |
| 96900 | Total Operating Expenses | <u>120,937</u> | <u>120,937</u> | |
| 97000 | Excess of Operating Revenue over Operating Expenses | <u>1,108,209</u> | <u>1,108,209</u> | |
| 97300-010 | Mainstream | | | |
| 97300 | Housing Assistance Payments | 1,054,176 | 1,054,176 | |
| 97500 | Fraud Losses | <u>979</u> | <u>979</u> | |
| 90000 | Total Expenses | <u>1,176,092</u> | <u>1,176,092</u> | |
| 10030 | Operating Transfers from/to Primary Government | <u>7,600</u> | <u>7,600</u> | |
| 10000 | Excess (Deficiency) of total Revenue Over (Under) Total Expenses | <u>\$ 60,654</u> | <u>\$ 60,654</u> | <u>\$</u> |

VERMILLION HOUSING AND REDEVELOPMENT COMMISSION-
A COMPONENT UNIT OF THE CITY OF VERMILLION
HUD PROJECT NO. SD-055
FINANCIAL DATA SCHEDULE
FOR THE YEAR ENDED
JUNE 30, 2019

| Line Item Number | Description | Total Programs | Housing Choice Vouchers | State/Local |
|---------------------------------|--|-------------------|-------------------------------|--------------|
| Memo Account Information | | | | |
| 11030 | Beginning Equity | \$ 62,594 | \$ 53,989 | 8,605 |
| 11170-001 | Admin Fee Equity - Beginning Balance | 51,961 | 43,356 | 8,605 |
| 11170-010 | Administrative Fee Revenue | 120,064 | 120,064 | |
| 11170-040 | Investment Income | 375 | 375 | |
| 11170-045 | Fraud Recovery Revenue | 234 | 234 | |
| 11170-050 | Other Revenue | 7,600 | 7,600 | |
| 11170-060 | Total Admin Fees Revenues | <u>128,273</u> | <u>128,273</u> | |
| 11170-080 | Total Operating Expenses | 120,937 | 120,937 | |
| 11170-100 | Other Expenses (Portion of Fraud Losses) | 489 | 489 | |
| 11170-110 | Total Expenses | <u>121,426</u> | <u>121,426</u> | |
| 11170-002 | Net Administrative Fee | 6,847 | 6,847 | |
| 11170-003 | Administrative Fee Equity-Ending Balance | <u>58,808</u> | <u>50,203</u> | <u>8,605</u> |
| 11170-006 | Post-2003 Administrative Fee Reserves | <u>58,808</u> | <u>50,203</u> | <u>8,605</u> |
| 11180-001 | HAP Equity - Beginning Balance | 10,633 | 10,633 | |
| 11180-010 | Housing Assistance Payment Revenues | 1,108,238 | 1,108,238 | |
| 11180-045 | Fraud Recovery Revenue | 235 | 235 | |
| 11180-030 | Total HAP Revenues | <u>1,108,473</u> | <u>1,108,473</u> | |
| 11180-080 | Housing Assistance Payments | 1,054,176 | 1,054,176 | |
| 11180-090 | Other Expenses (Portion of Fraud Losses and Prior Period Adj) | 490 | 490 | |
| 11180-100 | Total HAP Expenses | <u>1,054,666</u> | <u>1,054,666</u> | |
| 11180-002 | Net Housing Assistance Payments | 53,807 | 53,807 | |
| 11180-003 | HAP Equity-Ending Balance | <u>64,440</u> | <u>64,440</u> | |
| 11190-210 | Total ACC HCV Units | 3,096 | | |
| 11190-220 | Unfunded Units | <u>(540)</u> | | |
| 11190 | Unit Months Available | 2,556 | | |
| 11210 | Number of Unit Months Leased | 2,279 | | |

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

Vermillion Housing and Redevelopment Commission
Vermillion, South Dakota

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 accompanying financial statements of the business type activities and the major fund of the Vermillion Housing and Redevelopment Commission, as of June 30, 2019, and for the year then ended, which is a component unit of the City of Vermillion, South Dakota, which collectively comprise the basic financial statements as listed in the table of contents, and the related notes to the financial statements, and have issued our report thereon dated February 13, 2020.

Internal Control Over Financial Reporting

Management of Vermillion Housing and Redevelopment Commission is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Vermillion Housing and Redevelopment Commission's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Vermillion Housing and Redevelopment Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over financial reporting.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control 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 Current Audit Findings and Questioned Costs, we identified a certain deficiency in internal control that we consider to be a material weakness.

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 deficiency described in the accompanying Schedule of Current Audit Findings and Questioned Costs as item 2019-001 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Vermillion Housing and Redevelopment Commission's financial statements are free of 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 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*.

Management's Response to Findings

Vermillion Housing and Redevelopment Commission's response to the findings identified in our audit are described in the accompanying Schedule of Current Audit Findings. The Commission'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 and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Commission's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commission's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. As required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.

Quam, Berglin & Post P.C.

Quam, Berglin & Post, P.C.
Certified Public Accountants

February 13, 2020

QUAM, BERGLIN & POST, P.C.

