

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

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

YEAR ENDED DECEMBER 31, 2012

HOUSING AND REDEVELOPMENT AUTHORITY OF BRAINERD
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INTRODUCTORY SECTION

**HOUSING AND REDEVELOPMENT AUTHORITY OF BRAINERD
ORGANIZATION
DECEMBER 31, 2012**

NAME	POSITION	TERM EXPIRES
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Board of Commissioners

Dale Parks	Chairman	June 6, 2017
Arnold Stengel	Vice Chairman	June 6, 2013
Ray Burnett	Secretary	June 6, 2015
Lucy Nesheim	Commissioner	December 31, 2012
Marlee Larson	Commissioner	June 6, 2014
Nathan Steffenson	Resident Commissioner	June 6, 2016

Jennifer Bergman	Executive Director
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FINANCIAL SECTION



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INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Housing and Redevelopment Authority of Brainerd
Brainerd, Minnesota

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Housing and Redevelopment Authority of Brainerd (Authority), a component unit of the City of Brainerd, Minnesota, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Housing and Redevelopment Authority of Brainerd, a component unit of the City of Brainerd, Minnesota, as of December 31, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 10, the Schedule of Funding Progress on page 40 and the budgetary comparison schedule on page 41 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 opinions on the financial statements that collectively comprise the Authority's basic financial statements. The Financial Data Schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is also presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Financial Data Schedule and the schedule of expenditures of federal awards 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 information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Matters (Continued)

Other Information (Continued)

The other information on page 51 has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 15, 2013, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

Brainerd, Minnesota
April 15, 2013

**HOUSING AND REDEVELOPMENT AUTHORITY OF BRAINERD
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2012**

As management of the Housing and Redevelopment Authority of Brainerd, Minnesota (the Authority), we offer the following narrative overview and analysis of the Authority's financial statements and activities for the fiscal year ended December 31, 2012:

FINANCIAL HIGHLIGHTS

- The assets of the Authority exceed its liabilities at the close of the most recent fiscal year by \$4,053,057 (net position). The Authority shows unrestricted net position of \$231,089 at year-end.
- The Authority's total net position increased by \$141,205.
- At December 31, 2012, the Authority's governmental funds reported an ending fund balance of \$404,598, a decrease of \$95,110 in comparison with the prior year. Of this total fund balance, \$269,137 is available for spending at the Authority's discretion.

FINANCIAL STATEMENTS OVERVIEW

The Authority's Basic Financial Statements are Comprised of the Following Components:

- Government-wide financial statements, providing information on the Authority as a whole.
- Fund financial statements providing detailed information on each fund the Authority operates.
- Notes to financial statements providing additional information to assist the reader in understanding the Authority's financial condition.
- Supplementary information providing the Financial Data Schedules.
- Independent auditors' report based on the audit of the financial statements.

The Authority's Basic Financial Statements Consist of Two Fund Types:

- Governmental Activities: The governmental funds consist of local government and state government funded activities. They are comprised of the following programs:

General Fund
Downtown TIF
Debt Service

- Business-Type Activities: The proprietary funds are used to report the same functions presented as business-type activities in the government-wide financial statements. They are comprised of the following programs:

Public Housing
Housing Choice Vouchers
Housing Development

**HOUSING AND REDEVELOPMENT AUTHORITY OF BRAINERD
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2012**

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements are designed to provide the readers with a broad overview of the Authority's finances in a manner similar to a private-sector business.

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.

	Governmental		Business-Type		Total	
	Activities		Activities			
	2012	2011	2012	2011	2012	2011
Current and Other Assets	\$ 893,224	\$ 517,318	\$ 1,525,418	\$ 672,577	\$ 2,418,642	\$ 1,189,895
Capital Assets	77,400	-	3,795,101	4,060,502	3,872,501	4,060,502
Total Assets	970,624	517,318	5,320,519	4,733,079	6,291,143	5,250,397
Long-Term Liabilities						
Outstanding	660,915	683,608	193,514	359,750	854,429	1,043,358
Other Liabilities	52,680	19,379	129,986	275,808	182,666	295,187
Total Liabilities	713,595	702,987	323,500	635,558	1,037,095	1,338,545
Net Position						
Net Invested in Capital Assets	77,400	-	3,670,038	3,916,114	3,747,438	3,916,114
Restricted	-	-	74,530	195,029	74,530	195,029
Unrestricted	(258,653)	(185,669)	489,742	(13,622)	231,089	(199,291)
Total Net Position	\$ (181,253)	\$ (185,669)	\$ 4,234,310	\$ 4,097,521	\$ 4,053,057	\$ 3,911,852

The Statement of Activities presents information showing how the Authority's net position changed during the most recent fiscal year.

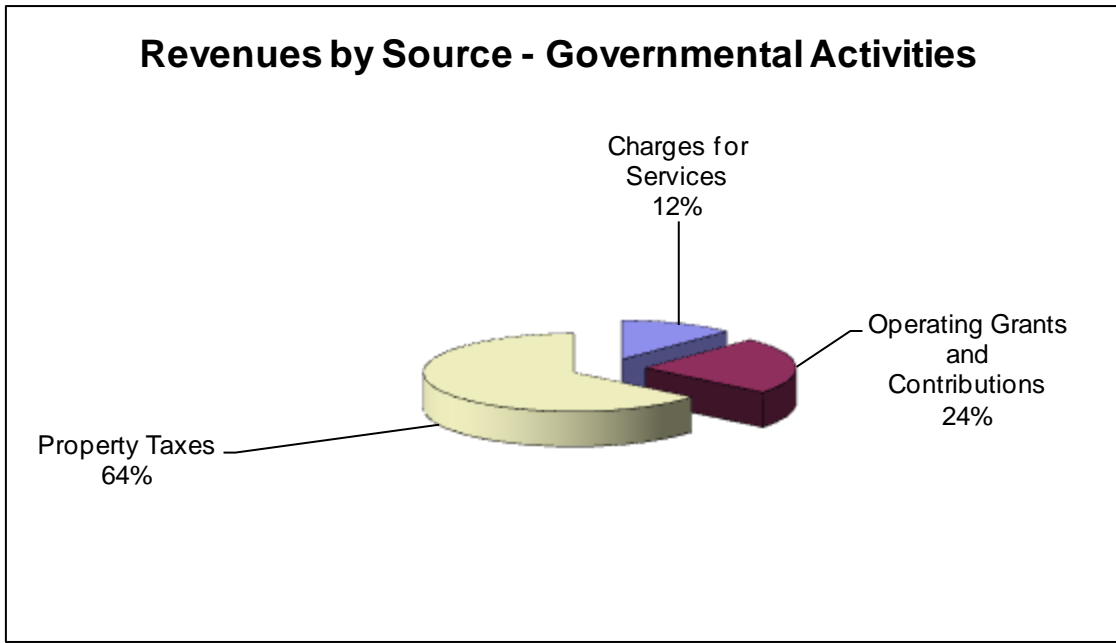
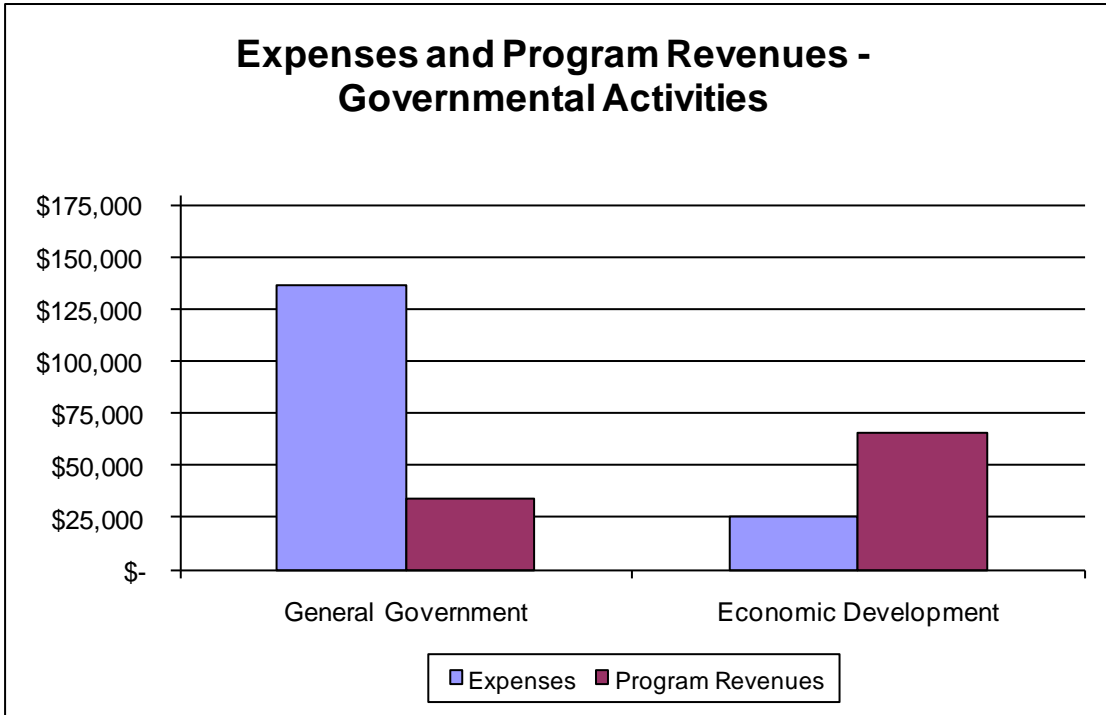
	Governmental		Business-		Total	
	Activities		Type Activities			
	2012	2011	2012	2011	2012	2011
Revenue						
Program Revenues						
Charges for Services	\$ 34,216	\$ 33,886	\$ 749,125	\$ 707,942	\$ 783,341	\$ 741,828
Operating Grants and Contributions	66,000	-	1,440,936	1,600,284	1,506,936	1,600,284
Capital Grants and Contributions	-	-	155,325	262,287	155,325	262,287
General Revenues						
Property Taxes	179,379	174,437	-	-	179,379	174,437
Grants and Contributions not Restricted to Specific Programs	13	12,894	-	-	13	12,894
Unrestricted Investment Earnings	196	217	57	170	253	387
Miscellaneous	409	11,163	204,053	181,690	204,462	192,853
Transfers	(73,212)	-	73,212	-	-	-
Debt Forgiveness	-	-	314,573	-	314,573	-
Total Revenues	207,001	232,597	2,937,281	2,752,373	3,144,282	2,984,970
Expenses						
General Government	136,796	119,225	-	-	136,796	119,225
Economic Development	25,729	2,599	-	-	25,729	2,599
Debt Service	40,060	41,308	-	-	40,060	41,308
Public Housing	-	-	1,324,740	1,321,758	1,324,740	1,321,758
Housing Choice Vouchers	-	-	1,474,125	1,435,330	1,474,125	1,435,330
Housing Development	-	-	1,627	(21,145)	1,627	(21,145)
Total Expenses	202,585	163,132	2,800,492	2,735,943	3,003,077	2,899,075
Change in Net Position	4,416	69,465	136,789	16,430	141,205	85,895
Net Position (Deficits) - Beginning of Year	(185,669)	(255,134)	4,097,521	4,081,091	3,911,852	3,825,957
Net Position (Deficits) - End of Year	\$ (181,253)	\$ (185,669)	\$ 4,234,310	\$ 4,097,521	\$ 4,053,057	\$ 3,911,852

**HOUSING AND REDEVELOPMENT AUTHORITY OF BRAINERD
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2012**

FINANCIAL ANALYSIS

Governmental Activities

Governmental activities increased the Authority's net position by \$4,416.

