

**HOUSING AND REDEVELOPMENT AUTHORITY OF BRAINERD
A COMPONENT UNIT OF THE CITY OF BRAINERD
BRAINERD, MINNESOTA**

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

YEAR ENDED DECEMBER 31, 2014

HOUSING AND REDEVELOPMENT AUTHORITY OF BRAINERD
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YEAR ENDED DECEMBER 31, 2014

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INTRODUCTORY SECTION

**HOUSING AND REDEVELOPMENT AUTHORITY OF BRAINERD
ORGANIZATION
DECEMBER 31, 2014**

NAME	POSITION	TERM EXPIRES
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Board of Commissioners

Dale Parks	Chairman	December 31, 2014
Marlee Larson	Vice Chairman	June 6, 2014
Ray Burnett	Secretary	June 6, 2015
Lucy Nesheim	Commissioner	June 6, 2017
Rick Fargo	Commissioner	June 6, 2018
Nathan Steffenson	Resident Commissioner	June 6, 2016
Jennifer Bergman	Executive Director	

FINANCIAL SECTION

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 (the Authority), a component unit of the City of Brainerd, Minnesota, as of and for the year ended December 31, 2014, 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 did not audit the financial statements of Trail Ridge II, a blended business-type component unit, which represents 19%, 7% and 6%, respectively, of the assets, net position, and revenues of the business-type activities. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Trail Ridge II, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of Trail Ridge II were not audited in accordance with *Government Auditing Standards*.

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.

Auditors' Responsibility (Continued)

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, based on our audit and the report of other auditors, 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, 2014, 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 11, the Schedule of Funding Progress – Other Postemployment Benefits on page 42 and the Budgetary Comparison Schedule – General Fund on page 43 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 and the other auditors 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.

Supplementary and 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 and the Statement and Certification of Actual Capital Fund Grant Costs are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards, 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.

Other Matters (Continued)

Supplementary and Other Information (Continued)

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, based on our audit, the procedures performed as described above, and the report of the other auditors, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Statement and Certification of Actual Capital Fund Grant Costs 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 March 23, 2015, 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
March 23, 2015

**HOUSING AND REDEVELOPMENT AUTHORITY OF BRAINERD
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2014**

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, 2014:

FINANCIAL HIGHLIGHTS

- The assets of the Authority exceed its liabilities at the close of the most recent fiscal year by \$4,034,785 (net position). The Authority shows unrestricted net position of \$206,221 at year-end.
- The Authority's total net position decreased by \$9,094.
- At December 31, 2014, the Authority's governmental funds reported an ending fund balance of \$412,064, an increase of \$29,121 in comparison with the prior year. Of this total fund balance, \$180,599 is available for spending at the Authority's discretion.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the Authority's basic financial statements. This Authority's basic financial statements comprise of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplemental information in addition to the basic financial statements themselves.

Government-Wide Financial Statements

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

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

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

Both of the government-wide financial statements distinguish functions of the Authority that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Authority include general government and economic development. The business-type activities of the Authority include public housing, housing choice vouchers and Trail Ridge II operations.

The government-wide financial statements include not only the Authority itself (known as the primary government), but also Trail Ridge II for which the Authority is financially accountable. Financial information for this component unit is presented blended with the business-type activities of the financial information presented for the primary government.

**HOUSING AND REDEVELOPMENT AUTHORITY OF BRAINERD
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2014**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Authority, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Authority can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the Authority's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact by the Authority's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Authority maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the general fund, downtown tax increment financing fund, and debt service fund. There are no nonmajor governmental funds.

The Authority adopts an annual appropriated budget for its General Fund. Budgetary comparison statements have been provided for these funds to demonstrate compliance with this budget.

Proprietary Fund – The Authority maintains three types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Authority uses enterprise funds to account for its Public Housing, Housing Choice Vouchers and Trail Ridge II operations.

The proprietary fund provides the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Public Housing, Housing Choice Vouchers and Trail Ridge II operations, which are all considered to be major funds of the Authority.

