

Housing and Redevelopment Authority of Duluth, Minnesota

Financial and Compliance Report
September 30, 2020

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Independent Auditor's Report

RSM US LLP

Board of Commissioners
Housing and Redevelopment Authority of Duluth, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the Housing and Redevelopment Authority of Duluth, Minnesota, as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise Housing and Redevelopment Authority of Duluth, Minnesota's financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the blended component unit financial statements of Harborview Phase I, LLC, which represent 9%, 1%, and 4%, respectively, of the assets, net position, and revenues of the Housing and Redevelopment Authority of Duluth, Minnesota. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Harborview Phase I, LLC, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the Housing and Redevelopment Authority of Duluth, Minnesota, as of September 30, 2020, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the Housing and Redevelopment Authority of Duluth, Minnesota's basic financial statements. The schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), the financial data schedule, and the schedule of public housing capital funds closeout are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedule of expenditures of federal awards, the financial data schedule, and the schedule of public housing capital funds closeout 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 subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards, the financial data schedule, and the schedule of public housing capital funds closeout 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*, we have also issued our reports dated June 28, 2021, on our consideration of the Housing and Redevelopment Authority of Duluth, Minnesota'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 those reports is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Housing and Redevelopment Authority of Duluth, Minnesota's internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Housing and Redevelopment Authority of Duluth, Minnesota's internal control over financial reporting and compliance.

RSM US LLP

Duluth, Minnesota
June 28, 2021

Management's Discussion and Analysis (MD&A)

Housing and Redevelopment Authority of Duluth, Minnesota

Management's Discussion and Analysis

This section of the Housing and Redevelopment Authority of Duluth, Minnesota's (the Authority) annual financial report presents our discussion and analysis of the Authority's financial performance during the years ended September 30, 2020. Please read it in conjunction with the Authority's financial statements.

Financial Highlights

- The Authority's assets exceeded its liabilities at September 30, 2020, by \$68.0 million. This amount is identified as net position. Unrestricted net position is \$33.5 million. Of the unrestricted amount, \$19.3 million is invested in long-term loans receivable leaving \$14.1 million as the amount that may be used to meet the Authority's ongoing obligations.
- The Authority's total net position increased by \$3.2 million in fiscal year 2020.

Overview of the Financial Statements

This discussion and analysis serves as an introduction to the Authority's financial statements. The financial statements are designed to provide readers with a broad overview of the Authority's finances in a manner similar to a private-sector business.

The Authority presents its financial statement using enterprise accounting. Enterprise accounting is a type of proprietary fund. An enterprise fund provides its product or service directly to the public. Although the Authority accounts for its activities using programs for its internal reporting, the Authority is considered to be a unified enterprise fund for reporting purposes. The financial statements are prepared on the accrual basis of accounting. Therefore, revenues are recognized when earned, and expenses are recognized when incurred. Capital assets are capitalized and depreciated, except for land, over their useful lives.

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

The statement of revenues, expenses, and changes in net position presents information showing how the Authority's assets changed during the most recent fiscal year. All changes in the net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused sick and vacation leave).

The statement of cash flows presents all cash receipts and payments resulting from operational, noncapital financing, capital and related financing and investing activities. This statement summarizes the sources and uses of cash for the current period.

Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Housing and Redevelopment Authority of Duluth, Minnesota

Management's Discussion and Analysis

Financial Analysis

Over time, net position may serve as a useful indicator of the Authority's financial position. The largest portion of the Authority's net position is invested in capital assets (land, buildings, equipment), less any related outstanding debt used to acquire those assets. The Authority uses these assets to provide services to its clients; therefore, these assets are not available for future spending. Although the Authority's investment in capital assets is reported net of related debt, it is important to realize that the resources needed to repay the debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

A portion of net position is restricted by grantors for housing programs. The remaining balance of net position is unrestricted. Of the unrestricted net position, \$19.3 million is invested in long-term loans receivable, leaving \$14.1 million available to be used to meet the Authority's ongoing obligations to its clients and creditors. As of September 30, 2020, all three categories of net position had positive balances.

The following presents a summary of the Authority's net position at September 30:

	2020	2019
Current and other assets	\$ 42,948,011	\$ 44,333,832
Capital assets	32,180,997	24,754,795
Total assets	75,129,008	69,088,627
Long-term debt outstanding	3,240,166	2,158,135
Other liabilities	3,468,180	2,398,585
Deferred inflows, general tax levies	447,979	397,904
Total liabilities and deferred inflows	7,156,325	4,954,624
Net position:		
Net investment in capital assets	28,940,831	22,596,660
Restricted	5,553,524	5,821,475
Unrestricted, invested in loans receivable	19,336,038	21,986,278
Unrestricted	14,142,290	13,729,590
Total net position	\$ 67,972,683	\$ 64,134,003

Housing and Redevelopment Authority of Duluth, Minnesota

Management's Discussion and Analysis

To give users a better understanding of the sources and uses of the Authority's net position, the following presents a summary of revenues and expenses for the years ended September 30:

	2020	2019
Revenues:		
Operating revenues:		
Tenant	\$ 3,705,976	\$ 3,499,837
HUD PHA operating grants	14,632,363	12,696,241
Other governmental grants	1,351,893	230,643
Management fee	-	84,081
Other	477,175	592,057
Total operating revenues	20,167,407	17,102,859
Expenses:		
Administrative	6,139,351	5,849,213
Tenant services	46,400	30,932
Utilities	865,858	838,358
Ordinary maintenance and operations	3,369,501	2,695,392
Protective services	212,207	174,588
General	928,374	736,684
Casualty losses	65,091	67,932
Housing assistance payments	8,358,230	7,766,707
Depreciation	2,155,815	1,926,160
Total operating expenses	22,140,827	20,085,966
Operating loss	(1,973,420)	(2,983,107)
Nonoperating revenues and capital contributions:		
General tax levies	1,746,972	1,560,361
Investment income	277,946	344,919
Interest earnings, loans receivable	691,383	751,672
Nondwelling rent	332,520	317,703
Gain (loss) on sale of assets held for development	9,835	(324,711)
Gain (loss) on sale of capital assets	-	(22,400)
Forgiveness of debt	201,473	-
Capital grants	1,867,438	1,036,380
Total nonoperating revenues and capital contributions	5,127,567	3,663,924
Change in net position	3,154,147	680,817
Net position, beginning (restated)	64,818,536	63,453,186
Net position, ending	\$ 67,972,683	\$ 64,134,003

Housing and Redevelopment Authority of Duluth, Minnesota

Management's Discussion and Analysis

In 2020, capital Assets of the Authority increased by \$7.4 million. This increase was due to the acquisition of Harbor View Phase I, LLC, also the award of a POHP (Publicly Owned Housing Program) Grant of \$965,941 from the State of Minnesota for the exterior renovation to Ramsey Manor. The increase to our Long-term debt is also attributable to the purchase of Harbor View Phase I, LLC.

In 2020, the Authority received additional funding from U.S. Department of Housing and Urban Development (HUD) as part of the Coronavirus Aid, Relief, and Economic Security (CARES) Act. An additional \$456,058 was received for Low Income Public Housing, and \$407,406 for Section 8 Administration. The Authority also drew down \$427,450 of allocated Capital Grant funds to fund operations in 2020. Housing assistance payments increased by \$591,523. This is a combination of an increase to our payment standard and increase in utilization. Ordinary maintenance at our Low Income Public Housing sites increased \$571,407, this increase was funded by CARES, and Capital Fund Operation transfers.

In 2020, health insurance premiums increased 10% over 2019, with an overall increase to expenses of \$97,704. The Authority reimbursed the City \$280,049 of revolving loan funds. In fiscal year 2020, the Authority hired an "in house" general counsel to take over our eviction actions and provide internal policy support.

In 2019, the Authority experienced an increase of \$202,602 of Low Income Public Housing operating subsidy. The Authority also drew down \$276,299 of allocated Capital Grant funds to fund operations in 2019. The Housing Choice Voucher Program had a decrease to the housing assistance payments of \$413,560 due to a decrease in utilization, but experienced an increase in HUD-funded Administrative Fees of \$71,193. In December 2018, the Authority discontinued the management of Harbor Highlands and Gateway Towers, which resulted in a net decrease of \$377,071 in revenues and a corresponding decrease in expenses for staff.

In 2019, health insurance premiums increased 10% over 2018, which equates to an increase in expense of \$102,528. The Authority reimbursed the City of Duluth, Minnesota (the City) \$182,776 of revolving loan funds. In fiscal year 2019, the Authority increased its contract with the City to provide for an additional Police Officer.

Capital Assets

The Authority's investment in capital assets, net of accumulated depreciation as of September 30, 2020 and 2019, was \$32.2 million and \$24.8 million, respectively. This investment includes land, construction in progress, buildings, furniture and equipment. The Authority's total investment in capital assets, net of accumulated depreciation, increased by 30% during 2020 and decreased 3% during 2019. The increase in capital assets during 2020 is largely due to the Authority acquiring 100% equity interest in Harborview Phase I, LLC. Additional information related to the Authority's capital assets can be found in Note 6 of the notes to the financial statements.

Long-Term Debt

The Authority had \$3.2 million and \$2.2 million of debt outstanding as of September 30, 2020 and 2019, respectively. The increase in debt during 2020 is largely due to the Authority acquiring 100% equity interest in Harborview Phase I, LLC. The Authority made principal payments of \$323,000 and \$308,000 during 2020 and 2019, respectively. Additional information related to the Authority's debt can be found in Note 8 of the notes to the financial statements.

Housing and Redevelopment Authority of Duluth, Minnesota

Management's Discussion and Analysis

Economic Factors and Next Year's Budgets

The Authority applied for and received two Commitments to Enter into Housing Assistance Payments (CHAPs) from HUD for a RAD conversion of our Public Housing hi-rises. Additionally, the Authority has continued to move towards disposition of its Public Housing Scattered Sites through HUD's Section 18 demolition/disposition conversion option. As the Authority looks to close out its Public Housing portfolio over the next two to three years, this will impact the Authority's financial reporting and budget processes. Additionally, two limited liability companies have been formed in order to proceed with the RAD and Section 18 conversions. These will show up in future financial reports.

The Authority received 33 mainstream vouchers and created a preference in its waiting list to accommodate this designation (non-elderly, disabled). These should be placed in service during fiscal year 2021.

Preservation of affordable housing: The Garfield Square Apartments opened and tenants at the Esmond were offered relocation to the new building. The Authority is working with a developer for the Esmond site in order to demolish and rebuild affordable housing that will fit in the overall redevelopment of the Lincoln Park neighborhood.

Harborview Phase I was purchased by the Authority. Harborview Phase I was the first phase of the HOPE VI redevelopment, which started approximately 15 years ago and has now come full circle. The Authority anticipates that other phases of the HOPE VI project will become available to come back to Authority ownership in the coming years.

Rehabilitation of existing housing stock and new housing development: The Authority is actively working with the City's Planning and Economic Development Department to utilize its revolving loan funding. Through these funds, the Authority offers low interest loans to landlords who keep their rents affordable and rent to low income renters, and zero interest deferred loans to income eligible homeowners for needed housing rehabilitation. These programs help extend the life of the home and assist in building equity for our low and moderate income homeowners.