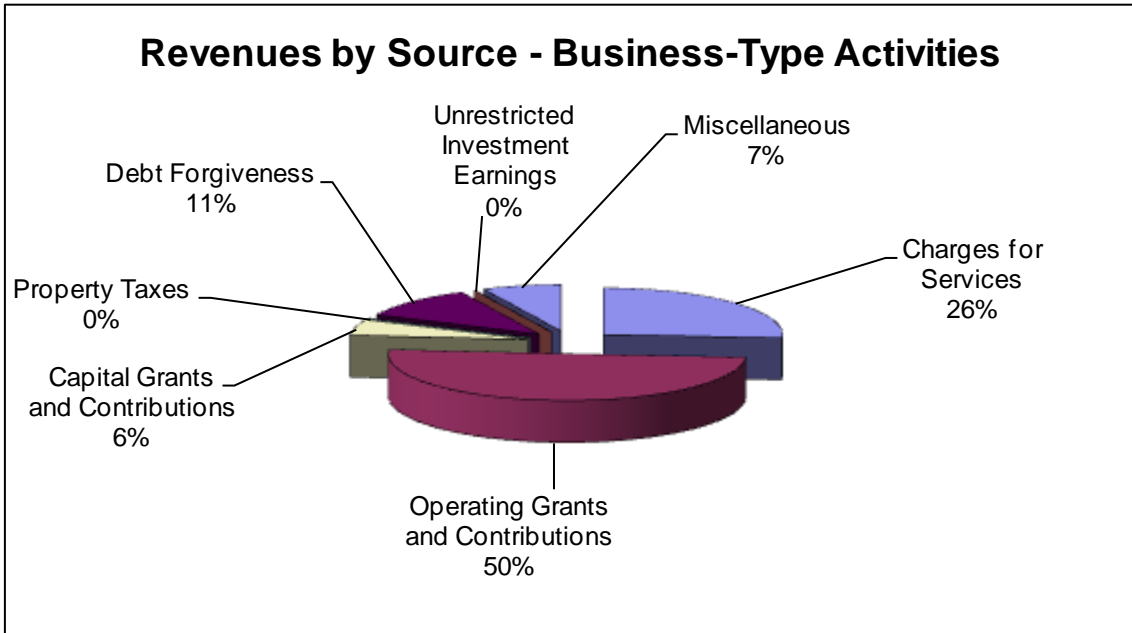
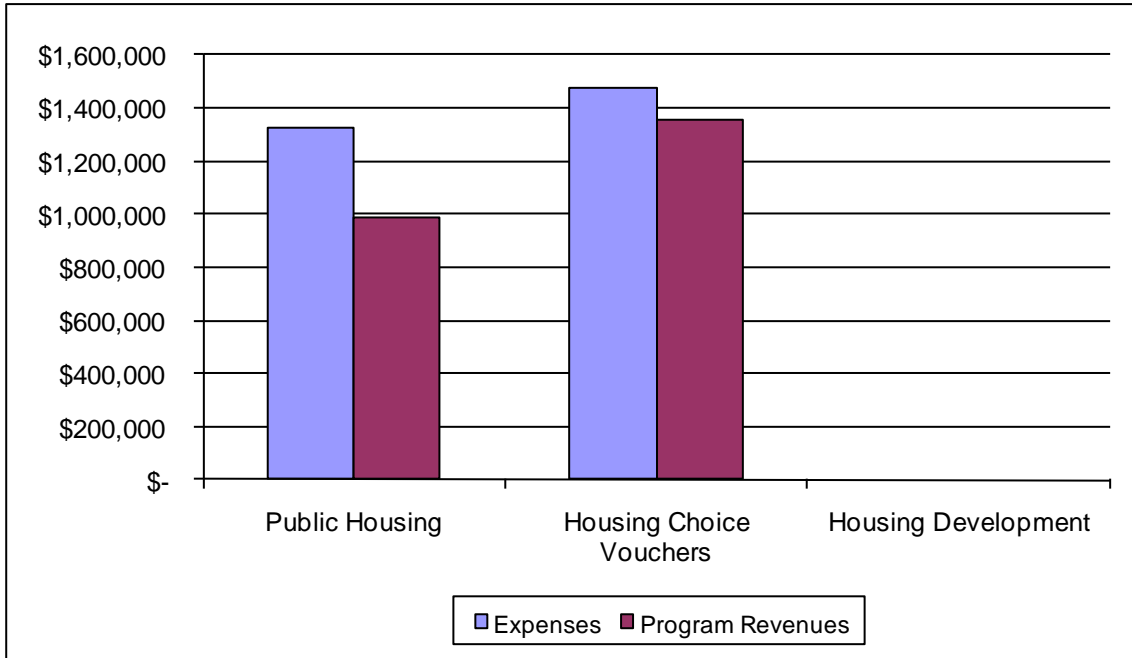


**HOUSING AND REDEVELOPMENT AUTHORITY OF BRAINERD
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2012**

FINANCIAL ANALYSIS (CONTINUED)

Business-Type Activities

Business-Type Activities increased the Authority's net position by \$136,789. This increase is mainly due to the forgiveness of debt related to the Brainerd Oaks project.



**HOUSING AND REDEVELOPMENT AUTHORITY OF BRAINERD
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2012**

FINANCIAL ANALYSIS OF THE AUTHORITY AT THE FUND LEVEL

Governmental Funds

As the Authority completed the year, its governmental funds reported a combined fund balance of \$404,598.

Revenues for the Authority's governmental funds were \$280,213, while total expenditures were \$224,711.

The General Fund's fund balance decreased \$88,801 from the prior year. This is due primarily to a transfer to fund the deficit in the Authority to close out this fund in the current year.

The Downtown TIF Fund's fund balance decreased \$6,309 from the prior year. This is due to the tax increments received being less than the principal and interest due on the debt service portion related to the TIF district.

General Fund Budgetary Highlights

Over the course of the year, the Authority did not revise the annual operating budget. Historically, the Authority has not made budget amendments during the year.

- Actual revenues were \$71,744 more than expected. This is primarily due to contributions that were received in the current year for related projects.
- The actual expenditures were \$9,960 more than budget. This is primarily due to additional economic development expenditures that were not budgeted for.

CAPITAL ASSET ACTIVITY

The Authority's capital assets, net of accumulated depreciation at December 31, 2012, amounted to \$3,872,501. This investment in capital assets includes land, buildings and improvements, and furniture, fixtures, and equipment. Net capital assets decreased in total by \$188,001. This decrease in capital assets is due to asset additions of \$89,325 and increased accumulated depreciation of \$277,326. The Authority has land related to governmental activities.

	Governmental Activities	Business-Type Activities	Total
Land	\$ 77,400	\$ 299,262	\$ 376,662
Buildings and Improvements	-	3,420,802	3,420,802
Furniture, Fixtures, and Equipment	-	75,038	75,038
Total	<u>\$ 77,400</u>	<u>\$ 3,795,101</u>	<u>\$ 3,872,501</u>

Detailed information on the Authority's capital assets can be found in the Notes to Financial Statements (Note 3.A.6, Capital Assets).

**HOUSING AND REDEVELOPMENT AUTHORITY OF BRAINERD
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2012**

LONG-TERM DEBT ACTIVITY

Long-Term Debt

The Authority's long-term debt at December 31, 2012:

	Governmental Activities	Business-Type Activities
Revenue Bonds	\$ -	\$ 125,063
Tax Increment Note	471,000	-
Mortgage Note	180,457	-
Crow Wing County Note	-	-
Total	\$ 651,457	\$ 125,063

Detailed information on the Authority's long-term debt can be found in the Notes to Financial Statements (Note 3.B.1, Long-Term Debt).

ECONOMIC FACTORS AND NEXT YEAR'S ITEMS

Calendar year 2013 Housing Choice Voucher (HCV) Administrative Fees will be funded at approximately 69%, which is substantially less than the 2012 funding level of 80%. HCV Housing Assistance Payments will be funded at 94%, which is also considerably less than the 2012 funding level of 99.6%. These are historically low funding levels for the Housing Choice Voucher Program.

Calendar year 2013 Public Housing Operating Subsidy will be funded at 82%, which is significantly less than the 2012 funding level of 95%. There will be no direct offset of Public Housing operating reserves in 2013.

In 2013, the Authority entered into a Shared Services Agreement with the Crow Wing County (CWC) HRA, making the Authority the fiscal agent for the CWC HRA. The Authority will carry out all business of the CWC HRA for an annual administrative fee of \$18,000.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Authority's finances and to demonstrate the Authority's accountability. If you have any questions regarding this report or need additional information, please contact the Housing and Redevelopment Authority of Brainerd's Accountant at 324 East River Road, Brainerd, Minnesota 56401 or call (218) 824-3423 or by e-mail at Karen@brainerdhra.org.