**HOUSING AND REDEVELOPMENT AUTHORITY OF BRAINERD
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2014**

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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 Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
	Current and Other Assets	\$ 419,585	\$ 389,995	\$ 770,702	\$ 749,349	\$ 1,190,287
Capital Assets	77,400	77,400	4,348,485	4,520,373	4,425,885	4,597,773
Total Assets	496,985	467,395	5,119,187	5,269,722	5,616,172	5,737,117
Long-Term Liabilities						
Outstanding	610,426	635,632	665,995	731,487	1,276,421	1,367,119
Other Liabilities	20,858	20,806	284,108	305,313	304,966	326,119
Total Liabilities	631,284	656,438	950,103	1,036,800	1,581,387	1,693,238
Net Position						
Net Investment in Capital Assets	77,400	77,400	3,751,164	3,876,393	3,828,564	3,953,793
Restricted	-	3,500	-	14,885	-	18,385
Unrestricted	(211,699)	(269,943)	417,920	341,644	206,221	71,701
Total Net Position	\$ (134,299)	\$ (189,043)	\$ 4,169,084	\$ 4,232,922	\$ 4,034,785	\$ 4,043,879

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

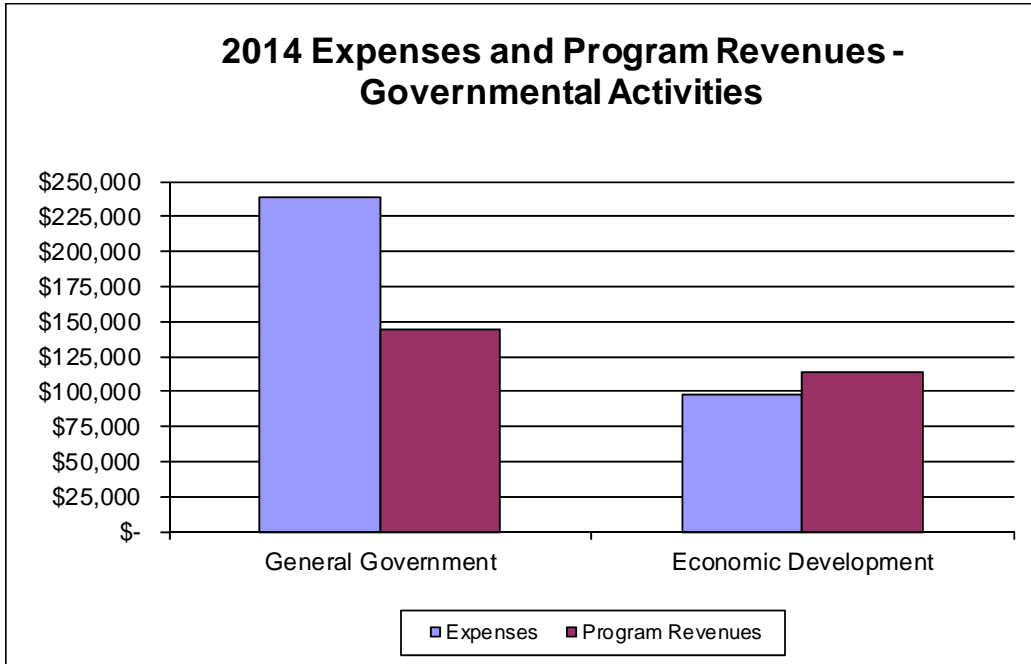
	Governmental Activities		Business- Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Revenue						
Program Revenues						
Charges for Services	\$ 143,916	\$ 33,839	\$ 938,668	\$ 885,227	\$ 1,082,584	\$ 919,066
Operating Grants and Contributions	113,520	75,336	1,524,902	1,459,559	1,638,422	1,534,895
Capital Grants and Contributions	-	-	185,616	60,389	185,616	60,389
General Revenues						
Property Taxes	156,520	149,082	-	-	156,520	149,082
Grants and Contributions not Restricted to Specific Programs	5	19	-	-	5	19
Unrestricted Investment Earnings	38	50	(248)	(137)	(210)	(87)
Miscellaneous	14,378	29,967	212,754	195,636	227,132	225,603
Total Revenues	428,377	288,293	2,861,692	2,600,674	3,290,069	2,888,967
Expenses						
General Government	238,562	172,928	-	-	238,562	172,928
Economic Development	97,412	72,291	-	-	97,412	72,291
Debt Service	37,659	50,864	-	-	37,659	50,864
Public Housing	-	-	1,352,593	1,278,358	1,352,593	1,278,358
Housing Choice Vouchers	-	-	1,416,901	1,472,575	1,416,901	1,472,575
Trail Ridge II	-	-	156,036	137,948	156,036	137,948
Total Expenses	373,633	296,083	2,925,530	2,888,881	3,299,163	3,184,964
Change in Net Position	54,744	(7,790)	(63,838)	(288,207)	(9,094)	(295,997)
Net Position (Deficits) - Beginning of Year	(189,043)	(181,253)	4,232,922	4,234,310	4,043,879	4,053,057
Change in Accounting Principle	-	-	-	286,819	-	-
Net Position (Deficits) - Beginning of Year, as Restated	(189,043)	(181,253)	4,232,922	4,521,129	4,043,879	4,053,057
Net Position (Deficits) - End of Year	\$ (134,299)	\$ (189,043)	\$ 4,169,084	\$ 4,232,922	\$ 4,034,785	\$ 3,757,060