The Authority launched the board approved Small Repair and Emergency Repair Programs for low and moderate income home owners, and Minnesota Housing awarded the Authority funds for exterior renovations. These programs administered through the Authority's Rehab and Real Estate Department continue to make an impact in the preservation of the older housing stock in Duluth.

The Authority sold the final lot in the Sackette Addition, and only has two lots remaining at Hawk Ridge Estates. The Authority forgave a \$60,000 loan to further the redevelopment of the Windwood Townhomes (affordable housing), and donated in-fill lots to the City of Duluth to launch the Re-Build Duluth program.

The Authority is looking at new opportunities for housing development to add more affordable units to our community. As part of this effort, the Authority and City of Duluth joined forces to co-fund a Senior Housing Developer position at the City. As the Authority looks to creatively develop projects in the future, this position will be valuable part of the process.

Local collaboration and fight to end homelessness: The Authority continues to participate in collaborative partnerships through the "Affordable Housing Coalition" and LISC's "Quality of Life Neighborhoods." The Authority supports the fight against homelessness by financially supporting of both the Coordinated Entry System and the Tenant Landlord Connection.

Housing and Redevelopment Authority of Duluth, Minnesota

Management's Discussion and Analysis

The Authority launched the Construction Training Pilot Program to expose low-income residents to the construction trades. The goal of this program is to move the needle on poverty by providing training and placement into good paying jobs while rehabilitating houses and selling them to low or moderate income households.

The Authority is a voice for affordable housing through advocacy at both the state and federal level. Overall, through these advocacy and other efforts, the Authority continues to provide decent, safe, and affordable housing to over 2600 families per day through our federal programs, and continues to serve the city's overall housing and community redevelopment needs.

Requests for Information

This financial report is meant to provide a general overview of the Housing and Redevelopment Authority's finances for all those with an interest in the Authority's finances. Questions concerning information provided in the report, or requests for additional financial information, should be addressed to the Housing and Redevelopment Authority of Duluth, P.O. Box 16900, 222 East Second Street, Duluth, Minnesota 55816, Attention: Deputy Director.

Housing and Redevelopment Authority of Duluth, Minnesota

Statement of Net Position September 30, 2020

Assets	
Current assets:	
Cash and cash equivalents:	
Unrestricted	\$ 3,455,946
Restricted	987,234
Investments:	
Unrestricted	10,060,924
Restricted	4,835,720
Accounts receivable:	
HUD other projects	107,193
General tax levies	949,476
Other governments	927,427
Miscellaneous	71,518
Tenants, net	86,733
Accrued interest receivable, net	352,192
Prepaid items	509,184
Loans receivable, current portion	258,080
Total current assets	22,601,627
Noncurrent assets:	
Loans receivable, noncurrent portion	19,077,958
Assets held for development	1,268,426
Capital assets, net	32,180,997
Total noncurrent assets	52,527,381
Total assets	75,129,008
Liabilities	
Current liabilities:	
Accounts payable	1,168,763
Due to other governments	283,102
Security deposits	226,493
Accrued liabilities	1,250,599
Unearned revenue	539,223
Long-term debt, current portion	657,908
Total current liabilities	4,126,088
Noncurrent liabilities:	
Long-term debt, noncurrent portion	2,582,258
Total liabilities	6,708,346
Deferred Inflows of Resources	
Unavailable revenues—general tax levies	447,979
Total deferred inflows of resources	447,979
Net Position	
Net investment in capital assets	28,940,831
Restricted	5,553,524
Unrestricted, invested in loans receivable	19,336,038
Unrestricted	14,142,290
Total net position	\$ 67,972,683

See notes to financial statements.

Housing and Redevelopment Authority of Duluth, Minnesota

**Statement of Revenues, Expenses, and Changes in Net Position
Year Ended September 30, 2020**

Operating revenues:	
Tenant:	
Rental	\$ 3,440,927
Other	265,049
HUD PHA operating grants	14,632,363
Other governmental grants	1,351,893
Other	477,175
Total operating revenues	<u>20,167,407</u>
Operating expenses:	
Administrative	6,139,351
Tenant services	46,400
Utilities	865,858
Ordinary maintenance and operations	3,369,501
Protective services	212,207
General	928,374
Casualty losses	65,091
Housing assistance payments	8,358,230
Depreciation	2,155,815
Total operating expenses	<u>22,140,827</u>
Operating loss	<u>(1,973,420)</u>
Nonoperating revenues:	
General tax levies	1,746,972
Investment income	277,946
Interest earnings, loans receivable	691,383
Nondwelling rent	332,520
Gain from sale of assets held for development	9,835
Forgiveness of debt	201,473
Total nonoperating revenue	<u>3,260,129</u>
Income before capital contributions	1,286,709
Capital grants	1,867,438
Change in net position	<u>3,154,147</u>
Total net position, beginning	
As previously reported	64,134,003
Restatement (Note 15)	684,533
As restated	<u>64,818,536</u>
Total net position, ending	<u><u>\$ 67,972,683</u></u>

See notes to financial statements.

Housing and Redevelopment Authority of Duluth, Minnesota

**Statement of Cash Flows
Year Ended September 30, 2020**

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Cash flows from operating activities:	
Receipts from tenants	\$ 3,668,146
Receipts from HUD PHA operating grants	14,967,538
Receipts from other governments	631,788
Payments to suppliers/housing owners	(15,792,954)
Payments to employees	(3,693,761)
Other receipts	268,652
Net cash provided by operating activities	<u>49,409</u>
 Cash flows from noncapital financing activities:	
General tax levies	2,011,598
Nondwelling rent	332,520
Net cash provided by noncapital financing activities	<u>2,344,118</u>
 Cash flows from capital and related financing activities:	
Capital improvements	(3,229,364)
Proceeds from sale of assets held for development	711,577
Purchase of assets held for development	(207,243)
Principal paid on debt	(1,468,980)
Proceeds from capital grants	1,867,438
Net cash used in capital and related financing activities	<u>(2,326,572)</u>
 Cash flows from investing activities:	
Interest	780,524
Loans disbursed, net	(310,920)
Proceeds from sale of investments	7,321,316
Purchase of investments	(7,695,000)
Cash received from acquisition of Harborview	255,636
Net cash provided by investing activities	<u>351,556</u>
 Net increase in cash and cash equivalents	418,511
 Cash and cash equivalents:	
Beginning of year	<u>4,024,669</u>
 End of year	<u><u>\$ 4,443,180</u></u>

(Continued)

Housing and Redevelopment Authority of Duluth, Minnesota

Statement of Cash Flows (Continued)
Year Ended September 30, 2020

Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (1,973,420)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	2,155,815
Changes in assets and liabilities:	
Accounts receivable	258,371
Due from other governments	(720,105)
Prepaid expenses	(112,696)
Accounts payable	607,336
Due to other governments	(18,609)
Accrued expenses	(128,085)
Security deposits	(19,198)
	<hr/>
Net cash provided by operating activities	\$ 49,409
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Supplemental disclosures of noncash items:	
Assignment of equity interest in Harborview Phase I, LLC:	
Capital assets acquired	\$ 6,352,653
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Long-term debt assumed	\$ 1,405,000
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See notes to financial statements.

Housing and Redevelopment Authority of Duluth, Minnesota

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies

Nature of operations: The Housing and Redevelopment Authority of Duluth, Minnesota (the Authority) is a public body, corporate and politic, of the State of Minnesota, created by the City of Duluth (the City) pursuant to the Minnesota Housing and Redevelopment Authority Act of 1947. The powers of the Authority are vested in its seven-member Board of Commissioners, the members of which are appointed by the Mayor of Duluth.

The Authority uses available federal, state and local resources to serve the residents of the City of Duluth, Minnesota, by: a) upgrading and maintaining the existing housing stock, b) encouraging the construction of new housing affordable to low and moderate income households, c) promoting economic development efforts and providing assistance through community development programs and d) providing low and moderate income families and senior households with decent, safe and affordable rental housing opportunities. These services are provided by the Authority through the administration of various programs, including the administration of the federal Community Development Block Grant program, federal and state home improvement, construction and management of federal and locally funded rental housing facilities, administration of the federal Section 8 rent assistance program and housing rehabilitation programs.

The accompanying financial statements conform to accounting principles generally accepted in the United States of America as applicable to governments.

Financial reporting entity: In determining how to define the reporting entity, management has considered all potential component units. The decision whether to include a component unit in the reporting entity was made by applying the criteria set forth in Section 2100 of the Governmental Accounting Standards Board's (GASB) Codification. These criteria state that the financial reporting entity consist of: (a) the primary government, (b) organizations for which the primary government is financially accountable and (c) other organizations for which the primary government is not accountable, but for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The following blended component units are included the Authority's financial statements:

Red Rock, LLC: The Authority is the sole member of Red Rock, LLC (Red Rock). Red Rock's only activity is 0.01% interest in Harborview Phase I, LLC as described below.

Harborview Phase I, LLC: Owns and operates a 44-unit low-income housing project located in Duluth, Minnesota. Effective January 29, 2020, equity interest in Harborview Phase I, LLC (Harborview) was assigned 99.99 % to the Authority and .01% to Red Rock. The assignment of the equity interest resulted in the Authority recognizing contributed capital of \$684,533 for the net position of Harborview. Harborview is included in these financial statements with its year ended December 31, 2020. Harborview issues stand-alone financial statements, which can be obtained from the Housing and Redevelopment Authority of Duluth located at 222 East Second Street, Duluth, Minnesota 55816, Attention: Deputy Director.

Related organization: The Authority is a legally separate organization from the City of Duluth with its own rights and powers. Although the Mayor of the City of Duluth appoints all Authority Board members, there is no financial accountability necessary for including this organization as a component unit of the City of Duluth. Related-party transactions are limited to payments by the City on various contracts for services entered into with the Authority. The City made payments on various contracts totaling \$746,649 and \$1,007,456 to the Authority in fiscal years 2020 and 2019, respectively.

Budgets: The Authority is not legally required to prepare budgets for financial statement purposes.

Housing and Redevelopment Authority of Duluth, Minnesota

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Measurement focus, basis of accounting and financial statement presentation: The Authority's financial statements are reported using the economic resources measurement focus and accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied (i.e., intended to finance). Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The financial statements distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Authority's principal ongoing operations. The principal operating revenue of the Authority is rental income including subsidies received from the Department of Housing and Urban Development for administering these services. Operating expenses for the Authority include the costs of providing services to tenants, administrative expenses and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

Cash and investments: Cash of the individual programs is combined for investment purposes. Investments consist primarily of certificates of deposit and government bonds. Investments are accounted for at either amortized cost or at fair value, which is the price that would be received to sell the investment in an orderly transaction between market participants at the measurement date. Fair value of actively traded securities is determined by the reported market value of securities and mutual funds trading on national exchanges. Values of securities not actively traded are based on observable inputs of similar financial instruments or on the fair value of the underlying assets. Realized gains and losses are determined on the specific-identification method. Accrued income on investments is recorded as earned, since it is both measurable and available. Investment transactions are recorded on the settlement date.