Basic Financial Statements

HOUSING AND REDEVELOPMENT AUTHORITY OF BRAINERD
STATEMENT OF NET POSITION
DECEMBER 31, 2012

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets			
Cash and Investments	\$ 369,967	\$ 543,502	\$ 913,469
Accounts Receivable (Net of Allowances for Uncollectibles)	2,018	4,330	6,348
Prepayments	2,081	46,286	48,367
Due from Related Entity	64,216	-	64,216
Restricted Assets			
Cash and Investments	-	168,591	168,591
Total Current Assets	438,282	762,709	1,200,991
Noncurrent Assets			
Deferred Charges, Net of Amortization	11,660	-	11,660
Land and Homes Held for Resale	5,000	-	5,000
Capital Assets			
Land and Construction-in-Progress	77,400	299,262	376,662
Other Capital Assets, Net of Depreciation	-	3,495,839	3,495,839
Total Noncurrent Assets	94,060	3,795,101	3,889,161
Total Assets	532,342	4,557,810	5,090,152
LIABILITIES			
Current Liabilities			
Accounts Payable	2,358	8,418	10,776
Accrued Liabilities	36,326	15,052	51,378
Unearned Revenue	-	14,068	14,068
Accrued Interest Payable	13,996	-	13,996
Tenant Security Deposits	-	74,104	74,104
Due to Other Governments	-	18,344	18,344
Total Current Liabilities	52,680	129,986	182,666
Noncurrent Liabilities			
Due within One Year	31,387	63,034	94,421
Due in More than One Year	629,528	130,480	760,008
Total Noncurrent Liabilities	660,915	193,514	854,429
Total Liabilities	713,595	323,500	1,037,095
NET POSITION (DEFICIT)			
Net Invested in Capital Assets	77,400	3,670,038	3,747,438
Restricted for HAP Payments	-	74,530	74,530
Unrestricted	(258,653)	489,742	231,089
Total Net Position (Deficit)	\$ (181,253)	\$ 4,234,310	\$ 4,053,057

See accompanying Notes to Financial Statements.

HOUSING AND REDEVELOPMENT AUTHORITY OF BRAINERD
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2012

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
Primary Government				
Governmental Activities				
General Government	\$ 136,796	\$ 34,216	\$ -	\$ -
Economic Development	25,729	-	66,000	-
Interest	40,060	-	-	-
Total Governmental Activities	202,585	34,216	66,000	-
Business-Type Activities				
Public Housing	1,324,740	516,229	314,789	155,325
Housing Choice Vouchers	1,474,125	232,896	1,126,147	-
Housing Development	1,627	-	-	-
Total Business-Type Activities	2,800,492	749,125	1,440,936	155,325
Total Primary Government	<u>\$ 3,003,077</u>	<u>\$ 783,341</u>	<u>\$ 1,506,936</u>	<u>\$ 155,325</u>
	General Revenues			
	Property Taxes			
	Grants and Contributions not Restricted to Specific Programs			
	Unrestricted Investment Earnings			
	Loss on Sale of Assets			
	Miscellaneous			
	Debt Forgiveness			
	Transfers			
	Total General Revenues			
	Change in Net Position			
	Net Position (Deficits) - Beginning of Year			
	Net Position (Deficits) - End of Year			

See accompanying Notes to Financial Statements.

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
\$ (102,580)	\$ -	\$ (102,580)
40,271	-	40,271
(40,060)	-	(40,060)
(102,369)	-	(102,369)
-	(338,397)	(338,397)
-	(115,082)	(115,082)
-	(1,627)	(1,627)
-	(455,106)	(455,106)
(102,369)	(455,106)	(557,475)
179,379	-	179,379
13	-	13
196	57	253
-	-	-
409	204,053	204,462
-	314,573	314,573
(73,212)	73,212	-
106,785	591,895	698,680
4,416	136,789	141,205
(185,669)	4,097,521	3,911,852
<u>\$ (181,253)</u>	<u>\$ 4,234,310</u>	<u>\$ 4,053,057</u>

**HOUSING AND REDEVELOPMENT AUTHORITY OF BRAINERD
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2012**

	General Fund	Downtown TIF Fund	Debt Service Fund	Totals
ASSETS				
Cash and Investments	\$ 369,967	\$ -	\$ -	\$ 369,967
Accounts Receivable	2,018	-	-	2,018
Due from Other Funds	-	-	-	-
Due from Related Entity	64,216	-	-	64,216
Prepayments	2,081	-	-	2,081
Advance to Other Funds	78,009	-	-	78,009
Other Assets	5,000	-	-	5,000
Total Assets	<u>\$ 521,291</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 521,291</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts Payable	\$ 2,358	\$ -	\$ -	\$ 2,358
Accrued Expenses	36,326	-	-	36,326
Advance from Other Funds	-	78,009	-	78,009
Total Liabilities	38,684	78,009	-	116,693
FUND BALANCES (DEFICITS)				
Nonspendable				
Prepayments	2,081	-	-	2,081
Advance to Other Funds	78,009	-	-	78,009
Committed				
Scattered Sites Project	28,844	-	-	28,844
Housing Rehab	26,527	-	-	26,527
Unassigned	347,146	(78,009)	-	269,137
Total Fund Balances	482,607	(78,009)	-	404,598
Total Liabilities and Fund Balances	<u>\$ 521,291</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 521,291</u>

See accompanying Notes to Financial Statements.

**HOUSING AND REDEVELOPMENT AUTHORITY OF BRAINERD
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2012**

Total Fund Balances for Governmental Funds				\$ 404,598
Total net assets reported for governmental activities in the statement of net position is different because:				
Capital assets used in governmental funds are not financial resources and, therefore, are not reported in the funds. Those assets consist of:				
Land				77,400
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. Accrued interest for general obligation bonds is included in the statement of net position.				(13,996)
Long-term liabilities that pertain to governmental funds are not due and payable in the current period and, therefore, are not reported as fund liabilities. All liabilities (both current and long-term) are reported in the statement of net position.				
Bonds Payable			\$ (471,000)	
Bond Issuance Costs			11,660	
Notes Payable			(180,457)	
Other Postemployment Benefits			(4,152)	
Compensated Absences Payable			(5,306)	(649,255)
Total Net Position of Governmental Activities				<u>\$ (181,253)</u>

See accompanying Notes to Financial Statements.

HOUSING AND REDEVELOPMENT AUTHORITY OF BRAINERD
STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2012

	General Fund	Downtown TIF Fund	Debt Service Fund	Totals
REVENUES				
Taxes	\$ 142,284	\$ 37,095	\$ -	\$ 179,379
Intergovernmental				
State				
Market Value Real Estate Credit	13	-	-	13
Management Fees	34,216	-	-	34,216
Interest	196	-	-	196
Miscellaneous	409	-	-	409
Contributions and Donations	66,000			66,000
Total Revenues	243,118	37,095	-	280,213
EXPENDITURES				
Current				
General Government	129,763	-	-	129,763
Economic Development	31,814	100	-	31,914
Debt Service				
Principal	13,541	-	10,000	23,541
Interest	6,189	-	33,304	39,493
Total Expenditures	181,307	100	43,304	224,711
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	61,811	36,995	(43,304)	55,502
OTHER FINANCING SOURCES (USES)				
Transfers In	-	-	43,304	43,304
Transfers Out	(150,612)	(43,304)	-	(193,916)
Total Other Financing Sources (Uses)	(150,612)	(43,304)	43,304	(150,612)
NET CHANGE IN FUND BALANCE	(88,801)	(6,309)	-	(95,110)
Fund Balance (Deficit) - Beginning of Year	571,408	(71,700)	-	499,708
FUND BALANCE (DEFICIT) - END OF YEAR	\$ 482,607	\$ (78,009)	\$ -	\$ 404,598

See accompanying Notes to Financial Statements.

**HOUSING AND REDEVELOPMENT AUTHORITY OF BRAINERD
RECONCILIATION OF THE GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
GOVERNMENTAL ACTIVITIES
YEAR ENDED DECEMBER 31, 2012**

Net Change in Fund Balances - Governmental Funds			\$ (95,110)
Amounts reported for governmental activities in the statement of activities are different because:			
The governmental funds report bond proceeds as financing sources, while repayment of bond principal is reported as an expenditure. In the statement of net position, however, issuing (repaying) debt increases (decreases) long-term liabilities and does not affect the statement of activities.			
Payment of Note Principal	\$	13,541	
Repayment of Bond Principal		10,000	
Change in Accrued Interest Expense		251	
Amortization of Bond Issuance Costs		(818)	
Other Postemployment Benefits		(1,463)	21,511
In the statement of activities, compensated absences are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used. During 2012, compensated absences payable increased.			615
Noncash transfer from governmental activities to business-type activities - land held by business-type activities transferred to governmental activities.			77,400
Change in Net Position of Governmental Activities			<u>\$ 4,416</u>

See accompanying Notes to Financial Statements.

HOUSING AND REDEVELOPMENT AUTHORITY OF BRAINERD
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2012

				Business-Type Activities - Enterprise Funds				
				Public Housing	Housing Choice Vouchers	Housing Development	Totals	
ASSETS								
Current Assets								
	Cash and Cash Equivalents	\$	475,984	\$	67,518	\$	-	\$ 543,502
	Accounts Receivable (Net of Allowances for Uncollectibles)		4,330		-		-	4,330
	Prepayments		42,878		3,408		-	46,286
Restricted Assets								
	Restricted Assets - Cash and Investments		52,037		116,554		-	168,591
	Total Current Assets		575,229		187,480		-	762,709
Noncurrent Assets								
Capital Assets								
	Land and CIP		299,262		-		-	299,262
	Other Capital Assets, Net of Depreciation		3,495,839		-		-	3,495,839
	Net Capital Assets		3,795,101		-		-	3,795,101
	Total Assets	\$	4,370,330	\$	187,480	\$	-	\$ 4,557,810
LIABILITIES								
Current Liabilities								
	Accounts Payable		8,306		112		-	8,418
	Deferred Revenue		-		14,068		-	14,068
	Current Portion of Long-Term Debt		22,817		-		-	22,817
	Due to Other Governmental Units		18,344		-		-	18,344
	Tenants Security Deposits		49,850		24,254		-	74,104
	Accrued Expenses		42,908		12,361		-	55,269
	Total Current Liabilities		142,225		50,795		-	193,020
Noncurrent Liabilities								
	Other Postemployment Benefits Payable		21,122		7,112		-	28,234
	Revenue Bonds Payable		102,246		-		-	102,246
	Total Noncurrent Liabilities		123,368		7,112		-	130,480
	Total Liabilities		265,593		57,907		-	323,500
NET POSITION								
	Net Invested in Capital Assets		3,670,038		-		-	3,670,038
	Restricted for HAP Payments		-		74,530		-	74,530
	Unrestricted		434,699		55,043		-	489,742
	Total Net Position	\$	4,104,737	\$	129,573	\$	-	\$ 4,234,310

See accompanying Notes to Financial Statements.