**HOUSING AND REDEVELOPMENT AUTHORITY OF BRAINERD
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2014**

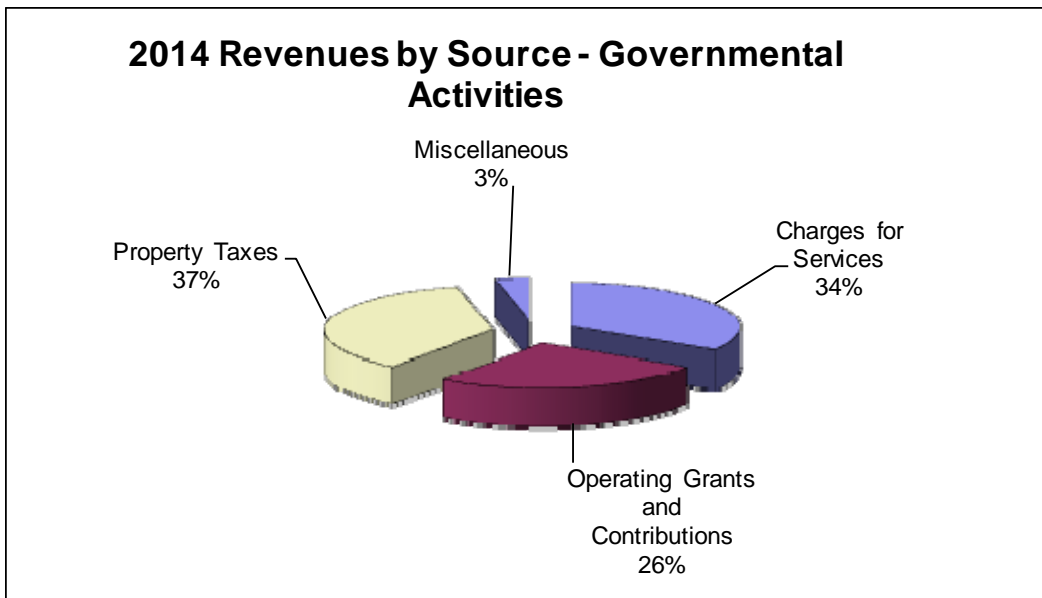
FINANCIAL ANALYSIS

Governmental Activities

Governmental activities increased the Authority's net position by \$54,744, and as shown below, revenues exceeded expenses of governmental activities programs.



As shown below, governmental activities are supported primarily by property taxes and operating grants.