The Authority can only invest in the following U.S. Department of Housing and Urban Development (HUD)-approved instruments: direct obligations of the federal government backed by the full faith and credit of the United States, obligations of federal government agencies, securities of government-sponsored agencies, demand and savings deposits, money market deposit accounts, municipal depository fund, super NOW accounts, certificates of deposit, repurchase agreements, sweep accounts, separate trading of registered interest and principal securities (STRIPS), and mutual funds that consist of securities purchased from the HUD-approved list.

Minnesota Statutes §118A.04 and §118A.05 generally authorize the following types of investments as available to the Authority:

- Securities that are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as "high risk" by Minnesota Statutes §118A.04, subd. 6;
- Mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- General obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states, provided such obligations have certain specified bond ratings by a national bond rating service;
- Bankers' acceptances of United States banks;

Housing and Redevelopment Authority of Duluth, Minnesota

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

- Commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and
- With certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

Cash and cash equivalents: For purposes of reporting cash flows, the Authority considers all cash accounts and all highly liquid debt instruments purchased with a maturity of three months or less to be cash and cash equivalents.

Taxes receivable/tax revenues: The Authority levies property taxes in December of each year to finance the budgeted expenditures of the following fiscal year. The levies become an enforceable lien on the properties on the first Monday in January. The Authority's Board approves the tax capacity rates for the support of the Authority's activities. The tax capacity rates are also approved by the Duluth City Council. Property owners are required to pay one-half of their real estate taxes by May 15 and the balance by October 15. The County assesses and collects the property taxes and remits the portion collected for the Authority in July and December of each year. Property taxes certified in December 2019 and payable in 2020 are recognized as revenues for the fiscal year ended September 30, 2020; the tax levies are prorated based on the months in the fiscal year.

Allowance for uncollectible receivables: The provision for doubtful loans and accounts receivable is based on management's review of individual loan, interest and accounts receivable balances to cover possible losses. The allowance for uncollectible loans, interest and accounts receivable at September 30, 2020, was \$0, \$190,076 and \$52,359, respectively.

Assets held for development: Assets held for development, including land and buildings, are recorded at cost and are not depreciated. The Authority defines assets held for development as all costs associated with purchasing and improving an asset so the asset is in a condition in which it can be sold to the public.

Capital assets: Capital assets are recorded at cost and estimated historical cost and depreciated over their estimated useful lives (excluding salvage value). The Authority defines capital assets as assets with an initial cost of more than \$5,000 and useful life of more than one year for equipment and furnishings and \$50,000 for buildings and improvements provided the improvement extends the useful life of the building. Donated capital assets are recorded at their acquisition value at the date of donation. Interest costs incurred during construction are capitalized. Estimated useful life is management's estimate of how long the asset is expected to meet service demands. Straight-line depreciation is used based on the following estimated useful lives:

	<u>Years</u>
Buildings and improvements	15-40
Furniture and equipment	3-27

Compensated absences: The Authority has contracts with several different employee groups. Employee benefits under the contracts are different but generally include provisions for sick leave and vacation leave and are described in Note 10.

Housing and Redevelopment Authority of Duluth, Minnesota

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Unearned revenue: Unearned revenue is recognized when the Authority receives resources before it has a legal claim to them. In subsequent periods, when the Authority has a legal claim to the resources, the liability for unearned revenue is removed and revenue is recognized.

Capital leases and long-term borrowings: Obligations arising from the issuance of debt instruments and other contracts are reported as liabilities. Issuance costs are expensed as incurred.

Deferred inflows of resources: In addition to liabilities, the financial statements will sometimes report a separate section of deferred inflows of resources. This separate financial statement element represents the acquisition of net position that applies to future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Property taxes reported as receivable before the period for which the property taxes are levied are reported as “unavailable revenues—property taxes.”

Net position: Net position is presented using the following three classifications:

Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds.

Restricted net position is reported when there are limitations imposed on its use either by law through constitutional provisions or enabling legislations adopted by the Authority or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net position is restricted as described in Note 12.

Unrestricted, invested in long-term loans receivable consists of the portion of unrestricted net position not readily accessible as amounts are invested in long-term loans receivable.

Unrestricted net position represent the amounts remaining after the previous components have been determined.

Payment in lieu of taxes: Under a cooperative agreement with the City of Duluth, all the low-rent housing projects are exempt from real and personal property taxes levied or imposed by any taxing body; therefore, the Authority makes an annual payment in lieu of taxes equal to 10% of all shelter rent collected to the City of Duluth.

Income taxes: The Authority is a governmental subdivision of the state of Minnesota and is exempt from federal and state income taxes.

Risk management: The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors or omissions; injuries to employees; and natural disasters. The Authority provides medical insurance to its employees through the City of Duluth’s self-insured employee group health plan. The Authority’s agreement with the City has limited the Authority’s cost to the premiums paid and there has been no provision for retroactive claims in the past. The Authority could be assessed for retroactive claims if the premiums charged were not deemed adequate to fund program costs. The Authority paid medical insurance premiums to the City of Duluth of \$1,230,481 in 2020. The Authority continues to carry commercial insurance for all other risks. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Housing and Redevelopment Authority of Duluth, Minnesota

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Estimates: Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses/expenditures. Actual results could vary from the estimates that were used.

Note 2. Cash and Investments

The Authority maintains various cash, deposit and investment accounts, including pooled accounts that are available for use by all programs. Several programs hold cash and deposits separate from their interest in the above-described pool.

Deposits: Minnesota Statutes require that all deposits with financial institutions must be collateralized in an amount equal to 110% of deposits in excess of Federal Deposit Insurance Corporation (FDIC) insurance (140% if collateralized with notes secured by first mortgages). At year-end, the bank deposits were fully insured or collateralized with securities held by the Authority or its agent in the Authority's name.

The Authority's cash and investments balances were as follows at September 30, 2020:

	<u>Amount</u>
Cash on hand	\$ 100
Deposits in financial institutions	4,443,080
Certificates of deposit	<u>14,896,644</u>
Cash and investments	<u>\$ 19,339,824</u>

Interest rate risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The certificates of deposits mature in 2021 to 2022.

Fair value reporting: The Authority's investments are recorded at fair value as of September 30, 2020. GASB Statement No. 72, *Fair Value Measurement and Application*, defines fair value as the price that would be received to sell an asset between market participants at the measure date. This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the market place.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following describes the hierarchy of inputs used to measure fair value and primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

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

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

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

Housing and Redevelopment Authority of Duluth, Minnesota

Notes to Financial Statements

Note 2. Cash and Investments (Continued)

The certificates of deposits and are identified as Level 1 within the fair value hierarchy at September 30, 2020.

Custodial credit risk-investments: Custodial credit risk for investment is the risk that, in the event of the failure of the counterparty to a transaction, the Authority will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Investments are held by financial institutions in the name of the Authority. The Authority does not have any investments exposed to custodial credit risk.

Concentration of credit risk: Concentration of credit risk refers to risk of loss attributed to investments in a single issuer. The Authority does not have an investment in a single issuer that is greater than 5.0% of the investment portfolio.

Note 3. Loans Receivable

Loans receivable consists of the following:

	<u>Amount</u>
Loans due from income-eligible families. Seventeen loans outstanding ranging from \$16,262 to \$148,699. The loans require monthly payments of principal only based on family's income and are for an indefinite period. The loans are secured by liens held by the Authority on the properties.	\$ 1,464,437
Installment loans for rental rehabilitation. Forty-six loans outstanding ranging from \$1,413 to \$53,073. The loans require monthly payments of principal and interest at 2%. The loans are secured by liens held by the Authority on the properties.	609,010
Notes due from Central Hillside Development Limited Partnership. Two notes outstanding with balances of \$243,100 and \$81,900. The notes are due in full in 2025. The notes require interest only in the event of default as described in the note document. Notes are secured by mortgage.	325,000
Loan due from Great Lakes Development Corporation, note has fixed 0% interest rate and was due February 28, 2020.	50,000
Loans due from individuals who purchased land at Hawk Ridge. Forty-four loans outstanding ranging from \$18,000 to \$51,893. The loans require lump sum payments. The loans require interest ranging from 0% to 3%. The loans are secured by liens held by the Authority on the properties.	1,336,208
Neighborhood Stabilization Program loans. Three loans outstanding with balances ranging from \$62,910 to \$139,488. The loans require monthly payments of principal based on purchaser income and interest at 1.0%. The loans are secured by liens held by the Authority on the properties.	283,630

(Continued)

Housing and Redevelopment Authority of Duluth, Minnesota

Notes to Financial Statements

Note 3. Loans Receivable (Continued)

	<u>Amount</u>
Note for sale of property. This is a 0% interest note, and due in full May 2026. If terms are not met, interest will equal the Wells Fargo Bank accrue at prime rate plus 3% and will be due immediately. The loan is secured by lien held by the Authority on the property.	\$ 20,000
Loan due from Gateway Properties, LLP for rehabilitation. The loan is due in full November 2046. The loan requires accrues interest at 6.0%. Payments are only due from designated net available cash flow as defined in the loan agreement. The loan is secured by a mortgage.	1,723,633
Hope VI bridge note due from Harbor View Phase I LLC. The note was due in full April 1, 2006. The note calls for interest at a fixed rate of 4.9%. The note is secured by mortgage and security agreement.	
Hope VI note due from Harbor View Phase I, LLC. The note is due in full in 2047. The note calls for interest equal to a blended applicable federal rate as described in the note agreement, with all interest accruing yearly to be added to principal. The note is secured by mortgage and security agreement.	
Hope VI note due from Matterhorn Apartments, LLC. The note is due in full in 2049. The note calls for interest equal to a blended applicable federal rate as described in the note agreement, with all interest accruing yearly to be added to principal. The note is secured by mortgage and security agreement.	3,049,480
Hope VI early start notes due from development companies, consist of two notes. Hope VI homeownership early start notes due from TCG Harbor Homes, LLC, consist of two notes with balances of \$32,654 and \$107,077. The notes were due December 31, 2011, and call for interest at 2.0% until an event of default at which time interest will equal the Wells Fargo Bank prime rate plus 3%. The notes are secured by affirmation of guaranty.	139,731
Program income homeownership early start notes due from TCG Harbor Homes, LLC, consist of three notes with balances of \$465,804, \$245,385 and \$62,229. The notes were due December 31, 2011, and call for interest at 2.0% until an event of default at which time interest will equal the Wells Fargo Bank prime rate plus 3%. The notes are secured by affirmation of guaranty.	773,418
Hope VI note due from Harbor View Phase II, LP. The note is due in full in 2049. The note calls for interest equal to a blended applicable federal rate as described in the note agreement, with all interest accruing yearly to be added to principal. The note is secured by mortgage and security agreement.	2,555,463
Hope VI note due from Harbor View Phase III, LP. The note is due in full in 2052. The note calls for interest equal to a blended applicable federal rate as described in the note agreement, with all interest accruing yearly to be added to principal. The note is secured by mortgage and security agreement.	3,283,166
Hope VI note due from Harbor View Phase IV, LLC. The note is due in full in 2050. The note calls for interest at a fixed rate of 4.3%. The note is secured by mortgage and security agreement.	409,488

(Continued)

Housing and Redevelopment Authority of Duluth, Minnesota

Notes to Financial Statements

Note 3. Loans Receivable (Continued)

	<u>Amount</u>
Hope VI note due from Harbor View Phase IV, LLC. The note is due in full in 2050. The note calls for interest at a fixed rate of 4.3%. The note is secured by mortgage and security agreement.	\$ 3,304,466
Other	8,908
	<u>\$ 19,336,038</u>

Note 4. Contingent Program Assets Receivable

The Authority has various loans under the Community Development Block Grant Program (CDBG) with families to assist them with the modernization of existing homes through housing rehabilitation loans of up to \$25,000 per homeowner. These are 30-year deferred loans that are secured by liens held by the Authority on the properties. If the homeowner sells their home before the 30-year period has expired, the entire loan must be repaid. The Authority does not record these loans as receivables as any loans repaid to the Authority are returned to the City.