**HOUSING AND REDEVELOPMENT AUTHORITY OF BRAINERD
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2012**

	Business-Type Activities - Enterprise Funds			
	Public Housing	Housing Choice Vouchers	Housing Development	Totals
OPERATING REVENUES				
Intergovernmental				
HUD Contributions	\$ 314,789	\$ 1,126,147	\$ -	\$ 1,440,936
Administrative Fees Earned	-	232,896	-	232,896
Total Intergovernmental Revenues	314,789	1,359,043	-	1,673,832
Rental Income				
Dwelling Income	513,161	-	-	513,161
Excess Utilities	3,068	-	-	3,068
Total Rental Income	516,229	-	-	516,229
Other Miscellaneous Income				
Tower Rental Income	34,314	-	-	34,314
CIP Funding	25,000	-	-	25,000
Maintenance Fees	15,000	-	-	15,000
Laundry Income	18,353	-	-	18,353
Miscellaneous	81,843	29,543	-	111,386
Total Other Miscellaneous Income	174,510	29,543	-	204,053
Total Operating Revenues	1,005,528	1,388,586	-	2,394,114
OPERATING EXPENSES				
Administration	456,926	197,675	1,627	656,228
Housing Assistance Payments	-	1,265,428	-	1,265,428
Utilities	140,263	-	-	140,263
Ordinary Maintenance and Operations	418,379	5,777	-	424,156
General Expense	24,412	5,245	-	29,657
Depreciation	277,327	-	-	277,327
Total Operating Expenses	1,317,307	1,474,125	1,627	2,793,059
OPERATING INCOME (LOSS)	(311,779)	(85,539)	(1,627)	(398,945)
NONOPERATING REVENUES (EXPENSES)				
Interest Income	44	13	-	57
Intergovernmental Revenue	155,325	-	-	155,325
Interest (Expense) Forgiven	(7,433)	-	-	(7,433)
Debt Forgiveness	-	-	314,573	314,573
Total Nonoperating Revenues (Expenses)	147,936	13	314,573	462,522
INCOME (LOSS) BEFORE TRANSFERS	(163,843)	(85,526)	312,946	63,577
Transfer In	-	-	150,612	150,612
Transfers Out	-	-	(77,400)	(77,400)
CHANGE IN NET POSITION	(163,843)	(85,526)	386,158	136,789
Net Position (Deficit) - Beginning of Year	4,268,580	215,099	(386,158)	4,097,521
NET POSITION (DEFICIT) - END OF YEAR	<u>\$ 4,104,737</u>	<u>\$ 129,573</u>	<u>\$ -</u>	<u>\$ 4,234,310</u>

See accompanying Notes to Financial Statements.

**HOUSING AND REDEVELOPMENT AUTHORITY OF BRAINERD
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2012**

	Business-Type Activities - Enterprise Funds			
	Public Housing	Housing Choice Vouchers	Housing Development	Totals
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash Received from Rent	\$ 515,435	\$ -	\$ -	\$ 515,435
Cash Received from Other Sources	177,578	-	-	177,578
Operating Subsidies - HUD	314,789	1,388,586	-	1,703,375
Cash Paid to Other Suppliers of Goods or Services	(504,733)	(1,268,341)	(1,627)	(1,774,701)
Cash Payments to Employees for Services	(525,083)	(191,985)	-	(717,068)
Net Cash Provided (Used) by Operating Activities	(22,014)	(71,740)	(1,627)	(95,381)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Capital Grants Received	170,736	-	-	170,736
Acquisition of Capital Assets	(89,326)	-	-	(89,326)
Interest and Fiscal Charges Paid	(7,946)	-	-	(7,946)
Repayment of Long-Term Debt	(19,325)	-	-	(19,325)
Net Cash Provided (Used) by Capital and Related Financing Activities	54,139	-	-	54,139
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest Received	44	13	-	57
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	32,169	(71,727)	(1,627)	(41,185)
Cash and Cash Equivalents - Beginning of Year	495,852	255,799	1,627	753,278
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 528,021	\$ 184,072	\$ -	\$ 712,093
RECONCILIATION OF CASH AND INVESTMENTS TO THE STATEMENT OF NET POSITION				
Cash and Cash Equivalents	\$ 475,984	\$ 67,518	\$ -	\$ 543,502
Restricted Assets - Cash and Investments	52,037	116,554	-	168,591
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 528,021	\$ 184,072	\$ -	\$ 712,093

See accompanying Notes to Financial Statements.

**HOUSING AND REDEVELOPMENT AUTHORITY OF BRAINERD
STATEMENT OF CASH FLOWS (CONTINUED)
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2012**

				Business-Type Activities - Enterprise Funds			
				Public Housing	Housing Choice Vouchers	Housing Development	Totals
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES							
Operating Income (Loss)				\$ (311,779)	\$ (85,539)	\$ (1,627)	\$ (398,945)
Adjustment to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:							
Depreciation				277,327	-	-	277,327
(Increase) Decrease in Assets:							
Accounts Receivable				2,274	-	-	2,274
Prepayments				1,009	601	-	1,610
Increase (Decrease) in Liabilities:							
Accounts Payable				(4,158)	48	-	(4,110)
Due to Other Governmental Units				793	-	-	793
Tenants Security Deposits				3,914	10,893	-	14,807
Other Postemployment Benefits Payable				8,044	2,681	-	10,725
Accrued Liabilities				562	(424)	-	138
Net Cash Provided (Used) by Operating Activities				<u>\$ (22,014)</u>	<u>\$ (71,740)</u>	<u>\$ (1,627)</u>	<u>\$ (95,381)</u>
NONCASH FINANCING ACTIVITY							
Debt Forgiveness				\$ -	\$ -	\$ 314,573	\$ 314,573
Transfer of Land to General Fund				-	-	77,400	77,400

See accompanying Notes to Financial Statements.

**HOUSING AND REDEVELOPMENT AUTHORITY OF BRAINERD
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUND
DECEMBER 31, 2012**

		Agency Fund
ASSETS		
Cash and Investments		\$ 21,741
LIABILITIES		
Cash Held for Other Agencies		\$ 21,741

See accompanying Notes to Financial Statements.

HOUSING AND REDEVELOPMENT AUTHORITY OF BRAINERD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2012

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Housing and Redevelopment Authority of Brainerd (Authority) was created by the City of Brainerd, Minnesota to carry out redevelopment of blighted areas and to establish safe and sanitary dwelling accommodations for veterans, persons of low income, and the elderly. The Authority was formed and operates pursuant to applicable Minnesota laws. The governing board consists of a five-member board and one resident commissioner appointed by the Mayor/City Council to serve five-year terms. The Authority is considered to be a component unit of the City of Brainerd.

The accounting policies of the Authority conform to generally accepted accounting principles.

A. Financial Reporting Entity

The Authority's policy is to include in the financial statements all funds, departments, agencies, boards, commissions, and other component units for which the Authority is considered to be financially accountable.

Component units are legally separate entities for which the Authority (Primary Government) is financially accountable, or for which the exclusion of the component unit would render the financial statements of the Primary Government misleading. The criteria used to determine if the Primary Government is financially accountable for a component unit include whether or not the Primary Government appoints the voting majority of the potential component unit's governing body, is able to impose its will on the potential component unit, is in a relationship of financial benefit or burden with the potential component unit, or is fiscally depended upon by the potential component unit.

Based on these criteria, there are no organizations considered to be component units of the Authority.

B. Government-Wide and Fund Financial Statements.

The government-wide financial statements (i.e., the statement of net position and the statement of activities) include the financial activities of the overall Authority, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external parties for support.

HOUSING AND REDEVELOPMENT AUTHORITY OF BRAINERD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2012

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Government-Wide and Fund Financial Statements (Continued)

The statement of activities demonstrates the degree to which the direct expenses of each function of the Authority's governmental activities and different business-type activity are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. Program revenues include: (1) fees, fines, and charges paid by the recipients of goods, services, or privileges provided by a given function or activity; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or activity. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary fund and fiduciary fund financial statements are reported using the economic resources measurement focus and the 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. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. The Authority considers all revenues to be available if they are collected within 60 days after the end of the current period. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues in the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Authority.

HOUSING AND REDEVELOPMENT AUTHORITY OF BRAINERD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2012

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting (Continued)

The Authority reports the following major governmental funds:

General Fund – The General Fund is the general operating fund of the Authority. It accounts for all the financial resources of the Authority, except those required to be accounted for in another fund.

Downtown TIF Fund – The Downtown TIF Fund is used to account for the Downtown TIF District activity. This fund collects tax increments which are used to repay the debt related to the construction and subsequent sale of a downtown office building site.

Debt Service Fund – The Debt Service Fund is used to account for the accumulation of resources and payment of general obligation bond principal, interest and related costs of governmental funds.

The Authority reports the following major proprietary funds:

Public Housing Fund – The Public Housing Fund is used to account for the renting of HUD rental units to eligible persons and for grant monies received for major improvements to HUD properties.

Housing Choice Vouchers Fund – The Housing Choice Vouchers Fund is used to account for providing low income persons with rental assistance to private landlords.

Housing Development Fund – The Housing Development Fund is used to account for financial resources and expenses related to the development of residential housing.

Additionally, the Authority reports the following fiduciary fund type:

Agency Fund – The Agency Fund is used to account for assets held by the Authority for other properties. The Agency Fund is custodial in nature (assets equal liabilities).

HOUSING AND REDEVELOPMENT AUTHORITY OF BRAINERD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2012

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting (Continued)

Proprietary funds 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 a proprietary fund's principal ongoing operations. The principal operating revenue of the Authority's enterprise funds are charges to tenants for rent and housing assistance payments. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on 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, and then unrestricted resources as they are needed.

D. Assets, Liabilities, and Net Position or Equity

1. Cash and Investments

Cash balances from all funds (including cash equivalents) are pooled and invested to the extent available in various securities as authorized by *Minnesota Statutes*. Investments are stated at fair value.

Cash equivalents are considered to be short-term, highly liquid investments that are readily convertible to cash and have original maturities of three months or less.

For the purposes of the statement of cash flows of the proprietary fund types, the Authority considers all cash and investments under the classifications current assets and restricted assets to be cash and cash equivalents. Cash and cash equivalents consist of checking and saving certificate accounts, cash on hand, and money market savings accounts.

2. Restricted Assets

The enterprise funds, based on certain laws and bond agreements, are required to establish and maintain prescribed amounts of resources (consisting of cash and temporary investments). The Authority maintains separate accounts for required tenant security deposits and bond proceeds.

3. Accounts Receivable

Accounts receivable in excess of 90 days after move out date, is written-off. Bad debt expense of \$11,079 for 2012 was written-off. Outstanding tenant balances related to fraud remaining unpaid 12 months following the tenant's move out will be moved to an allowance account. The balance will remain for 12 months in the allowance account and then will be written-off.

**HOUSING AND REDEVELOPMENT AUTHORITY OF BRAINERD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Net Position or Equity (Continued)

4. Taxes Receivable

Taxes which remain unpaid are classified as delinquent taxes receivable. Delinquent taxes represent the past seven years of uncollected tax years. Revenue from these delinquent property taxes that is not collected within 60 days of year-end is deferred because it is not known to be available to finance the operations of the Authority in the current year. No allowance for uncollectible taxes has been provided as such amounts are not expected to be material.