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE UNIFORM GUIDANCE

Vermillion Housing and Redevelopment Commission
Vermillion, South Dakota

Report on Compliance for Major Federal Program

We have audited the compliance of Vermillion Housing and Redevelopment Commission, Vermillion, South Dakota, a component unit of the Municipality of Vermillion, South Dakota, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on the Commission's major federal program for the year ended June 30, 2019. The Vermillion Housing and Redevelopment Commission's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Current Audit Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Commission's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Vermillion Housing and Redevelopment Commission's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for its major federal program. However, our audit does not provide a legal determination on Vermillion Housing and Redevelopment Commission's compliance.

Opinion on Major Federal Program

In our opinion, Vermillion Housing and Redevelopment Commission complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2019.

Report on Internal Control Over Compliance

The management of Vermillion Housing and Redevelopment Commission is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Vermillion Housing and Redevelopment Commission's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures for the purpose of expressing an opinion on compliance for its major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Vermillion Housing and Redevelopment Commission's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Current Audit Findings and Questioned Costs as item 2019-001 to be a material weakness.

The Vermillion Housing and Redevelopment Commission's response to the internal control compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Vermillion Housing and Redevelopment Commission's response and accordingly, we express no opinion on it.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Uniform Guidance. As required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.



Quam, Berglin & Post, P.C.
Certified Public Accountants

February 13, 2020

**VERMILLION HOUSING AND REDEVELOPMENT COMMISSION
A COMPONENT UNIT OF THE CITY OF VERMILLION
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2019**

PRIOR AUDIT FINDINGS

PRIOR FEDERAL AUDIT FINDINGS:

Finding Number 2018-001:

A material weakness in internal controls was reported in fiscal year 2008 due to a lack of proper segregation of duties for accounting functions, resulting in decreased reliability of reported financial data and increased potential for the loss of public assets.

Corrective Action Plan:

This prior audit comment has not been corrected and is restated under the current audit findings as finding number 2019-001.

PRIOR OTHER AUDIT FINDINGS

See finding elements as above

Corrective Action Plan:

This prior audit comment has not been corrected and is restated under the current other audit findings as finding number 2019-001.

**VERMILLION HOUSING AND REDEVELOPMENT COMMISSION
A COMPONENT UNIT OF THE CITY OF VERMILLION
SCHEDULE OF CURRENT AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2019**

SUMMARY OF INDEPENDENT AUDITOR'S RESULTS:

Financial Statements

- a. An unmodified opinion was issued on the financial statements.
- b. A material weakness was disclosed by our audit of the financial statements for a lack of segregation of duties for revenues and expenses as discussed in finding number 2019-001.
- c. Our audit did not disclose any noncompliance that was material to the financial statements.

Federal Awards

- d. A material weakness was disclosed for internal control over major federal programs for lack of segregation of duties by our audit as discussed in finding number 2019-001.
- e. An unmodified opinion was issued on compliance with the requirements applicable to the major program.
- f. Our audit disclosed an audit finding that is required to be disclosed in accordance with the Uniform Guidance. See Finding Number 2019-001.
- g. The federal award tested as a major program was:

U.S Department of Housing and Urban Development

Section 8 Housing Choice Voucher Program

CFDA # 14.871

- h. The dollar threshold used to distinguish between Type A and Type B federal award programs was \$750,000.00.
- i. Vermillion Housing and Redevelopment Commission did not qualify as a low-risk entity.

**VERMILLION HOUSING AND REDEVELOPMENT COMMISSION
A COMPONENT UNIT OF THE CITY OF VERMILLION
SCHEDULE OF CURRENT AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2019**

CURRENT FEDERAL AUDIT FINDINGS:

Internal Control-Related Findings – Material Weaknesses:

Finding Number 2019-001:

CRITERIA:

In order to achieve proper internal control, it is necessary to have segregation of duties provided between performance, review and record keeping of the tasks related to revenue and expenses. Lack of this segregation of duties could adversely affect the organization's ability to record, process, summarize and report financial data consistent with management assertions.

CONDITION FOUND:

A material weakness in internal controls was reported due to a lack of adequate segregation of duties for revenues and expenses resulting in decreased reliability of reported financial data and increased potential for the loss of public assets.

RECOMMENDATION:

We recommend that the Board of Commissioners be cognizant of this lack of segregation of duties for revenues and expenses and attempt to provide compensating controls whenever and wherever possible and practical.

RESPONSE:

The Commissioners of this entity are aware of this problem, which is a result of the size of the organization, which precludes staffing at a level sufficient to provide compensating controls whenever and wherever possible and practical. The Commission has prepared a response to the finding, which is on the next page.

CURRENT OTHER AUDIT FINDINGS:

Internal Control Related Findings and Questioned Costs:

Finding Number 2019-001:

See finding elements and corrective action plan as above.

**VERMILLION HOUSING AND REDEVELOPMENT COMMISSION
VERMILLION, SD 57069**

June 30, 2019

CORRECTIVE PLAN OF ACTION


Vermillion Housing and Redevelopment Commission (VHRC) has considered the lack of segregation of duties for revenue and expenditures.

At this time it is not cost effective for VHRC to hire additional staff needed to achieve segregation of duties. Alternate procedures have been implemented by VHRC to decrease the likelihood that financial data is adversely affected.

VHRC will continue to monitor the necessity to have segregation of duties for revenue and expenditures and implement such segregation as budget dollars allow.



Board President



David Thiesse, Executive Director