Note 5. Assets Held for Development

The Authority has \$1,268,426 of land and buildings to be developed in subsequent years as of September 30, 2020. The Authority purchases buildings and rehabilitates them to a condition suitable for occupancy. The Authority also purchases land to be sold with the intent the buyer will construct a house.

Housing and Redevelopment Authority of Duluth, Minnesota

Notes to Financial Statements

Note 6. Capital Assets

Capital asset activity for the year ended September 30, 2020, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 3,143,219	\$ -	\$ -	\$ 3,143,219
Construction in progress	845,277	3,321,766	(665,715)	3,501,328
Total capital assets, not being depreciated	3,988,496	3,321,766	(665,715)	6,644,547
Capital assets, being depreciated:				
Buildings and improvements	82,465,838	497,504	(63,544)	82,899,798
Furniture and equipment	12,742,883	75,809	(141,167)	12,677,525
Total capital assets, being depreciated	95,208,721	573,313	(204,711)	95,577,323
Less accumulated depreciation for:				
Buildings and improvements	(59,347,704)	(1,747,270)	63,544	(61,031,430)
Furniture and equipment	(8,742,065)	(408,545)	141,167	(9,009,443)
Total accumulated depreciation	(68,089,769)	(2,155,815)	204,711	(70,040,873)
Total capital assets, being depreciated, net	27,118,952	(1,582,502)	-	25,536,450
Capital assets, net	\$ 31,107,448	\$ 1,739,264	\$ (665,715)	\$ 32,180,997

Included in the above table are \$10,449,399 of capital assets and \$4,096,746 of accumulated depreciation in the beginning balance column that were acquired through assignment of equity interest in Harborview.

Housing and Redevelopment Authority of Duluth, Minnesota

Notes to Financial Statements

Note 7. Conduit Debt Obligations

The Authority has issued several conduit debt notes and bonds. These notes and bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. The Housing Authority has no obligation beyond the resources provided by the related loans. Accordingly, the notes and bonds are not reported as liabilities in the accompanying financial statements. Following are the conduit obligations outstanding at September 30, 2020:

	<u>Amount</u>
Revenue refunding bond, series 2012, construction of two nursing and assisted living facilities	\$ 6,287,559
Revenue note, series 2008A, construction, acquisition and installation of equipment and capital improvements to a residential treatment, transitional and educational facilities	280,092
Revenue note, series 2008B, construction, acquisition and installation of equipment and capital improvements to a residential treatment, transitional and educational facilities	1,818,430
Revenue note, series 2009, replacement of gymnasium roof	158,513
Revenue note, series 2009A, acquisition, equipping and capital improvements of a foster care facility and a bed, board and lodge facility	962,788
Revenue note, series 2009B, acquisition, equipping and capital improvements of a foster care facility and a bed, board and lodge facility	209,861
Revenue note, series 2013, construction of 48 enhanced assisted living nursing facility	4,265,232
Revenue note, series 2014, construction and equipment, therapy addition; capital improvements to rehab care wing and secured memory care wing	3,530,057
Revenue note, series 2016A, capital improvements to create dormitory for international students	1,218,159
Health care facilities revenue refunding note, series 2017, improvements to a senior housing and healthcare facility	6,187,139
Revenue note, series 2019, capital improvements for partial roof replacement to fourth through twelfth grade educational facilities	468,430
Charter school lease revenue refunding bonds, series 2018A, construction and renovation of a charter school facility	18,655,000
Taxable charter school lease revenue refunding bonds, series 2018B construction and renovation of a charter school facility	155,000
	<u>\$ 44,196,260</u>

Housing and Redevelopment Authority of Duluth, Minnesota

Notes to Financial Statements

Note 8. Long-Term Debt

The Authority entered into the following: 0% interest debt agreements with Minnesota Housing Finance Agency (MHFA), Greater Minnesota Housing Fund (GMHF), and Duluth Economic Development Authority (DEDA) for the purposes of acquiring and rehabilitating the Esmond housing facility. The outstanding balances at year-end and related maturity dates are as follows: MHFA, \$1,100,000 due July 1, 2024; GMHF, \$90,061 due July 1, 2020; and DEDA, \$230,000 due July 1, 2020.

The Authority entered into a lease-purchase agreement with Siemens Public Inc. The outstanding balance at September 30, 2020 and 2019, is \$415,105 and \$738,074, respectively. The lease is due in monthly installments of \$29,213 including interest at a rate of 4.81% through January 2022.

Harborview entered into a 0% interest, \$880,000 mortgage note payable to MHFA. The outstanding balance is due June 2037. The note is secured by a combination mortgage, security agreement, assignment of rents and leases, and fixture financing statement.

Harborview entered into a 0% interest, \$525,000 mortgage note payable to Greater Minnesota Housing Fund. Payments due from available cash flow in the amount lesser of \$17,500 or eligible cash with the remaining unpaid principal due June 2037. The note is secured by a combination mortgage, security agreement, assignment of rents and leases, and fixture financing statement.

Long-term debt activity for the year ended September 30, 2020, follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
MHFA note payable	\$ 1,100,000	\$ -	\$ -	\$ 1,100,000	\$ -
GMHF note payable	90,061	-	-	90,061	90,061
DEDA note payable	230,000	-	-	230,000	230,000
Capital lease obligation	738,074	-	(322,969)	415,105	337,847
MHFA note payable (Harborview)	880,000	-	-	880,000	-
GMHF note payable (Harborview)	525,000	-	-	525,000	-
Total long-term liabilities	<u>\$ 3,563,135</u>	<u>\$ -</u>	<u>\$ (322,969)</u>	<u>\$ 3,240,166</u>	<u>\$ 657,908</u>

Included in the above table are \$1,405,000 of notes payable in the beginning balance column that were assumed through assignment of equity interest in Harborview.

Housing and Redevelopment Authority of Duluth, Minnesota

Notes to Financial Statements

Note 8. Long-Term Debt (Continued)

Annual debt service requirements to maturity for long-term debt obligations are as follows:

	Business-Type Activities	
	Principal	Interest
Years ending September 30:		
2021	\$ 657,908	\$ 13,040
2022	77,258	698
2023	-	-
2024	1,100,000	-
2025	-	-
2026-2030	-	-
2031-2035	-	-
2036-2037	1,405,000	-
	<u>\$ 3,240,166</u>	<u>\$ 13,738</u>

Note 9. Pension Plan

The Duluth Housing Authority money purchase pension plan is a defined contribution plan as described in Section 404(c) of the Employee Retirement Income Security Act (ERISA) and the regulations thereunder. The plan is administered by a pension committee designated by the Board of Commissioners of the Authority. The Authority reserves the right, by written resolution of the Board of Commissioners, to amend or terminate the plan in the event the Authority deems it advisable.

All employees are eligible to participate in the plan on January 1 of the year following the date of employment and will continue to participate so long as they work 1,000 hours during that plan year. Participants will not be entitled to the Authority's contribution for a plan year, unless they work at least 1,000 hours during that plan year. The Authority contributes 12.5% of each participant's compensation as defined in the plan. This contribution covers both the pension plan and the life insurance plan. Employee contributions are not required or permitted. Employees must have at least 1,000 hours of service in a plan year to begin vesting and in subsequent years to continue vesting. The employer's contribution for each employee (and interest allocated to the employee's account) vest evenly over a five-year period. Employer's contributions and investment earnings for employees who leave employment before their contributions vest are used to reduce the employer's contribution requirements. The Authority's contribution to the plan was \$407,114 for 2020.

Note 10. Vacation and Sick Leave

Vacation is earned by all nontemporary employees. Employees may carry up to 30 days of vacation to subsequent years during their first 20 years of employment and up to 38 days thereafter. This carryover is in addition to any vacation accrued in the current year. Vacation is accrued as earned. The liability for unpaid vacation leave was \$250,590 at September 30, 2020. This amount is included in accrued liabilities in the statement of net position.

Housing and Redevelopment Authority of Duluth, Minnesota

Notes to Financial Statements

Note 10. Vacation and Sick Leave (Continued)

Sick leave is earned by all nontemporary employees. Employees may accumulate up to 60 days of sick leave during their first six years of employment and 120 days thereafter. This accumulation is in addition to any sick leave accrued in the current year. An employee who has been employed for at least 10 years may, upon retirement at age 55 or older, convert 75% of unused sick leave into a health care savings plan. The Authority has accrued a liability for the estimated amount of accumulated sick leave that will be paid into a health care savings plan. The amount accrued was \$572,217 at September 30, 2020. This amount is included in accrued liabilities in the statement of net position.

Note 11. Commitments

The Authority has entered into several contracts for general upgrades to certain properties. There is approximately \$2,953,000 to be incurred on these contracts in future periods.

Note 12. Restricted Net Position

The Authority's net position is restricted as of September 30:

	<u>Amount</u>
Hope VI project	\$ 4,785,785
Housing assistance payment equity	11,638
Revolving loan	119,945
Operating reserve for Harbor View Phase I	219,680
CDBG program	131,656
Mainstream vouchers program	42,726
State of Minnesota programs	242,094
	<u>\$ 5,553,524</u>

Note 13. Pending Accounting Standards

The GASB has issued several statements not yet implemented by the Authority. Management has not yet evaluated the impact of these statements. Listed below are statements, which may impact future financial statements of the Authority:

GASB Statement No. 84, *Fiduciary Activities*, will be effective for the Authority beginning with its year ending September 30, 2021. This statement establishes criteria for identifying fiduciary activities and clarifies whether and how business-type activities should report their fiduciary activities.

GASB Statement No. 87, *Leases*, will be effective for the Authority beginning with its year ending September 30, 2022. This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract.

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, will be effective for the Authority beginning with its year ending September 30, 2022. This statement establishes guidance designed to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period. It also simplifies accounting for interest cost incurred before the end of a construction period.

Housing and Redevelopment Authority of Duluth, Minnesota

Notes to Financial Statements

Note 13. Pending Accounting Standards (Continued)

GASB Statement No. 90, *Majority Equity Interests*, will be effective for the Authority beginning with its year ending September 30, 2021. This statement clarifies the accounting and financial reporting requirements for government's majority equity interest in an organization that remains legally separate after acquisition. This statement also establishes guidance for remeasuring assets and liabilities of wholly acquired governmental organizations that remain legally separate. That guidance brings the reporting of those acquisitions in line now with existing standards that apply to acquisitions that do not remain legally separate.

GASB Statement No. 91, *Conduit Debt Obligations*, will be effective for the Authority beginning with its year ending September 30, 2023. This statement provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations and (3) related note disclosures.

GASB Statement No. 92, *Omnibus 2020*, will be effective for the Authority beginning with its year ending September 30, 2022. This statement enhances comparability in accounting and financial reporting and improves the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB statements.