Property Tax Collection Calendar

The City, on behalf of the Authority, levies its property tax for the subsequent year during the month of December. In Minnesota, the lien date and assessment date is January 2. The property tax is recorded as revenue when it becomes available. The County is the collecting agency for the levy and then remits the collections to the City which then remits these taxes to the Authority. All taxes not collected as of December 31 each year are shown as delinquent taxes receivable.

The county auditor establishes the listing of all taxable property in the City, applying the applicable tax capacity rate to the tax capacity value of individual properties, to arrive at the actual tax for each property.

The county auditor turns over a list of taxes to be collected on each parcel of property to the county treasurer in January of each year. Property owners are required to pay one-half of their real estate taxes by May 15 and the balance by October 15.

Within 30 days after the May settlement, the county treasurer is required to pay 70 percent of the estimated collections of taxes to the City treasurer. The county treasurer must pay the balance to the City treasurer within 60 days after settlement, provided that after 45 days interest begins to accrue.

Within ten business days after November 15, the county treasurer shall pay to each taxing district, except any school district, 100 percent of the estimated collections arising from taxes levied by and belonging to each taxing district from May 20 to November 20.

**HOUSING AND REDEVELOPMENT AUTHORITY OF BRAINERD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Net Position or Equity (Continued)

5. Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the year ended December 31, 2012, there was no capitalized interest on capital assets.

Capital assets are depreciated using the straight line method over the estimated useful lives of the individual assets, which range from five to forty years.

6. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

7. Tenant Deposits

Security deposits are collected from tenants and are held in separate interest bearing bank accounts. The related liability consists of actual deposits and includes any interest earned by tenants on deposits. Refunds are made when a tenant leaves. Any interest earned by the tenant is recorded as an increase of the tenant deposit interest liability.

HOUSING AND REDEVELOPMENT AUTHORITY OF BRAINERD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2012

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Net Position or Equity (Continued)

8. Equity

Equity is divided into the following sections:

Net Position – Net Position represent the difference between assets and liabilities in the Government-Wide and Proprietary Fund financial statements. Net invested in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net position is reported as restricted in the Government-wide and Proprietary Fund financial statements when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

Fund Balance – In the fund financial statements, governmental funds report components of fund balance to provide information about fund balance availability for appropriation. Non-spendable fund balance represents amounts that are inherently non-spendable or assets that will never be converted to cash or will be converted to cash soon enough to affect the current period. Restricted fund balance represents amounts available for appropriation but intended for a specific use and is legally restricted by outside parties. Committed fund balance represents constraints on spending that the government imposes upon itself by high-level formal action prior to the close of the fiscal period. Assigned fund balance represents resources intended for spending for a purpose set by the government body itself or by some person or body delegated to exercise such authority in accordance with policy established by the board. Unassigned fund balance is the residual classification for the Authority's general fund and includes all spendable amounts not contained in the other classifications. When restricted, committed, assigned, and unassigned fund balance are all available for an expenditure, it is the Authority's policy to first use restricted, then committed, assigned and finally unassigned fund balance.

E. Tax Status

The Authority is exempt from property taxes. In lieu of property taxes, the Public Housing enterprise fund pays to Crow Wing County five percent of the total annual public housing rents less the total utilities.

**HOUSING AND REDEVELOPMENT AUTHORITY OF BRAINERD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2012**

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

An annual budget is adopted for the General Fund. Budget appropriations lapse at the end of the year. All budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

Formal budgetary integration is employed as a management control device during the year for the general fund. Formal budgetary integration is not employed for other governmental funds.

B. Excess of Expenditures Over Appropriations

In the general fund, expenditures exceeded the appropriations during the year ended December 31, 2012:

	Expenditures	Appropriations	Expenditures Over Appropriations
General Fund	\$ 181,307	\$ 171,347	\$ 9,960

The above overage in the general fund was considered by the Authority's management to be the result of necessary expenditures critical to the operations and were approved by the board.

C. Deficit Fund Equity

The Downtown TIF Fund had a deficit fund balance of \$78,009 as of December 31, 2012. The fund incurred expenditures that could be paid off if excess revenue is collected.

NOTE 3 DETAILED NOTES ON ALL FUNDS

A. Assets

1. Deposits

The Authority maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the statement of net position and balance sheet as "Cash and Investments." In accordance with *Minnesota Statutes* the Authority maintains deposits at financial institutions which are authorized by the Board of Commissioners.

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have a deposit policy for custodial credit risk and follows *Minnesota Statutes* for deposits.

Minnesota Statutes require that all deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by insurance or corporate surety bonds.

HOUSING AND REDEVELOPMENT AUTHORITY OF BRAINERD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2012

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

2. Deposits (Continued)

Authorized collateral include: U.S. government treasury bills, notes, or bonds; issues of a U.S. government agency; general obligations of a state or local government rated "A" or better; revenue obligations of a state or local government rated "AA" or better; irrevocable standby letter of credit issued by a Federal Home Loan Bank; and time deposits insured by a federal agency. *Minnesota Statutes* require securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or at an account at a trust departments of a commercial bank or other financial institution not owned or controlled by the depository.

The Authority's deposits in banks at December 31, 2012 were entirely covered by federal depository insurance or by surety bonds and collateral in accordance with *Minnesota Statutes*.

3. Investments

The Authority has an investment policy and is permitted to invest its idle funds as authorized by *Minnesota Statutes* as follows:

- Direct obligations or obligations guaranteed by the United States or its agencies.
- Shares of investment companies registered under the Federal Investment Company Act of 1940 and received the highest credit rating, are rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of thirteen months or less.
- General obligations rated "A" or better; revenue obligations rated "AA" or better.
- General obligations of the Minnesota Housing Finance Agency rate "A" or better.
- Bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System.
- Commercial paper issued by United States banks corporations or their Canadian subsidiaries, of highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less.
- Guaranteed investment contracts guaranteed by United States commercial banks or domestic branches of foreign banks or United States insurance companies if similar debt obligations of the issuer or the collateral pledged by the issuer is in the top two rating categories.
- Repurchase or reverse purchase agreement and securities lending agreements financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.

The Authority held no investments as of December 31, 2012.

**HOUSING AND REDEVELOPMENT AUTHORITY OF BRAINERD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2012**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

4. Receivables

Revenues of the Public Housing Authority are reported net of uncollectible amounts. There was no allowance for uncollectible accounts related to Public Housing rent as of December 31, 2012. However, there was an allowance account related to Public Housing fraud in the amount of \$2,193.

5. Interfund Receivables, Payables, and Transfers

At December 31, 2012, advance to/from other funds were as follows:

	Advance To:	
Advance From:	TIF Fund	Total
General Fund	\$ 78,009	\$ 78,009

The General Fund made an advance to the TIF Fund during 2012 to fund current operations.

Transfers

Transfers of current financial resources at the fund level for the year ended December 31, 2012 are as follows:

	Transfer In:		
	Debt Service Fund	Housing Development Fund	
Transfer Out:	Fund	Fund	Total
General Fund	\$ -	\$ 150,612	\$ 150,612
Downtown TIF Fund	43,304	-	43,304
Total	\$ 43,304	\$ 150,612	\$ 193,916

The transfer from the Downtown TIF Fund to the Debt Service Fund was to cover principal and interest payments relating to the TIF Revenue Bond. The transfer out in the General fund reflects forgiveness of the interfund advance from the General Fund to the Housing Development Fund in connection with the close-out of the Housing Development Fund. In connection with the close-out of the Housing Development Fund, land with a carrying value of \$77,400 was transferred to Governmental Activities. The Governmental Activities recognize the offsetting transfer on the government-wide statement of activities but not on the fund level statements, therefore transfers in/out at the fund level are unequal.

HOUSING AND REDEVELOPMENT AUTHORITY OF BRAINERD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2012

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

6. Capital Assets

Capital asset activity for the Authority for the year ended December 31, 2012, is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital Assets, Not Being Depreciated:				
Land	\$ -	\$ 77,400	\$ -	\$ 77,400
Business-Type Activities				
Capital Assets, Not Being Depreciated				
Land	\$ 376,662	\$ -	\$ (77,400)	\$ 299,262
Construction in Progress	6,300		(6,300)	-
Total Capital Assets, Not Being Depreciated	382,962	-	(83,700)	299,262
Capital Assets, Being Depreciated				
Buildings and Improvements	11,109,773	95,625	(10,097)	11,195,301
Furniture, Fixtures and Equipment	498,467	-	(212,625)	285,842
Total Capital Assets, Being Depreciated	11,608,240	95,625	(222,722)	11,481,143
Less Accumulated Depreciation For				
Buildings and Improvements	(7,541,413)	(243,183)	10,097	(7,774,499)
Furniture, Fixtures and Equipment	(389,286)	(34,143)	212,625	(210,804)
Total Accumulated Depreciation	(7,930,700)	(277,326)	222,722	(7,985,304)
Total Capital Assets, Being Depreciated, Net	3,677,540	(181,701)	-	3,495,839
Business-Type Activities Capital Assets, Net	\$ 4,060,502	\$ (181,701)	\$ (83,700)	\$ 3,795,101

Depreciation expense was charged to functions/programs of the Authority as follows:

Business-Type Activities:				
Public Housing				\$ 277,326

**HOUSING AND REDEVELOPMENT AUTHORITY OF BRAINERD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2012**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities

1. Long-Term Debt

Public Facility Revenue Bonds

The Authority issued public facility revenue bonds in 2002 to finance the acquisition of a capital facility. Scheduled future net revenues from operations are dedicated to the retirement of these bonds. This bond was refinanced in December 2012 and now bears 3.95% interest and will mature December 9, 2017. The bonds are further secured by a combination mortgage, security agreement, and fixture financing statement.

Mortgage Note

The Authority entered into a \$250,000 long-term promissory note agreement to refinance a short-term note that was used to finance cash flow needs relating to the Brainerd Oaks housing development project, which is now being carried under the general fund of the authority. This note was refinanced in December 2012 and now bears 3.95% interest and will mature December 9, 2017. The note is secured by a mortgage on the Authority's office building.

Taxable Tax Increment Note

The Authority issued a taxable tax increment note in 2005 to finance the redevelopment of a downtown commercial site. Future tax increment revenues will be used to retire the bonds, in addition to a conditional pledge of a portion of the Authority's special benefits taxes collected.