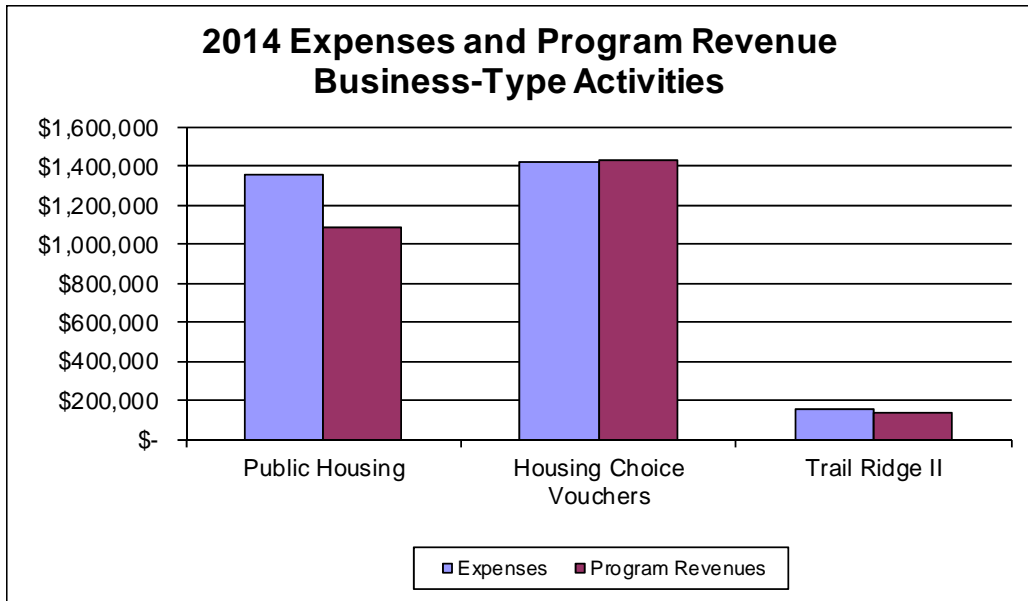


**HOUSING AND REDEVELOPMENT AUTHORITY OF BRAINERD
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2014**

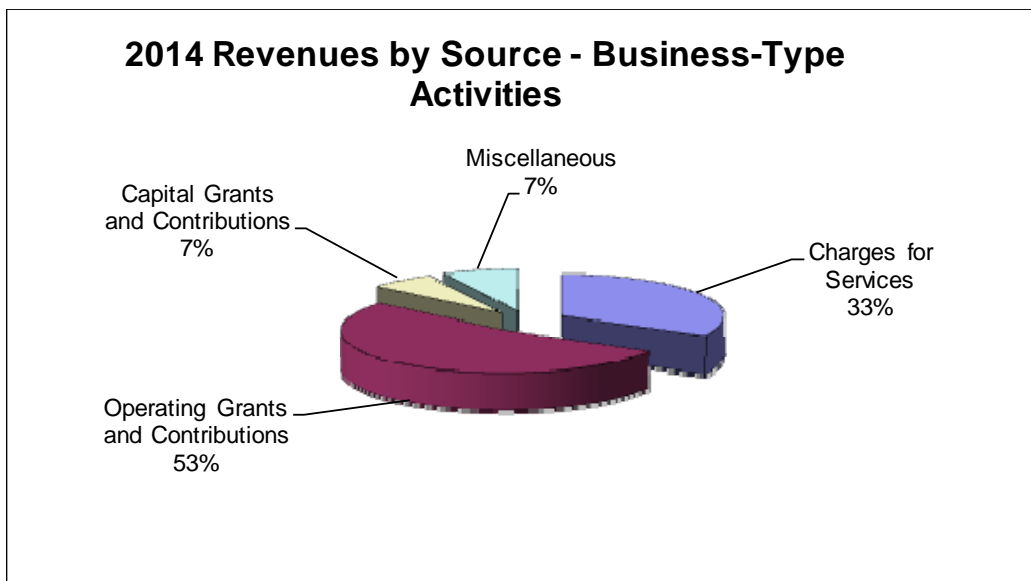
FINANCIAL ANALYSIS (CONTINUED)

Business-Type Activities

Business-Type Activities decreased the Authority's net position by \$63,838. This decrease is mainly due to the Public Housing where cash flow from operations is positive, but depreciation expense of approximately \$256,000 results in a negative "change in net position".



As shown below, business-type activities are primarily supported by federal grants and residential rental revenue.



**HOUSING AND REDEVELOPMENT AUTHORITY OF BRAINERD
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2014**

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 \$412,064.

Revenues for the Authority's governmental funds were \$426,903, while total expenditures were \$397,782.

The General Fund's fund balance increased \$39,935 from the prior year. This is due primarily to the increase in grant revenues for housing projects and an increase in management fees in the current year.

The Downtown TIF Fund's fund balance decreased \$10,814 from the prior year. This is due to the Authority not receiving enough collection of tax increments to pay for the debt payments.

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 \$82,369 more than expected. This is primarily due to the Authority receiving more grant revenues and more contributions and donations than what was expected.
- The actual expenditures were \$33,335 more than budget.