GASB Statement No. 93, *Replacement of Interbank Offered Rates*, will be effective for the Authority beginning with its year ending September 30, 2021. This statement addresses certain accounting and financial reporting implications that result from the replacement of an Interbank Offered Rate (IBOR) and London Interbank Offered Rate (LIBOR), which are expected to cease to exist in their current form at the end of 2021.

GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, will be effective for the Authority beginning with its year ending September 30, 2023. This statement improves financial reporting by addressing issues related to arrangements in which a government contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset, for a period of time in an exchange or exchange-like transaction.

GASB Statement No. 96, *Subscription-Based Information Technology Arrangement*, will be effective for the Authority beginning with its year ending September 30, 2023. This statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements for government end users.

GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, will be effective for the Authority immediately for objectives (1) and (2) and beginning with its year ending September 30, 2022, for objective (3). The objectives of this statement are (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) section 457 deferred compensation plans (section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans.

Housing and Redevelopment Authority of Duluth, Minnesota

Notes to Financial Statements

Note 14. COVID-19 Implications

On January 30, 2020, the World Health Organization declared the coronavirus outbreak (COVID-19) a “Public Health Emergency of International Concern” and on March 10, 2020, declared COVID-19 a pandemic. Although the Authority’s services and programs have not been reduced or suspended due to the pandemic as of the date of this report, the operations of the Authority could be impacted by the regional and global outbreak of COVID-19. Any quarantines, labor shortages or other disruptions to the Authority’s operations may impact the Authority’s revenues, ability to provide its services, and operating results. The extent to which the COVID-19 pandemic impacts the Authority’s future financial statements will depend on future developments, which are highly uncertain and cannot be predicted, including new information that may emerge concerning the severity of the COVID-19 and actions taken to contain COVID-19 or its impact, among others.

Note 15. Restatement

As discussed in Note 1, the Authority was assigned 100% equity interest in Harborview (99.99% directly and 0.01% through Red Rock, LLC) during 2020, which resulted in Harborview being reported as a blended component unit. The Authority recognized an increase in beginning net position of \$684,533 as a restatement.

Supplementary Information

Housing and Redevelopment Authority of Duluth, Minnesota

Financial Data Schedule Balance Sheet September 30, 2020

Line Item No.	Account Description	Owned Housing	Public Housing Cares Act Funding	Esmond	Hope VI	Section 8 Housing Choice Vouchers	HCV Cares Act Funding	Section 8 Moderate Rehabilitation	Other State and County Section 8 Programs	Emergency Shelter Grant	Continuum of Care	Family Self Sufficiency
Assets												
Current assets:												
Cash:												
111	Unrestricted	\$ 782,521	\$ -	\$ -	\$ 66,449	\$ 83,929	\$ 370,555	\$ 55,126	\$ -	\$ -	\$ -	\$ -
113	Other restricted	-	-	-	65	16,968	-	-	-	-	-	-
Investments:												
131	Unrestricted	2,704,000	-	-	197,924	-	-	-	-	-	-	-
132	Restricted	-	-	-	4,785,720	50,000	-	-	-	-	-	-
100	Total cash	3,486,521	-	-	5,050,158	150,897	370,555	55,126	-	-	-	-
Accounts and notes receivables:												
Accounts receivable:												
122	HUD other projects	89,761	-	-	-	-	-	-	-	-	17,432	-
124	Other governments	634,651	-	-	-	-	-	-	14,909	13,952	105,229	14,600
125	Miscellaneous	6,288	-	-	-	-	-	-	-	-	-	-
126	Tenants	113,637	-	3,045	-	10,038	-	-	-	-	-	-
126.1	Allowance for doubtful accounts	(51,558)	-	(801)	(190,076)	-	-	-	-	-	-	-
127	Notes receivable current	-	-	-	61,628	-	-	-	-	-	-	-
129	Accrued interest receivable	40,126	-	-	325,277	-	-	-	-	-	-	-
120	Total receivables	832,905	-	2,244	196,829	10,038	-	-	14,909	13,952	122,661	14,600
Investments and other assets:												
142	Prepaid expenses and other assets	186,186	-	3,960	2,693	10,097	-	-	-	-	-	-
144	Interprogram due from	-	-	-	-	-	-	-	-	-	-	-
145	Assets held for sale	-	-	-	-	-	-	-	-	-	-	-
150	Total current assets	4,505,612	-	6,204	5,249,680	171,032	370,555	55,126	14,909	13,952	122,661	14,600
Noncurrent assets:												
Property and equipment:												
161	Land	1,894,016	-	123,600	1,073,911	-	-	-	-	-	-	-
162	Buildings	71,124,824	-	1,311,406	-	-	-	-	-	-	-	-
Furniture, equipment and machinery:												
163	Dwellings	9,856,706	-	-	-	-	-	-	-	-	-	-
164	Administration	1,752,947	-	-	31,773	21,981	-	-	-	-	-	-
166	Accumulated depreciation	(64,684,748)	-	(240,375)	(31,773)	(15,752)	-	-	-	-	-	-
167	Construction in progress	3,370,960	-	-	26,650	-	-	-	-	-	-	-
160	Total property and equipment, net of accumulated depreciation	23,314,705	-	1,194,631	1,100,561	6,229	-	-	-	-	-	-
171	Notes receivable, noncurrent	-	-	-	17,569,663	-	-	-	-	-	-	-
180	Total noncurrent assets	23,314,705	-	1,194,631	18,670,224	6,229	-	-	-	-	-	-
190	Total assets	\$27,820,317	\$ -	\$ 1,200,835	\$23,919,904	\$ 177,261	\$ 370,555	\$ 55,126	\$ 14,909	\$ 13,952	\$ 122,661	\$ 14,600

(Continued)

Housing and Redevelopment Authority of Duluth, Minnesota

Financial Data Schedule Balance Sheet (Continued) September 30, 2020

Line Item No.	Account Description	Central Office Cost Center	State/Local	CDBG	Home	Business Activities	Mainstream Vouchers	Tax Increment District	Harborview	Fiduciary Funds	Elimination	Total
Assets												
Current assets:												
Cash:												
111	Unrestricted	\$ 300,220	\$ 1,623,057	\$ -	\$ -	\$ 56,428	\$ 42,726	\$ 25,963	\$ 46,383	\$ 2,589	\$ -	\$ 3,455,946
113	Other restricted	-	339,625	131,656	-	242,094	-	-	256,826	-	-	987,234
Investments:												
131	Unrestricted	1,335,000	5,824,000	-	-	-	-	-	-	-	-	10,060,924
132	Restricted	-	-	-	-	-	-	-	-	-	-	4,835,720
100	Total cash	1,635,220	7,786,682	131,656	-	298,522	42,726	25,963	303,209	2,589	-	19,339,824
Accounts and notes receivables:												
Accounts receivable:												
122	HUD other projects	-	-	-	-	-	-	-	-	-	-	107,193
124	Other governments	-	721,417	144,094	25,002	56,624	-	146,425	-	-	-	1,876,903
125	Miscellaneous	61,160	3,469	-	601	-	-	-	-	-	-	71,518
126	Tenants	-	-	-	-	-	-	-	12,372	-	-	139,092
126.1	Allowance for doubtful accounts	-	-	-	-	-	-	-	-	-	-	(242,435)
127	Notes receivable current	-	103,910	83,541	-	9,001	-	-	-	-	-	258,080
129	Accrued interest receivable	15,812	161,053	-	-	-	-	-	-	-	-	542,268
120	Total receivables	76,972	989,849	227,635	25,603	65,625	-	146,425	12,372	-	-	2,752,619
Investments and other assets:												
142	Prepaid expenses and other assets	238,985	15,716	4,239	-	74	-	-	47,234	-	-	509,184
144	Interprogram due from	1,400	308,794	-	-	-	-	-	-	-	(310,194)	-
145	Assets held for sale	-	1,189,152	-	-	79,274	-	-	-	-	-	1,268,426
150	Total current assets	1,952,577	10,290,193	363,530	25,603	443,495	42,726	172,388	362,815	2,589	(310,194)	23,870,053
Noncurrent assets:												
Property and equipment:												
161	Land	-	51,692	-	-	-	-	-	-	-	-	3,143,219
162	Buildings	285,477	-	-	-	-	-	-	10,178,091	-	-	82,899,798
Furniture, equipment and machinery:												
163	Dwellings	54,643	-	-	-	-	-	-	284,234	-	-	10,195,583
164	Administration	579,052	96,189	-	-	-	-	-	-	-	-	2,481,942
166	Accumulated depreciation	(611,621)	(96,189)	-	-	-	-	-	(4,360,415)	-	-	(70,040,873)
167	Construction in progress	28,635	75,083	-	-	-	-	-	-	-	-	3,501,328
160	Total property and equipment, net of accumulated depreciation	336,186	126,775	-	-	-	-	-	6,101,910	-	-	32,180,997
171	Notes receivable, noncurrent	-	7,490,436	608,639	-	364,710	-	-	-	-	(6,955,490)	19,077,958
180	Total noncurrent assets	336,186	7,617,211	608,639	-	364,710	-	-	6,101,910	-	(6,955,490)	51,258,955
190	Total assets	\$ 2,288,763	\$ 17,907,404	\$ 972,169	\$ 25,603	\$ 808,205	\$ 42,726	\$ 172,388	\$ 6,464,725	\$ 2,589	\$ (7,265,684)	\$ 75,129,008

(Continued)

Housing and Redevelopment Authority of Duluth, Minnesota

Financial Data Schedule Balance Sheet (Continued) September 30, 2020

Line Item No.	Account Description	Owned Housing	Public Housing Cares Act Funding	Esmond	Hope VI	Section 8 Housing Choice Vouchers	HCV Cares Act Funding	Section 8 Moderate Rehabilitation	Other State and County Section 8 Programs	Emergency Shelter Grant	Continuum of Care	Family Self Sufficiency
Liabilities and Equity (Deficit)												
Liabilities:												
Current liabilities:												
312	Accounts payable	\$ 882,252	\$ -	\$ 8,555	\$ 10,478	\$ 2,403	\$ -	\$ 218	\$ 20	\$ -	\$ 80,309	\$ -
321	Accrued wages/payroll taxes payable	94,347	-	-	-	23,860	-	498	142	-	2,695	3,014
322	Accrued compensated absences	126,022	-	-	-	20,075	-	419	120	-	5,369	6,997
325	Accrued interest payable	-	-	-	-	-	-	-	-	-	-	-
Accounts payable:												
331	HUD PHA programs	-	-	-	-	-	-	15,101	-	-	-	-
333	Other governmental	268,001	-	-	-	-	-	-	-	-	-	-
341	Tenant security deposits	203,586	-	946	-	-	-	-	-	-	-	-
342	Deferred revenue	129,674	-	-	-	-	370,555	-	-	-	-	-
343	Current portion of long-term debt, capital projects/mortgage revenue bonds	337,847	-	320,061	-	-	-	-	-	-	-	-
345	Other current liabilities	15,990	-	-	-	-	-	-	-	-	-	-
346	Accrued liabilities, other	25,000	-	-	-	-	-	-	-	-	-	-
347	Interprogram, due to	-	-	-	-	-	-	-	2,085	13,952	34,353	4,589
310	Total current liabilities	2,082,719	-	329,562	10,478	46,338	370,555	16,236	2,367	13,952	122,726	14,600
Noncurrent liabilities:												
351	Noncurrent debt, capital projects/revenue bonds	77,258	-	1,100,000	-	-	-	-	-	-	-	-
353	Noncurrent liabilities, other	-	-	-	-	55,330	-	-	-	-	-	-
354	Accrued compensated absences, noncurrent	-	-	-	-	-	-	-	-	-	-	-
300	Total liabilities	2,159,977	-	1,429,562	10,478	101,668	370,555	16,236	2,367	13,952	122,726	14,600
Deferred inflow of resources:												
400	Deferred inflow of resources	-	-	-	-	-	-	-	-	-	-	-
Equity (deficit):												
508.1	Net investment in capital assets	22,899,600	-	(225,430)	1,100,561	6,229	-	-	-	-	-	-
511.1	Restricted fund balance	-	-	-	4,785,785	11,638	-	-	-	-	-	-
512.2	Unreserved, undesignated fund balance	2,760,740	-	(3,297)	18,023,080	57,726	-	38,890	12,542	-	(65)	-
513	Total equity (deficit)	25,660,340	-	(228,727)	23,909,426	75,593	-	38,890	12,542	-	(65)	-
600	Total liabilities and equity	\$27,820,317	\$ -	\$ 1,200,835	\$ 23,919,904	\$ 177,261	\$ 370,555	\$ 55,126	\$ 14,909	\$ 13,952	\$ 122,661	\$ 14,600