Bonds and notes currently outstanding for the Authority are as follows:

	Interest Rate	Amount Outstanding
REVENUE BONDS:		
2002B Public Facility Revenue Bonds	3.95%	\$ 125,063
2005 Taxable Tax Increment Note	6.96%	471,000
2007 Mortgage Note	3.95%	180,457
Total Revenue Bonds and Notes		<u>\$ 776,520</u>

Other Long-Term Liabilities

In 2005, the Authority borrowed \$155,000 from the Crow Wing County Housing and Redevelopment Authority as gap financing for the Brainerd Oaks Development ten homes project. The note bears interest at 5.50% with annual interest only payments and a final maturity in July 2008. This loan was forgiven by the Crow Wing County Housing and Redevelopment Authority and was written-off in December 2012.

**HOUSING AND REDEVELOPMENT AUTHORITY OF BRAINERD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2012**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities (Continued)

1. Long-Term Debt (Continued)

The summary of long-term debt transactions for the year ended December 31, 2012 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
Bonds Payable					
Revenue Bonds	\$ 481,000	\$ -	\$ 10,000	\$ 471,000	\$ 11,000
Notes Payable	193,998	-	13,541	180,457	15,081
Compensated Absences Payable	5,921	4,776	5,391	5,306	5,306
Other Postemployment Benefits Payable	2,689	1,463	-	4,152	-
Governmental Activities Long-Term Liabilities	<u>\$ 683,608</u>	<u>\$ 6,239</u>	<u>\$ 28,932</u>	<u>\$ 660,915</u>	<u>\$ 31,387</u>
Business-Type Activities					
Bonds Payable					
Revenue Bonds	\$ 144,388	\$ -	\$ 19,325	\$ 125,063	\$ 22,817
Crow Wing County Note	155,000	-	155,000	-	-
Compensated Absences Payable	42,853	39,985	42,621	40,217	40,217
Other Postemployment Benefits Payable	17,509	10,725	-	28,234	-
Business-Type Activities Long-Term Liabilities	<u>\$ 359,750</u>	<u>\$ 50,710</u>	<u>\$ 216,946</u>	<u>\$ 193,514</u>	<u>\$ 63,034</u>

Annual debt service requirements to maturity for bonds and notes of the Authority are as follows:

Notes Payable			Revenue Bonds			Revenue Bonds		
Governmental Activities			Governmental Activities			Business-Type Activities		
	Principal	Interest		Principal	Interest		Principal	Interest
2013	\$ 15,081	\$ 6,877	2013	\$ 11,000	\$ 32,608	2013	\$ 22,817	\$ 4,860
2014	15,707	6,250	2014	13,000	31,807	2014	24,071	3,605
2015	16,339	5,618	2015	15,000	30,868	2015	25,039	2,637
2016	16,996	4,961	2016	18,000	29,754	2016	26,041	1,635
2017	116,334	4,277	2017	20,000	28,466	2017	27,095	583
Total	<u>\$ 180,457</u>	<u>\$ 27,983</u>	2018-2022	146,000	116,510	Total	<u>\$ 125,063</u>	<u>\$ 13,320</u>
			2023-2027	248,000	50,876			
			Total	<u>\$ 471,000</u>	<u>\$ 320,889</u>			

**HOUSING AND REDEVELOPMENT AUTHORITY OF BRAINERD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2012**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities (Continued)

2. Conduit Debt

The Authority issued conduit debt to provide financial assistance for the development and modernization of low-rent housing units and for the acquisition and construction of facilities deemed to be in the public interest. The bonds for the development and modernization of low-rent public housing units are payable by HUD and secured by annual contributions. The facilities bonds are payable solely from payments received on the underlying lease and do not constitute a general obligation of the Authority. Upon repayment of the facilities bonds, ownership of the facilities transfers to the entity served by the bond issuance. None of these bonds constitutes a debt of the Authority; accordingly, they have not been reported as liabilities in the accompanying financial statements.

At December 31, 2012, the following conduit debt existed:

Lease Revenue Bonds		\$ 2,705,000
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NOTE 4 DEFINED CONTRIBUTION PENSION PLAN

Plan Description

Qualified employees of the Authority belong to the Housing Renewal and Local Agency Retirement Plan, which is a defined contribution retirement plan. The retirement plan is a national plan with local or regional housing authorities and commissions, urban renewal agencies and other organizations eligible to participate. The Plan and Trust are qualified under Section 401(a) of the Internal Revenue Code and their income is exempt from taxation under Section 501(a) of the Code. Plan provisions and contribution requirements are established and amended by the Board of Trustees.

Terminated or retiring participants are entitled to certain benefits including the full amount of their contributions to the Plan as well as earnings on their contributions. In addition to the amount of their contribution, each participant is entitled to the portion of the employer's contributions in which he or she has a vested interest.

Detailed information concerning the Authority's pension plan is presented in its publicly available annual report for the year ended December 31, 2012. That report may be obtained by contacting the Authority.

**HOUSING AND REDEVELOPMENT AUTHORITY OF BRAINERD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2012**

NOTE 4 DEFINED CONTRIBUTION PENSION PLAN (CONTINUED)

Plan Funding

The Plan is funded by employer and employee contributions (7.5% and 5.5% of gross wages, respectively). The employee may also elect to contribute additional amounts as governed by the Plan. The Authority's and employees' contributions for the year ended December 31, 2012 and 2011 were \$47,275 and \$38,700, respectively.

NOTE 5 OTHER POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

The Authority provides health insurance benefits for certain retired employees under a single-employer fully-insured plan. The Authority provides benefits for retirees as required by *Minnesota Statutes* §471.61 subdivision 2b. Active employees who retire from the Authority when eligible to receive a retirement benefit from the Public Employees Retirement Association (PERA) of Minnesota (or similar plan) and do not participate in any other health benefits program providing coverage similar to that herein described, will be eligible to continue coverage with respect to both themselves and their spouse/partner under the Authority's health benefits program. Pursuant to the provisions of the plan, retirees are required to pay the full amount of the total premium cost. As of January 1, there were no retirees receiving health benefits from the Authority's health plan.

F. Annual OPEB Cost and Net OPEB Obligation

The Authority's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of Governmental Account Standards Board (GASB) Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the Authority's annual OPEB cost of 2012, the amount actually contributed to the plan, and changes in the Authority's net OPEB obligation:

Annual Required Contribution (ARC):		\$ 11,220
Interest on Net OPEB Obligation		966
Adjustment to ARC		802
Annual OPEB Cost		12,988
Employer Contribution		(800)
Increase in Net OPEB Obligation		12,188
Net OPEB - Beginning of the Year		20,198
Net OPEB - End of the Year		<u>\$ 32,386</u>

**HOUSING AND REDEVELOPMENT AUTHORITY OF BRAINERD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2012**

NOTE 5 OTHER POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

A. Annual OPEB Cost and Net OPEB Obligation (Continued)

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2010, 2011, and 2012 were as follows:

	Annual	Employer	Percentage	Net OPEB
Year Ended	OPEB Cost	Contribution	Contributed	Obligation
December 31, 2010	\$ 6,691	\$ -	- %	\$ 13,980
December 31, 2011	6,218	-	-	20,198
December 31, 2012	12,988	800	-	32,386

B. Funding Status

The Authority currently has no assets that have been irrevocably deposited in a trust for future health benefits. Therefore, the actuarial value of assets is zero. The schedule of funding progress, presented as required supplementary information following the notes to the basic financial statements presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

	Actuarial	Actuarial	Unfunded	Funded	Covered	UAAL as a
Actuarial	Value of	Accrued	Actuarial	Ratio	Payroll	Percentage of
Valuation	Assets	Liability	Accrued Liability	(a/b)	(c)	Covered Payroll
Date	(a)	(b)	(b-a)			((b-a)/c)
01/01/12	\$ -	\$ 62,728	\$ 62,728	- %	\$ 647,900	9.68%

C. Actuarial Methods and Assumptions

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of the occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations.

**HOUSING AND REDEVELOPMENT AUTHORITY OF BRAINERD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2012**

NOTE 5 OTHER POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

C. Actuarial Methods and Assumptions (Continued)

In the January 1, 2012 actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a 4.50% discount rate, which is based on the estimated long-term investment yield on the general assets of the Authority. The annual healthcare cost trend rate as of 2012 was 8.00%, and will be reduced incrementally to an ultimate rate of 5.00% after six years. The unfunded actuarial accrued liability is being amortized over thirty years on a closed basis.

NOTE 6 RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; public official liability; and natural disasters for which the Authority carries commercial insurance policies. The Authority retains risk for the deductible portions of the insurance policies and for any exclusion from the insurance policies. These amounts are considered immaterial to the financial statements. There were no significant reductions in insurance from the previous year or settlements in excess of insurance coverage for any of the past three fiscal years.

NOTE 7 RELATED-PARTY TRANSACTIONS

The Authority is the general partner in Trail Ridge II, Limited Partnership, a privately-owned housing project located in Brainerd, Minnesota. The Authority's ownership in the project is one-hundredth of a percent and its capital investment in the project is \$136,807 at December 31, 2012. There is also an amount due from the project of \$64,216 at December 31, 2012. The Authority is a general partner in Trail Ridge, Limited Partnership, a privately-owned housing project located in Brainerd, Minnesota. The Authority's ownership in the project is 30% and its capital investment in the project is \$(2,502) at December 31, 2012. The Authority is a general partner in College Drive, Limited Partnership, a privately-owned housing project located in Brainerd, Minnesota. The Authority's ownership in the project is .425% at December 31, 2012.

NOTE 8 SUMMARY OF SIGNIFICANT CONTINGENCIES AND OTHER ITEMS

Grants

Amounts received or receivable from federal and state agencies are subject to agency audit and adjustments. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of funds which may be disallowed by the agencies cannot be determined at this time although the Authority expects such amounts, if any, to be immaterial.

REQUIRED SUPPLEMENTARY INFORMATION

**HOUSING AND REDEVELOPMENT AUTHORITY OF BRAINERD
 SCHEDULE OF FUNDING PROGRESS
 OTHER POSTEMPLOYMENT BENEFITS
 DECEMBER 31, 2012**

	Actuarial	Actuarial	Unfunded			UAAL as a
Actuarial	Value of	Accrued	Actuarial	Funded	Covered	Percentage of
Valuation	Assets	Liability	Accrued Liability	Ratio	Payroll	Covered Payroll
Date	(a)	(b)	(b-a)	(a/b)	(c)	((b-a)/c)
01/01/12	\$ -	\$ 62,728	\$ 62,728	- %	\$ 647,900	9.68%
01/01/09	\$ -	\$ 34,814	\$ 34,814	- %	\$ 563,483	6.18%

**HOUSING AND REDEVELOPMENT AUTHORITY OF BRAINERD
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED DECEMBER 31, 2012**

	Budget Original and Final	Actual	Variance With Budget Over (Under)
REVENUES			
Taxes	\$ 126,374	\$ 142,284	\$ 15,910
Intergovernmental			
State			
Market Value Real Estate Credit	-	13	13
Management Fees	34,000	34,216	216
Interest	200	196	(4)
Miscellaneous	10,800	409	(10,391)
Contributions and Donations	-	66,000	66,000
Total Revenues	<u>171,374</u>	<u>243,118</u>	<u>71,744</u>
EXPENDITURES			
Current			
General Government			
Administrative	121,265	114,353	(6,912)
Maintenance	2,750	12,322	9,572
General Expenses	2,852	3,088	236
Economic Development	23,500	31,814	8,314
Debt Service			
Principal	14,900	13,541	(1,359)
Interest	6,080	6,189	109
Total Expenditures	<u>171,347</u>	<u>181,307</u>	<u>9,960</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	27	61,811	61,784
OTHER FINANCING SOURCES (USES)			
Transfers Out	-	(150,612)	(150,612)
NET CHANGE IN FUND BALANCE	<u>\$ 27</u>	<u>(88,801)</u>	<u>\$ (88,828)</u>
Fund Balance (Deficit) - Beginning of Year		571,408	
FUND BALANCE (DEFICIT) - END OF YEAR		<u>\$ 482,607</u>	

See accompanying Notes to Required Supplementary Information.

**HOUSING AND REDEVELOPMENT AUTHORITY OF BRAINERD
 BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND
 YEAR ENDED DECEMBER 31, 2012**

NOTE 1 LEGAL COMPLIANCE – BUDGETS

The budget is prepared using the modified accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Expenditures exceeded budgeted amounts in the general fund:

	Expenditures	Appropriations	Expenditures Over Appropriations
General Fund	\$ 181,307	\$ 171,347	\$ 9,960

The above overage was considered by the Authority’s management to be the result of necessary expenditures critical to the operations and was approved by the board.

NOTE 2 UNBUDGETED MAJOR SPECIAL REVENUE FUND

The Authority has not adopted a budget for the Downtown TIF Fund. Thus, there is no budgetary comparison schedule included in the required supplementary information.

SUPPLEMENTARY INFORMATION

HOUSING AND REDEVELOPMENT AUTHORITY OF BRAINERD
FINANCIAL DATA SCHEDULE
DECEMBER 31, 2012

Line Item #	Account Description	Public Housing Low Rent 14.850	Housing Choice Vouchers 14.871	Business Activities
ASSETS				
CURRENT ASSETS				
CASH				
111	Cash - Unrestricted	\$ 475,984	\$ 67,518	\$ -
113	Cash - Other Restricted	-	92,300	-
114	Cash - Tenant Security Deposits	52,037	-	-
115	Cash - Restricted for Payment of Current Liabilities	-	24,254	-
100	Total Cash	528,021	184,072	-
ACCOUNTS AND ACCOUNTS RECEIVABLE				
124	Accounts Receivable - Other Government	-	-	-
125	Accounts Receivable - Miscellaneous - Other	1,578	-	-
126	Accounts Receivable - Tenants	2,752	-	-
128	Fraud Recovery	2,193	-	-
128.1	Allowance for Doubtful Accounts - Fraud	(2,193)	-	-
120	Total Receivables, Net of Allowances for Doubtful Accounts	4,330	-	-
142	Prepaid Expenses and Other Assets	42,878	3,408	-
144	Interprogram - due from	-	-	-
145	Assets Held for Sale	-	-	-
150	Total Current Assets	575,229	187,480	-
NONCURRENT ASSETS				
FIXED ASSETS				
161	Land	299,262	-	-
162	Buildings	11,195,301	-	-
163	Furniture, Equipment and Machinery - Dwellings	227,944	-	-
164	Furniture, Equipment and Machinery - Administration	52,722	5,176	-
166	Accumulated Depreciation	(7,980,128)	(5,176)	-
160	Total Fixed Assets, Net of Accumulated Depreciation	3,795,101	-	-
174	Other Assets	-	-	-
180	Total Noncurrent Assets	3,795,101	-	-
190	Total Assets	\$ 4,370,330	\$ 187,480	\$ -

Economic Development and Supporting Services	State/Local	Fiduciary Fund Agency	Total
\$ -	\$ 369,967	\$ 21,741	\$ 935,210
-	-	-	92,300
-	-	-	52,037
-	-	-	24,254
-	369,967	21,741	1,103,801
-	2,018	-	2,018
-	-	-	1,578
-	-	-	2,752
-	-	-	2,193
-	-	-	(2,193)
-	2,018	-	6,348
-	2,081	-	48,367
-	78,009	-	78,009
-	5,000	-	5,000
-	457,075	21,741	1,241,525
-	77,400	-	376,662
-	-	-	11,195,301
-	-	-	227,944
-	-	-	57,898
-	-	-	(7,985,304)
-	77,400	-	3,872,501
11,660	64,216	-	75,876
11,660	141,616	-	3,948,377
\$ 11,660	\$ 598,691	\$ 21,741	\$ 5,189,902

**HOUSING AND REDEVELOPMENT AUTHORITY OF BRAINERD
FINANCIAL DATA SCHEDULE (CONTINUED)
DECEMBER 31, 2012**

Line Item #	Account Description	Public Housing Low Rent 14,850	Housing Choice Vouchers 14,871	Business Activities
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
312	Accounts Payable < 90 Days	\$ 1,414	\$ 112	\$ -
321	Accrued Wage/Payroll Taxes Payable	11,318	3,734	-
322	Accrued Compensated Absences	31,590	8,627	-
325	Accrued Interest Payable	-	-	-
333	Accounts Payable - Other Government	18,344	-	-
341	Tenant Security Deposits	49,850	-	-
342	Deferred Revenue	-	14,068	-
343	Current Portion of Long Term Debt - Capital Projects/ Mortgage Revenue Bonds	22,817	-	-
346	Accrued Liabilities - Other	6,892	-	-
347	Interprogram Due To	-	-	-
310	Total Current Liabilities	142,225	26,541	-
NONCURRENT LIABILITIES				
351	Long-Term Debt, Net of Current - Capital Projects/ Mortgage Revenue Bonds	102,246	-	-
353	Noncurrent Liabilities - Other	-	24,254	-
357	Accrued Pension and OPEB Liabilities	21,122	7,112	-
350	Total Noncurrent Liabilities	123,368	31,366	-
300	Total Liabilities	265,593	57,907	-
NET POSITION				
508.1	Net Invested in Capital Assets	3,670,038	-	-
511.1	Restricted Net Position	-	74,530	-
512.1	Unrestricted Net Position	434,699	55,043	-
513	Total Net Position	4,104,737	129,573	-
600	Total Liabilities and Net Position	\$ 4,370,330	\$ 187,480	\$ -

Economic Development and Supporting Services	State/Local	Fiduciary Fund Agency	Total
\$ -	\$ 2,358	\$ -	\$ 3,884
-	2,142	-	17,194
-	5,306	-	45,523
13,659	337	-	13,996
-	-	-	18,344
-	-	-	49,850
-	-	-	14,068
11,000	15,081	-	48,898
-	34,184	21,741	62,817
78,009	-	-	78,009
102,668	59,408	21,741	352,583
460,000	165,376	-	727,622
-	-	-	24,254
-	4,152	-	32,386
460,000	169,528	-	784,262
562,668	228,936	21,741	1,136,845
-	77,400	-	3,747,438
-	-	-	74,530
(551,008)	292,355	-	231,089
(551,008)	369,755	-	4,053,057
\$ 11,660	\$ 598,691	\$ 21,741	\$ 5,189,902

**HOUSING AND REDEVELOPMENT AUTHORITY OF BRAINERD
FINANCIAL DATA SCHEDULE (CONTINUED)
YEAR ENDED DECEMBER 31, 2012**

Line Item #	Account Description	Public Housing Low Rent 14.850	Public Housing Capital Fund Program 14.872
	REVENUE		
70300	Net Tenant Rental Revenue	\$ 524,240	\$ -
70400	Tenant Revenue - Other	70,830	-
70500	Total Tenant Revenue	595,070	-
70600	HUD PHA Operating Grants	314,789	66,000
70610	Capital Grants	-	89,325
70700	Total Fee Revenue	314,789	155,325
71100	Unrestricted Investment Income	44	-
71400	Fraud Recovery	-	-
71500	Other Revenue	106,748	-
70000	Total Revenue	1,016,651	155,325
	EXPENSES		
	<u>Administrative</u>		
91100	Administrative Salaries	272,856	-
91200	Auditing Fees	11,950	-
91400	Advertising and Marketing	2,701	-
91500	Employee Benefit Contributions - Administrative	97,833	-
91600	Office Expenses	21,367	-
91700	Legal Expense	534	-
91800	Travel	2,722	-
91000	Total Operating - Administrative	409,963	-
	<u>Utilities</u>		
93100	Water	20,078	-
93200	Electricity	54,916	-
93300	Gas	32,896	-
93600	Sewer	32,373	-
93000	Total Utilities	140,263	-
	<u>Ordinary Maintenance and Operation</u>		
94100	Ordinary Maintenance and Operations - Labor	160,921	-
94200	Ordinary Maintenance and Operations - Materials and Other	25,775	-
94300	Ordinary Maintenance and Operations - Contract Costs	168,864	-
94500	Employee Benefit Contributions - Ordinary Maintenance	62,819	-
94000	Total Maintenance	418,379	-

Housing Choice Vouchers 14.871	Business Activities	Economic Development and Supporting Services	State/Local	Total
\$ -	\$ -	\$ -	\$ -	\$ 524,240
-	-	-	-	70,830
-	-	-	-	595,070
1,359,043	-	-	-	1,739,832
-	-	-	-	89,325
1,359,043	-	-	-	1,829,157
13	-	-	196	253
19,634	-	-	-	19,634
9,909	314,574	37,095	242,922	711,248
1,388,599	314,574	37,095	243,118	3,155,362
136,094	-	-	89,307	498,257
3,500	-	-	4,190	19,640
-	-	-	-	2,701
52,869	-	-	26,114	176,816
4,038	1,465	100	8,537	35,507
17	163	-	1,253	1,967
1,157	-	-	261	4,140
197,675	1,628	100	129,662	739,028
-	-	-	-	20,078
-	-	-	-	54,916
-	-	-	-	32,896
-	-	-	-	32,373
-	-	-	-	140,263
-	-	-	-	160,921
-	-	-	-	25,775
5,777	-	-	12,322	186,963
-	-	-	-	62,819
5,777	-	-	12,322	436,478