(Continued)

Housing and Redevelopment Authority of Duluth, Minnesota

Financial Data Schedule Balance Sheet (Continued) September 30, 2020

Line Item No.	Account Description	Central Office Cost Center	State/Local	CDBG	Home	Business Activities	Mainstream Vouchers	Tax Increment District	Harborview	Fiduciary Funds	Elimination	Total
Liabilities and Equity (Deficit)												
Liabilities:												
Current liabilities:												
312	Accounts payable	\$ 6,619	\$ 143,197	\$ 6,880	\$ 7	\$ 12,118	\$ -	\$ -	\$ 15,707	\$ -	\$ -	\$ 1,168,763
321	Accrued wages/payroll taxes payable	61,067	6,640	11,191	196	922	-	-	-	-	-	204,572
322	Accrued compensated absences	81,659	7,055	15,524	165	-	-	-	-	-	-	263,405
325	Accrued interest payable	-	-	-	-	-	-	-	-	-	-	-
Accounts payable:												
331	HUD PHA programs	-	-	-	-	-	-	-	-	-	-	15,101
333	Other governmental	-	-	-	-	-	-	-	-	-	-	268,001
341	Tenant security deposits	-	-	-	-	-	-	-	21,961	-	-	226,493
342	Deferred revenue	-	-	-	-	38,184	-	-	-	810	-	539,223
343	Current portion of long-term debt, capital projects/mortgage revenue bonds	-	-	-	-	-	-	-	-	-	-	657,908
345	Other current liabilities	-	10,825	-	-	-	-	-	62,944	-	-	89,759
346	Accrued liabilities, other	-	32,030	-	-	8,344	-	-	-	-	-	65,374
347	Interprogram, due to	-	614	90,195	25,235	56,369	-	82,802	-	-	(310,194)	-
310	Total current liabilities	149,345	200,361	123,790	25,603	115,937	-	82,802	100,612	810	(310,194)	3,498,599
Noncurrent liabilities:												
351	Noncurrent debt, capital projects/revenue bonds	-	-	-	-	-	-	-	5,512,171	-	(4,107,171)	2,582,258
353	Noncurrent liabilities, other	-	2,848,319	-	-	-	-	-	-	-	(2,848,319)	55,330
354	Accrued compensated absences, noncurrent	572,159	-	-	-	-	-	-	-	-	-	572,159
300	Total liabilities	721,504	3,048,680	123,790	25,603	115,937	-	82,802	5,612,783	810	(7,265,684)	6,708,346
Deferred inflow of resources:												
400	Deferred inflow of resources	-	374,755	-	-	-	-	73,224	-	-	-	447,979
Equity (deficit):												
508.1	Net investment in capital assets	336,186	126,775	-	-	-	-	-	589,739	-	4,107,171	28,940,831
511.1	Restricted fund balance	-	339,625	131,656	-	242,094	42,726	-	-	-	-	5,553,524
512.2	Unreserved, undesignated fund balance	1,231,073	14,017,569	716,723	-	450,174	-	16,362	262,203	1,779	(4,107,171)	33,478,328
513	Total equity (deficit)	1,567,259	14,483,969	848,379	-	692,268	42,726	16,362	851,942	1,779	-	67,972,683
600	Total liabilities and equity	\$ 2,288,763	\$ 17,907,404	\$ 972,169	\$ 25,603	\$ 808,205	\$ 42,726	\$ 172,388	\$ 6,464,725	\$ 2,589	\$ (7,265,684)	\$ 75,129,008

Housing and Redevelopment Authority of Duluth, Minnesota

Financial Data Schedule Statement of Revenues, Expenses, and Changes in Fund Equity Year Ended September 30, 2020

Line Item No.	Account Description	Owned Housing	Public Housing Cares Act Funding	Esmond	Hope VI	Section 8 Housing Choice Vouchers	HCV Cares Act Funding	Section 8 Moderate Rehabilitation	Other State and County Section 8 Programs	Emergency Shelter Grant	Continuum of Care	Family Self Sufficiency
Revenue:												
Tenant:												
70300	Rental	\$ 2,955,295	\$ -	\$ 65,099	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
70400	Other	263,175	-	1,874	-	-	-	-	-	-	-	-
70500	Total tenant revenue	3,218,470		66,973								
70600	HUD PHA operating grants	4,116,932	456,058	-	-	8,424,033	36,851	123,452	-	59,227	630,742	85,021
70610	Capital grants	1,867,438	-	-	-	-	-	-	-	-	-	-
70800	Other government grants	965,941	-	-	-	-	-	-	253,151	-	-	-
70700	Management, asset management, book-keeping and other fees	-	-	-	-	-	-	-	-	-	-	-
71100	Investment income, unrestricted	44,175	-	-	22,774	-	-	-	-	-	-	-
71200	Mortgage interest	-	-	-	621,277	-	-	-	-	-	-	-
71400	Fraud recovery	-	-	-	-	8,780	-	-	-	-	-	-
71500	Other revenue	499,730	-	580	565	37,644	-	-	-	-	-	-
71600	Gain or loss on sale of capital assets	-	-	-	-	-	-	-	-	-	-	-
72000	Investment income - restricted	-	-	-	91,096	-	-	-	-	-	-	-
70000	Total revenue	10,712,686	456,058	67,553	735,712	8,470,457	36,851	123,452	253,151	59,227	630,742	85,021
Expenses:												
Administrative:												
91100	Salaries	680,106	-	2,537	2,859	454,439	36,851	8,996	4,099	-	53,616	54,912
91200	Auditing fees	28,693	-	-	2,923	8,537	-	191	249	-	232	-
91300	Management fee	991,087	-	9,960	-	206,554	-	4,456	1,197	-	11,764	-
91310	Book-keeping fee	87,908	-	-	-	119,858	-	2,198	998	-	2,010	-
91400	Advertising and marketing	2,682	-	-	-	460	-	-	-	-	-	-
91500	Employee benefit contributions	300,314	-	-	857	249,824	-	4,576	2,084	-	21,989	33,255
91600	Office expenses	203,272	9,302	49,443	24,226	78,423	-	1,203	778	14,082	20,167	-
91700	Legal	1,494	-	-	22,901	1,097	-	-	-	-	-	-
91800	Travel	2,266	-	48	-	1,417	-	13	17	-	16	-
91900	Other	211,346	21,456	14,638	-	-	-	-	-	45,145	326,625	-
	Total administrative	2,509,168	30,758	76,626	53,766	1,120,609	36,851	21,633	9,422	59,227	436,419	88,167
92000	Asset management fee	138,360	-	-	-	-	-	-	-	-	-	-
	Total asset management fee	138,360										
Tenant services:												
92100	Salaries	33,771	-	-	-	-	-	-	-	-	-	-
92300	Employee benefit contributions	6,841	-	-	-	-	-	-	-	-	-	-
92400	Other	5,788	-	-	-	-	-	-	-	-	-	-
92500	Total tenant services	46,400										
Utilities:												
93100	Water	215,802	-	6,715	389	-	-	-	-	-	-	-
93200	Electricity	349,568	-	10,123	5,755	-	-	-	-	-	-	-
93300	Gas	186,442	-	15,787	2,594	-	-	-	-	-	-	-
93400	Fuel	-	-	-	-	-	-	-	-	-	-	-
93000	Total utilities	751,812		32,625	8,738							
Ordinary maintenance and operation:												
94100	Labor	864,728	238,603	17,775	-	-	-	-	-	-	-	-
94200	Materials and other	450,075	1,003	19,044	134	20	-	-	-	-	-	-
94300	Contract costs	992,081	33,331	42,656	35,634	767	-	-	-	-	-	-
94500	Employee benefit contributions	401,052	124,497	-	-	-	-	-	-	-	-	-
94000	Total ordinary maintenance and operation	2,707,936	397,434	79,475	35,768	787						

(Continued)

Housing and Redevelopment Authority of Duluth, Minnesota

Financial Data Schedule Statement of Revenues, Expenses, and Changes in Fund Equity (Continued) Year Ended September 30, 2020

Line Item No.	Account Description	Central Office Cost Center	State/Local	CDBG	Home	Business Activities	Mainstream Vouchers	Tax Increment District	Harborview	Fiduciary Funds	Elimination	Total
Revenue:												
Tenant:												
70300	Rental	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 420,533	\$ -	\$ -	\$ 3,440,927
70400	Other	-	-	-	-	-	-	-	-	-	-	265,049
70500	Total tenant revenue	-	-	-	-	-	-	-	420,533	-	-	3,705,976
70600	HUD PHA operating grants	-	-	548,350	108,971	-	42,726	-	-	-	-	14,632,363
70610	Capital grants	-	-	-	-	-	-	-	-	-	-	1,867,438
70800	Other government grants	-	-	-	-	130,853	-	-	-	1,948	-	1,351,893
70700	Management, asset management, book-keeping and other fees	1,575,165	-	-	-	-	-	-	-	-	(1,575,165)	-
71100	Investment income, unrestricted	8,871	110,921	-	-	20	-	-	89	-	-	186,850
71200	Mortgage interest	-	188,302	-	-	-	-	-	-	-	(118,196)	691,383
71400	Fraud recovery	-	-	-	-	-	-	-	-	-	-	8,780
71500	Other revenue	1,137	1,598,782	97,045	-	2,145	-	284,390	395,213	-	(167,871)	2,749,360
71600	Gain or loss on sale of capital assets	-	(24,104)	33,939	-	-	-	-	-	-	-	9,835
72000	Investment income - restricted	-	-	-	-	-	-	-	-	-	-	91,096
70000	Total revenue	1,585,173	1,873,901	679,334	108,971	133,018	42,726	284,390	815,835	1,948	(1,861,232)	25,294,974
Expenses:												
Administrative:												
91100	Salaries	825,295	144,686	185,402	5,794	963	-	324	27,445	-	-	2,488,324
91200	Auditing fees	-	912	5,147	116	-	-	-	10,290	-	-	57,290
91300	Management fee	-	-	-	3,384	-	-	-	25,500	-	(1,222,423)	31,479
91310	Book-keeping fee	-	-	-	1,410	-	-	-	-	-	(214,382)	-
91400	Advertising and marketing	3,044	11,887	-	-	-	-	-	2,803	-	-	20,876
91500	Employee benefit contributions	377,795	54,578	87,399	2,945	411	-	24	-	-	-	1,136,051
91600	Office expenses	203,510	302,210	18,010	470	1,100	-	-	-	-	-	926,196
91700	Legal	10,139	6,207	-	-	-	-	-	1,776	-	-	43,614
91800	Travel	1,803	803	1,159	8	-	-	-	-	-	-	7,550
91900	Other	-	16,860	379,729	-	129,645	-	246,450	36,077	-	-	1,427,971
	Total administrative	1,421,586	538,143	676,846	14,127	132,119	-	246,798	103,891	-	(1,436,805)	6,139,351
92000	Asset management fee	-	-	-	-	-	-	-	-	-	(138,360)	-
	Total asset management fee	-	-	-	-	-	-	-	-	-	(138,360)	-
Tenant services:												
92100	Salaries	-	-	-	-	-	-	-	-	-	-	33,771
92300	Employee benefit contributions	-	-	-	-	-	-	-	-	-	-	6,841
92400	Other	-	-	-	-	-	-	-	-	-	-	5,788
92500	Total tenant services	-	-	-	-	-	-	-	-	-	-	46,400
Utilities:												
93100	Water	-	3,675	214	-	71	-	-	42,625	-	-	269,491
93200	Electricity	1,175	13,434	356	-	72	-	-	2,286	-	-	382,769
93300	Gas	-	4,483	2,169	-	1,040	-	-	1,083	-	-	213,598
93400	Fuel	-	-	-	-	-	-	-	-	-	-	-
93000	Total utilities	1,175	21,592	2,739	-	1,183	-	-	45,994	-	-	865,858
Ordinary maintenance and operation:												
94100	Labor	-	-	-	-	-	-	-	13,386	-	-	1,134,492
94200	Materials and other	988	-	-	-	-	-	-	86,738	-	-	558,002
94300	Contract costs	5,576	27,583	10,027	-	316	-	-	2,131	1,356	-	1,151,458
94500	Employee benefit contributions	-	-	-	-	-	-	-	-	-	-	525,549
94000	Total ordinary maintenance and operation	6,564	27,583	10,027	-	316	-	-	102,255	1,356	-	3,369,501

(Continued)

Housing and Redevelopment Authority of Duluth, Minnesota

Financial Data Schedule
Statement of Revenues, Expenses, and Changes in Fund Equity (Continued)
Year Ended September 30, 2020

Line Item No.	Account Description	Owned Housing	Public Housing Cares Act Funding	Esmond	Hope VI	Section 8 Housing Choice Vouchers	HCV Cares Act Funding	Section 8 Moderate Rehabilitation	Other State and County Section 8 Programs	Emergency Shelter Grant	Continuum of Care	Family Self Sufficiency
Expenses:												
Protective services:												
95200	Contract costs	\$ 36,338	\$ 27,866	\$ 985	\$ 1,212	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
	Total protective services expenses	36,338	27,866	985	1,212	-	-	-	-	-	-	-
General expenses:												
96100	Insurance premiums	262,350	-	25,571	4,828	13,564	-	186	395	-	485	-
96200	Other general expenses	-	-	-	-	-	-	-	-	-	-	-
96210	Compensated absences	4,364	-	-	-	(4,890)	-	61	17	-	4,678	(187)
96300	Payments in lieu of taxes	214,434	-	15,601	-	-	-	-	-	-	-	-
96400	Bad debt-tenant rents	125,702	-	-	-	-	-	-	-	-	-	-
96500	Bad debt-mortgages	-	-	-	167,871	-	-	-	-	-	-	-
96710	Interest on mortgage (or bonds) payable	-	-	-	-	-	-	-	-	-	-	-
96720	Interest on notes payable (short and long-term)	27,568	-	-	-	-	-	-	-	-	-	-
96800	Severance expense	-	-	-	-	-	-	-	-	-	-	-
	Total general expenses	634,418	-	41,172	172,699	8,674	-	247	412	-	5,163	(187)
96900	Total operating expenses	6,824,432	456,058	230,883	272,183	1,130,070	36,851	21,880	9,834	59,227	441,582	87,980
97100	Extraordinary maintenance	-	-	-	-	-	-	-	-	-	-	-
97200	Casualty losses, noncapitalized	65,091	-	-	-	-	-	-	-	-	-	-
97300	Housing assistance payments	-	-	-	-	7,723,884	-	96,258	243,290	-	199,680	-
97400	Depreciation expense	1,813,186	-	45,194	-	4,396	-	-	-	-	-	-
90000	Total expenses	8,702,709	456,058	276,077	272,183	8,858,350	36,851	118,138	253,124	59,227	641,262	87,980
	(Deficit) excess of revenue over expenses	2,009,977	-	(208,524)	463,529	(387,893)	-	5,314	27	-	(10,520)	(2,959)
Other financing sources (uses):												
Interfund transfers:												
10010	In	627,876	-	161,925	-	80,000	-	-	-	-	10,520	2,959
10020	Out	(627,876)	-	-	-	-	-	-	-	-	-	-
10091	Inter project excess cash transfer in	17,085	-	-	-	-	-	-	-	-	-	-
10092	Inter project excess cash transfer out	(17,085)	-	-	-	-	-	-	-	-	-	-
10100	Total other financing sources (uses)	-	-	161,925	-	80,000	-	-	-	-	10,520	2,959
10000	Excess of revenue and other financing sources/uses over (under) expenses	\$ 2,009,977	\$ -	\$ (46,599)	\$ 463,529	\$ (307,893)	\$ -	\$ 5,314	\$ 27	\$ -	\$ -	\$ -
Changes in fund equity (deficit):												
	Balance, October 1, 2019	\$ 23,650,363	\$ -	\$ (182,128)	\$ 23,445,897	\$ 383,486	\$ -	\$ 33,576	\$ 12,515	\$ -	\$ (65)	\$ -
	Restatement	-	-	-	-	-	-	-	-	-	-	-
	Excess of revenue over (under) expenses	2,009,977	-	(46,599)	463,529	(307,893)	-	5,314	27	-	-	-
	Balance, September 30, 2020	\$ 25,660,340	\$ -	\$ (228,727)	\$ 23,909,426	\$ 75,593	\$ -	\$ 38,890	\$ 12,542	\$ -	\$ (65)	\$ -

(Continued)

Housing and Redevelopment Authority of Duluth, Minnesota

Financial Data Schedule Statement of Revenues, Expenses, and Changes in Fund Equity (Continued) Year Ended September 30, 2020

Line Item No.	Account Description	Central Office Cost Center	State/Local	CDBG	Home	Business Activities	Mainstream Vouchers	Tax Increment District	Harborview	Fiduciary Funds	Elimination	Total
Expenses:												
Protective services:												
95200	Contract costs	\$ -	\$ 145,806	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 212,207
	Total protective services expenses	-	145,806	-	-	-	-	-	-	-	-	212,207
General expenses:												
96100	Insurance premiums	23,189	6,491	5,121	184	65	-	-	20,901	-	-	363,330
96200	Other general expenses	-	-	-	-	-	-	-	6,731	-	-	6,731
96210	Compensated absences	8,828	(3,730)	(2,589)	(100)	-	-	-	-	-	-	6,452
96300	Payments in lieu of taxes	-	-	-	-	-	-	-	60,698	-	-	290,733
96400	Bad debt-tenant rents	-	60,000	-	-	-	-	-	-	-	-	185,702
96500	Bad debt-mortgages	-	-	-	-	-	-	-	-	-	(167,871)	-
96710	Interest on mortgage (or bonds) payable	-	118,196	-	-	-	-	-	44,287	-	(118,196)	44,287
96720	Interest on notes payable (short and long-term)	-	-	-	-	-	-	3,571	-	-	-	31,139
96800	Severance expense	-	-	-	-	-	-	-	-	-	-	-
	Total general expenses	32,017	180,957	2,532	84	65	-	3,571	132,617	-	(286,067)	928,374
96900	Total operating expenses	1,461,342	914,081	692,144	14,211	133,683	-	250,369	384,757	1,356	(1,861,232)	11,561,691
97100	Extraordinary maintenance	-	-	-	-	-	-	-	-	-	-	-
97200	Casualty losses, noncapitalized	-	-	-	-	-	-	-	-	-	-	65,091
97300	Housing assistance payments	-	-	-	95,118	-	-	-	-	-	-	8,358,230
97400	Depreciation expense	29,370	-	-	-	-	-	-	263,669	-	-	2,155,815
90000	Total expenses	1,490,712	914,081	692,144	109,329	133,683	-	250,369	648,426	1,356	(1,861,232)	22,140,827
	Excess (deficit) of revenue over expenses	94,461	959,820	(12,810)	(358)	(665)	42,726	34,021	167,409	592	-	3,154,147
Other financing sources (uses):												
Interfund transfers:												
10010	In	-	22,142	-	356	-	-	-	-	-	(905,778)	-
10020	Out	-	(277,902)	-	-	-	-	-	-	-	905,778	-
10091	Inter project excess cash transfer in	-	-	-	-	-	-	-	-	-	(17,085)	-
10092	Inter project excess cash transfer out	-	-	-	-	-	-	-	-	-	17,085	-
10100	Total other financing sources (uses)	-	(255,760)	-	356	-	-	-	-	-	-	-
10000	Excess of revenue and other financing sources/uses over (under) expenses	\$ 94,461	\$ 704,060	\$ (12,810)	\$ (2)	\$ (665)	\$ 42,726	\$ 34,021	\$ 167,409	\$ 592	\$ -	\$ 3,154,147
Changes in fund equity (deficit):												
	Balance, October 1, 2019	\$ 1,472,798	\$ 13,779,909	\$ 861,189	\$ 2	\$ 692,933	\$ -	\$ (17,659)	\$ -	\$ 1,187	\$ -	\$ 64,134,003
	Restatement	-	-	-	-	-	-	-	684,533	-	-	684,533
	Excess of revenue over expenses	94,461	704,060	(12,810)	(2)	(665)	42,726	34,021	167,409	592	-	3,154,147
	Balance, September 30, 2020	\$ 1,567,259	\$ 14,483,969	\$ 848,379	\$ -	\$ 692,268	\$ 42,726	\$ 16,362	\$ 851,942	\$ 1,779	\$ -	\$ 67,972,683

(Continued)

Housing and Redevelopment Authority of Duluth, Minnesota

Financial Data Schedule
 Statement of Revenues, Expenses, and Changes in Fund Equity (Continued)
 Year Ended September 30, 2020