**HOUSING AND REDEVELOPMENT AUTHORITY OF BRAINERD
FINANCIAL DATA SCHEDULE (CONTINUED)
YEAR ENDED DECEMBER 31, 2012**

Line Item #	Account Description	Public Housing Low Rent 14.850	Public Housing Capital Fund Program 14.872
	EXPENSES (CONTINUED)		
	<u>General Expenses</u>		
96110	Property Insurance	\$ 27,998	\$ -
96120	Liability Insurance	6,761	-
96130	Workmen's Compensation	9,275	-
96140	All Other Insurance	2,929	-
96100	Total Insurance Premiums	46,963	-
96200	Other General Expenses	-	-
962.1	Compensated Absences	848	-
96300	Payments in Lieu of Taxes	23,564	-
96400	Bad Debt - Tenant Rents	11,079	-
96000	Total Other General Expenses	35,491	-
96710	Interest of Mortgage (or Bonds) Payable	7,433	-
96900	Total Operating Expenses	1,058,492	-
97000	EXCESS OPERATING REVENUE OVER OPERATING EXPENSES	(41,841)	155,325
	<u>Other Expenses</u>		
97300	Housing Assistance Payments	-	-
97350	HAP Portability-in	-	-
97400	Depreciation Expense	277,327	-
90000	Total Expenses	1,335,819	-
	<u>Other Financing Sources (Uses)</u>		
10010	Operating Transfers In	66,000	-
10020	Operating Transfers Out	-	(66,000)
10100	Total Other Financing Sources (Uses)	66,000	(66,000)
10000	EXCESS (DEFICIENCY) OF TOTAL REVENUE OVER (UNDER) TOTAL EXPENSES	\$ (253,168)	\$ 89,325
	Memo Account Information		
11020	Required Annual Debt Principal Payments	\$ 22,858	\$ -
11030	Beginning Equity	4,268,580	-
11040	Prior Period Adjustments and Correction of Errors	89,325	(89,325)
11170	Administrative Fee Equity	-	-
11180	Housing Assistance Payments Equity	-	-
11190	Unit Months Available	2,424	-
11210	Number of Unit Months Leased	2,358	-
11270	Excess Cash	301,919	-
11620	Building Purchases	-	89,325

Housing Choice Vouchers 14.871	Business Activities	Economic Development and Supporting Services	State/Local	Total
\$ 444	\$ -	\$ -	\$ 760	\$ 29,202
1,330	-	-	145	8,236
1,002	-	-	718	10,995
1,465	-	-	1,465	5,859
4,241	-	-	3,088	54,292
1,004	-	-	17,353	18,357
-	-	-	-	848
-	-	-	-	23,564
-	-	-	-	11,079
1,004	-	-	17,353	53,848
-	-	33,832	6,228	47,493
208,697	1,628	33,932	168,653	1,471,402
1,179,902	312,946	3,163	74,465	1,683,960
1,257,325	-	-	-	1,257,325
8,103	-	-	-	8,103
-	-	-	-	277,327
1,474,125	-	-	-	1,542,755
-	150,612	-	-	216,612
-	(77,400)	-	(73,212)	(216,612)
-	73,212	-	(73,212)	-
<u>\$ (85,526)</u>	<u>\$ 386,158</u>	<u>\$ 3,163</u>	<u>\$ 1,253</u>	<u>\$ 141,205</u>
\$ -	\$ -	\$ 11,000	\$ 15,081	\$ 48,939
215,099	(386,158)	(554,171)	368,502	3,911,852
-	-	-	-	-
55,043	-	-	-	55,043
74,530	-	-	-	74,530
3,840	-	-	-	6,264
3,816	-	-	-	6,174
-	-	-	-	301,919
-	-	-	-	89,325

OTHER INFORMATION

**HOUSING AND REDEVELOPMENT AUTHORITY OF BRAINERD
STATEMENT AND CERTIFICATION OF ACTUAL CAPITAL FUND GRANT COSTS
YEAR ENDED DECEMBER 31, 2012
(UNAUDITED)**

	MN46P03250110	MN46P03250111	MN46P03250112
The actual modernization costs are as follows:			
Funds Approved - Total Grant	\$ 239,288	\$ 203,667	\$ 185,616
Funds Expended - Grant Expenditures to Date	239,288	143,278	66,000
Excess of Funds Approved	<u>\$ -</u>	<u>\$ 60,389</u>	<u>\$ 119,616</u>
Funds Advanced - 2012	\$ 27,458	\$ 77,278	\$ 66,000
Funds Expended - 2012	25,158	64,167	66,000
Excess of Funds Advanced	<u>\$ 2,300</u>	<u>\$ 13,111</u>	<u>\$ -</u>
Funds Received During Current Year	<u>\$ 27,458</u>	<u>\$ 77,278</u>	<u>\$ 66,000</u>
Status	Completed	Not Complete	Not Complete
The distribution of costs by project as shown on the Final Performance and Evaluation Report accompanying the Actual Modernization Cost Certificate submitted to HUD for approval is in agreement with the Authority's records.			
All modernization costs have been paid and all related liabilities have been discharged through payment.			

OTHER REPORTS SECTION



**INDEPENDENT AUDITORS' 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***

Board of Commissioners
Housing and Redevelopment Authority of Brainerd
Brainerd, 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 governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Housing and Redevelopment Authority of Brainerd (Authority), a component unit of the City of Brainerd, as of and for the year ended December 31, 2012, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated .

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting to determine the 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 Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs, 2012-1, to be a material weakness.

Compliance and Other Matters

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

The Authority’s Response to Findings

The Authority’s response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Authority’s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the 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 Authority’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CliftonLarsonAllen LLP

Brainerd, Minnesota
April 15, 2013

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Commissioners
Housing and Redevelopment Authority of Brainerd
Brainerd, Minnesota

Compliance

We have audited the Housing and Redevelopment Authority of Brainerd's (the Authority) compliance with the types of requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended December 31, 2012. The Authority's major federal programs are identified in the Summary of Auditors' Results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Authority's major federal programs 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 Authority'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 each major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

Opinion on Each Major Federal Program

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

Report on Internal Control Over Compliance

Management of the Authority 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 Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 Authority'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 result of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

CliftonLarsonAllen LLP

Brainerd, Minnesota
April 15, 2013

**HOUSING AND REDEVELOPMENT AUTHORITY OF BRAINERD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2012**

		Federal CFDA Number	Federal Expenditures
U.S. Department of Housing and Urban Development			
	Direct:		
	Public and Indian Housing - Operating Subsidy	14.850	\$ 314,789
	Housing Choice Voucher Program	14.871	1,359,043
	Clustered Programs:		
	Public Housing Capital Fund Program	14.872	155,325
	Total U.S. Department of Housing and Urban Development		<u>\$ 1,829,157</u>
Notes to the Schedule of Expenditures of Federal Awards:			
1.	The Schedule of Expenditures of Federal Awards presents the activity of federal award programs expended by the Housing and Redevelopment of Brainerd. The Authority's reporting entity is defined in Note 1 to the basic financial statements.		
2.	The expenditures on this schedule are on the accrual basis of accounting, which is described in Note 1 to the Authority's basic financial statements.		



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INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE

Board of Commissioners
Housing and Redevelopment Authority of Brainerd
Brainerd, 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 accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Housing and Redevelopment Authority of Brainerd (Authority), a component unit of the City of Brainerd, as of December 31, 2012 and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents and have issued our report thereon dated April 15, 2013.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions* covers seven main categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, local government miscellaneous provisions and tax increment financing.

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 *Minnesota Legal Compliance Audit Guide for Political Subdivision*. 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.

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.

CliftonLarsonAllen LLP

Brainerd, Minnesota
April 15, 2013



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**HOUSING AND REDEVELOPMENT AUTHORITY OF BRAINERD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2012**

SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unqualified opinion on the basic financial statements of the Housing and Redevelopment Authority of Brainerd.
2. One material weakness in internal control over financial reporting was disclosed during the audit of the basic financial statements of the Housing and Redevelopment Authority of Brainerd and is reported in the "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*."
3. No instances of noncompliance material to the financial statements of the Housing and Redevelopment Authority of Brainerd were disclosed during the audit.
4. No matters involving internal control over compliance relating to the audit of the major federal award program were reported in the "Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133."
5. The auditors' report on compliance for the major federal award program for the Housing and Redevelopment Authority of Brainerd expresses an unqualified opinion.
6. No audit finding relative to the major federal award program for the Authority was disclosed during the audit that is required to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The major programs were:

U.S. Department of Housing and Urban Development:

Housing Choice Voucher Program	CFDA No. 14.871
Public and Indian Housing – Operating Subsidy	CFDA No. 14.850

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The Housing and Redevelopment Authority of Brainerd was not determined to be a low-risk auditee.

**HOUSING AND REDEVELOPMENT AUTHORITY OF BRAINERD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2012**

MATERIAL WEAKNESSES IN INTERNAL CONTROL OVER FINANCIAL REPORTING:

2012-01 FINANCIAL REPORTING PROCESS

Criteria: The Authority's management is responsible for establishing and maintaining internal controls, including monitoring, and for the fair presentation of the financial statements in accordance applicable accounting and reporting standards.

Condition: As part of the audit, management requested us to prepare a draft of the financial statements, including the related notes to the financial statements.

Cause: The Authority has a limited number of personnel.

Effect: The design of the controls over the financial reporting process would affect the ability of the Authority to report their financial data consistently with the assertions of management in the financial statements.

Recommendation: We recommend that the Authority's management be aware of the accounting and financial reporting standards applicable to the Authority. Should the Authority elect to establish the full oversight of the financial statement preparation at an appropriate level, we suggest management establish effective review policies and procedures including but not limited to the following functions: reconciling general ledger amounts to the draft financial statements; review of all supporting documentation and explanations for journal entries proposed by us and approve the entries; review the adequacy of financial statement disclosures by completing a disclosure checklist; review and approval of schedules and calculations supporting the amounts included in the notes to the financial statements; apply analytic procedures to the draft financial statements; and perform other procedures considered necessary by management.

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement with Audit Finding:

There is no disagreement with the audit finding.

Actions Planned in Response to Finding:

The Authority will continue to utilize the expertise of the audit firm to prepare the financial statements and related footnote disclosures and will review and approve these prior to the issuance of the annual financial statements.

Official Responsible for Ensuring CAP:

The Authority's Executive Director is the official responsible for ensuring corrective action of the deficiency.

Planned Completion Date for CAP:

The CAP is ongoing.

Plan to Monitor Completion of CAP:

The Authority's Executive Director will be monitoring this corrective action plan.

**HOUSING AND REDEVELOPMENT AUTHORITY OF BRAINERD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2012**

OTHER ITEMS FOR CONSIDERATION (LEGAL COMPLIANCE):

None Noted.

PRIOR YEAR FINDINGS – NONE NOTED