Line Item No.	Account Description	Owned Housing	Public Housing Cares Act Funding	Esmond	Hope VI	Section 8 Housing Choice Vouchers	HCV Cares Act Funding	Section 8 Moderate Rehabilitation	Other State and County Section 8 Programs	Emergency Shelter Grant	Continuum of Care	Family Self Sufficiency
Memo account information:												
11020	Debt principal repayment	\$ 337,847	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
11030	Beginning equity	\$ 23,650,363	\$ -	\$ (182,128)	\$ 23,445,897	\$ 383,486	\$ -	\$ 33,576	\$ 12,515	\$ -	\$ (65)	\$ -
11040	Prior period adjustments equity transfers, correction of errors	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
11170	Administrative fee equity	\$ -	\$ -	\$ -	\$ -	\$ 63,955	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
11180	Housing assistance payment equity	\$ -	\$ -	\$ -	\$ -	\$ 11,638	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
11190	Unit-months available	13,884	-	170	-	18,160	-	372	-	-	384	-
11210	Number of unit-months leased	12,894	-	166	-	15,988	-	293	-	-	142	-
11270	Excess cash	\$ 1,724,999	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
11610	Land purchases	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
11620	Building purchases	\$ 3,000,763	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Furniture and equipment:												
11630	Dwelling purchases	\$ 17,287	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
11640	Administrative purchases	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
13901	Replacement housing factor funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

(Continued)

Housing and Redevelopment Authority of Duluth, Minnesota

Financial Data Schedule Statement of Revenues, Expenses, and Changes in Fund Equity (Continued) Year Ended September 30, 2020

Line Item No.	Account Description	Central Office Cost Center	State/Local	CDBG	Home	Business Activities	Mainstream Vouchers	Tax Increment District	Harborview	Fiduciary Funds	Elimination	Total
Memo account information:												
11020	Debt principal repayment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 43,397	\$ -	\$ -	\$ 381,244
11030	Beginning equity	\$ 1,472,798	\$ 13,779,909	\$ 861,189	\$ 2	\$ 692,933	\$ -	\$ (17,659)	\$ -	\$ 1,187	\$ -	\$ 64,134,003
11040	Prior period adjustments equity transfers, correction of errors	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 684,533	\$ -	\$ -	\$ 684,533
11170	Administrative fee equity	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 63,955
11180	Housing assistance payment equity	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 11,638
11190	Unit-months available	-	474	-	188	-	-	-	396	-	-	34,028
11210	Number of unit-months leased	-	456	-	156	-	-	-	376	-	-	30,471
11270	Excess cash	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,724,999
11610	Land purchases	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
11620	Building purchases	\$ 28,635	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,029,398
Furniture and equipment:												
11630	Dwelling purchases	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 17,287
11640	Administrative purchases	\$ 61,651	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 61,651
13901	Replacement housing factor funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

Housing and Redevelopment Authority of Duluth, Minnesota

Schedule of Expenditures of Federal Awards Year Ended September 30, 2020

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Contract Number	Assistance Listing Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
U.S. Department of Housing and Urban Development:					
CDBG—Entitlement Grants Cluster:					
Passed through St. Louis County:					
Community Development Block Grants/ Entitlement Grants	091200	14.218	091200	\$ -	\$ 22,000
Passed through City of Duluth:					
Community Development Block Grants/ Entitlement Grants	RLF	14.218	RLF	-	182,588
Community Development Block Grants/ Entitlement Grants	23898	14.218	23898	-	334,783
Community Development Block Grants/ Entitlement Grants	23624	14.218	23624	-	30,979
Community Development Block Grants/ Entitlement Grants	91200	14.218	091200	-	12,000
Total CFDA 14.218, CDBG - Entitlement Grants Cluster				-	582,350
Emergency Solutions Grant Program	23763	14.231	23763	-	59,227
HOME Investment Partnerships Program	23765	14.239	23765	-	97,000
HOME Investment Partnerships Program	20-HM-01	14.239	20-HM-01	-	11,971
Total CFDA 14.239				-	108,971
Direct:					
Coordinated Entry Grant (Continuum of Care Program)	MN0129L5K091811	14.267		-	77,466
Coordinated Entry Grant (Continuum of Care Program)	MN0129L5K091710	14.267		-	21,718
Coordinated Entry Grant (Continuum of Care Program)	MN0235L5K0191808	14.267		-	105,101
Coordinated Entry Grant (Continuum of Care Program)	MN0303L5K091805	14.267		109,776	113,176
Coordinated Entry Grant (Continuum of Care Program)	MN0304L5K091805	14.267		113,138	117,003
Coordinated Entry Grant (Continuum of Care Program)	MN03040L5K091804	14.267		68,428	71,832
Coordinated Entry Grant (Continuum of Care Program)	MN0293L5K091704	14.267		35,283	35,283
Coordinated Entry Grant (Continuum of Care Program)	MN0293L5K091805	14.267		-	55,163
Total CFDA 14.267				326,625	596,742
Public and Indian Housing	C-949	14.850		-	3,012,027
COVID-19 - Public and Indian Housing	C-949	14.850		-	456,058
Total CFDA 14.850				-	3,468,085
Section 8 Project-Based Cluster:					
Lower Income Housing Assistance Program:					
Section 8 Moderate Rehabilitation	C-4072SR	14.856		-	50,703
Section 8 Moderate Rehabilitation	C-4072MR	14.856		-	72,749
Total CFDA 14.856, Section 8 Project-Based Cluster				-	123,452
Housing Voucher Cluster:					
Section 8 Housing Choice Vouchers	MN003VO/AF	14.871		-	8,424,033
COVID-19 - Section 8 Housing Choice Vouchers	MN003VO/AF	14.871		-	36,851
Total CFDA 14.871, Housing Voucher Cluster				-	8,460,884
Public Housing Capital Fund	MN46P00350116	14.872		-	76,615
Public Housing Capital Fund	MN46P00350117	14.872		-	295,373
Public Housing Capital Fund	MN46P00350118	14.872		-	2,061,832
Public Housing Capital Fund	MN46P00350119	14.872		-	512,082
Public Housing Capital Fund	MN46P00350120	14.872		-	26,441
Total CFDA 14.872				-	2,972,343
Family Self-Sufficiency Program	FSS18MN2748	14.896		-	20,998
Family Self-Sufficiency Program	FSS20MN3270	14.896		-	64,023
Total CFDA 14.896				-	85,021
Total U.S. Department of Housing and Urban Development				326,625	16,457,075
Total expenditures of federal awards				\$ 326,625	\$ 16,457,075

Housing and Redevelopment Authority of Duluth, Minnesota

Notes to the Schedule of Expenditures of Federal Awards Year Ended September 30, 2020

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the Authority under programs of the federal government for the year ended September 30, 2020. 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 Authority, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Authority.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the full 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. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

Note 3. Indirect Cost Rate

The Authority has not elected to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

Housing and Redevelopment Authority of Duluth, Minnesota

**Schedule of Public Housing Capital Funds Closeout
September 30, 2020**

	2013 Capital Fund MN46R00350213	2014 Capital Fund MN46R00350114	2014 Capital Fund MN46R00350214
Funds approved	\$ 135,831	\$ 1,367	\$ 127,456
Funds expended	135,831	1,367	127,456
Excess of funds approved	\$ -	\$ -	\$ -
Status	Complete	Complete	Complete

Compliance Matters and Internal Control

**Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance With *Government Auditing Standards***

Independent Auditor's Report

Board of Commissioners
Housing and Redevelopment Authority of Duluth, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Housing and Redevelopment Authority of Duluth, Minnesota, as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the Housing and Redevelopment Authority of Duluth, Minnesota's basic financial statements, and have issued our report thereon dated June 28, 2021.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of This Report

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

RSM US LLP

Duluth, Minnesota
June 28, 2021

**Report on Compliance for the Major Federal Program and
Report on Internal Control Over Compliance Required by the Uniform Guidance**

Independent Auditor's Report

Board of Commissioners
Housing and Redevelopment Authority of Duluth, Minnesota

Report on Compliance for the Major Federal Program

We have audited the Housing and Redevelopment Authority of Duluth, Minnesota's compliance 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 Housing and Redevelopment Authority of Duluth, Minnesota's major federal program for the year ended September 30, 2020. The Housing and Redevelopment Authority of Duluth, Minnesota's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Housing and Redevelopment Authority of Duluth, Minnesota'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 the 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 Housing and Redevelopment Authority of Duluth, Minnesota'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 the major federal program. However, our audit does not provide a legal determination of the Housing and Redevelopment Authority of Duluth, Minnesota's compliance.

Opinion on the Major Federal Program

In our opinion, the Housing and Redevelopment Authority of Duluth, Minnesota 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 September 30, 2020.

Report on Internal Control Over Compliance

Management of the Housing and Redevelopment Authority of Duluth, Minnesota 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 the Housing and Redevelopment Authority of Duluth, Minnesota's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Housing and Redevelopment Authority of Duluth, Minnesota's internal control over compliance.

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 a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

RSM US LLP

Duluth, Minnesota
June 28, 2021

Housing and Redevelopment Authority of Duluth, Minnesota

**Schedule of Findings and Questioned Costs
Year Ended September 30, 2020**

I. SUMMARY OF INDEPENDENT AUDITOR'S RESULTS

A. Financial Statements

1. Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified
2. Internal control over financial reporting:
- Material weakness(es) identified? _____ Yes ___X___ No
 - Significant deficiency(ies) identified? _____ Yes ___X___ None reported
3. Noncompliance material to financial statements noted? _____ Yes ___X___ No

B. Federal Awards

1. Internal control over major programs:
- Material weakness(es) identified? _____ Yes ___X___ No
 - Significant deficiency(ies) identified? _____ Yes ___X___ None reported
2. Type of auditor's report issued on compliance for major federal programs: Unmodified
- Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? _____ Yes ___X___ No

3. Identification of major programs:

CFDA Number	Name of Federal Program
14.850	Public and Indian Housing

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

Auditee qualify as a low-risk auditee? ___X___ Yes _____ No

II. FINANCIAL STATEMENT FINDINGS

No matters to report.

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters to report.



**HOUSING AND REDEVELOPMENT AUTHORITY
OF DULUTH, MINNESOTA**

222 East Second Street | PO Box 16900
Duluth, MN 55816-0900
(218) 529-6300
www.duluthhousing.com

**Housing and Redevelopment Authority of Duluth, Minnesota
Summary Schedule of Prior Audit Findings
For the Year Ended September 30, 2020**

The prior year single audit disclosed no findings in the *Schedule of Findings and Questioned Costs* and no uncorrected or unresolved findings exist from the prior audit's *Summary of Prior Audit Findings*.

Jill A. Keppers

Jill A. Keppers, MPH
Executive Director

BECAUSE EVERYONE SHOULD HAVE A HOME





RSM US LLP

Minnesota Legal Compliance

Independent Auditor's Report

Board of Commissioners
Housing and Redevelopment Authority of Duluth, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Housing and Redevelopment Authority of Duluth, Minnesota (Authority) as of and for the year ended September 30, 2020, and the related notes to the financial statements, and have issued our report thereon dated June 28, 2021.

In connection with our audit, nothing came to our attention that caused us to believe that the Authority failed to comply with the provisions of the contracting and bidding, deposits and investments, conflicts of interest, claims and disbursements, miscellaneous provisions, and tax increment financing sections of the *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Authority's noncompliance with the above referenced provisions, insofar as they relate to accounting matters.

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.

RSM US LLP

Duluth, Minnesota
June 28, 2021