CAPITAL ASSET ACTIVITY

The Authority's capital assets, net of accumulated depreciation at December 31, 2014, amounted to \$4,425,885. This investment in capital assets includes land, buildings and improvements, and furniture, fixtures, and equipment. Net capital assets decreased in total by \$171,888. This decrease in capital assets is due to asset additions of \$119,532 and an increase in accumulated depreciation of \$291,420. The Authority has land related to governmental activities.

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Land	\$ 77,400	\$ 374,262	\$ 451,662
Buildings and Improvements	-	3,872,765	3,872,765
Furniture, Fixtures, and Equipment	-	101,458	101,458
Total	<u>\$ 77,400</u>	<u>\$ 4,348,485</u>	<u>\$ 4,425,885</u>

Detailed information on the Authority's capital assets can be found in the Notes to Financial Statements (Note 3.A.5, Capital Assets).

**HOUSING AND REDEVELOPMENT AUTHORITY OF BRAINERD
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2014**

LONG-TERM DEBT ACTIVITY

Long-Term Debt

The Authority's long-term debt at December 31, 2014:

	Governmental Activities	Business-Type Activities
Revenue Bonds	\$ -	\$ 597,321
Tax Increment Note	447,000	-
Mortgage Note	148,328	-
Total	\$ 595,328	\$ 597,321

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 2015 Housing Choice Voucher (HCV) Administrative Fees will be funded at approximately 75%, which is less than the 2014 funding level of 79%. HCV Housing Assistance Payments will be funded at approximately 100% which is close to the 2014 funding level of 99.7%.

Calendar year 2015 Public Housing Operating Subsidy will be preliminary funded at 82.35% with the final proration levels determined later in the year. This is a decrease from the 2014 funding level of 88.79%.

The following initiatives will be pursued in 2015:

- 1) The Brainerd HRA will be working with a developer to construct a new hotel in downtown Brainerd which is located in the HRA's Downtown TIF District.
- 2) The Brainerd HRA will be participating in the Minnesota Housing Partnership's Housing Institute and exploring options to assist in the improvement and/or redevelopment of areas in downtown Brainerd.
- 3) The Brainerd HRA will be selling two lots under the Scattered Site Replacement Program to Lakes Areas Habitat for Humanity.
- 4) The Brainerd HRA will hire an Executive Assistant.

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, 2014

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets			
Cash and Investments	\$ 340,259	\$ 590,020	\$ 930,279
Real Estate Tax and Insurance Escrow	-	546	546
Accounts Receivable (Net of Allowances for Uncollectibles)	1,458	13,378	14,836
Prepayments	1,652	46,971	48,623
Internal Balances	64,216	(64,216)	-
Restricted Assets			
Cash and Investments	-	180,864	180,864
Total Current Assets	<u>407,585</u>	<u>767,563</u>	<u>1,175,148</u>
Noncurrent Assets			
Other Assets	-	3,139	3,139
Land Held for Resale	12,000	-	12,000
Capital Assets			
Land and Construction-in-Progress	77,400	374,262	451,662
Other Capital Assets, Net of Depreciation	-	3,974,223	3,974,223
Total Noncurrent Assets	<u>89,400</u>	<u>4,351,624</u>	<u>4,441,024</u>
Total Assets	496,985	5,119,187	5,616,172
LIABILITIES			
Current Liabilities			
Accounts Payable	-	12,451	12,451
Accrued Liabilities	7,521	62,528	70,049
Accrued Interest Payable	13,337	76,692	90,029
Tenant Security Deposits	-	94,731	94,731
Due to Other Governments	-	19,644	19,644
Unearned Revenue	-	18,062	18,062
Total Current Liabilities	<u>20,858</u>	<u>284,108</u>	<u>304,966</u>
Noncurrent Liabilities			
Due within One Year	41,338	84,823	126,161
Due in More than One Year	569,088	581,172	1,150,260
Total Noncurrent Liabilities	<u>610,426</u>	<u>665,995</u>	<u>1,276,421</u>
Total Liabilities	631,284	950,103	1,581,387
NET POSITION (DEFICIT)			
Net Investment in Capital Assets	77,400	3,751,164	3,828,564
Unrestricted	(211,699)	417,920	206,221
Total Net Position (Deficit)	<u>\$ (134,299)</u>	<u>\$ 4,169,084</u>	<u>\$ 4,034,785</u>

See accompanying Notes to Financial Statements.

**HOUSING AND REDEVELOPMENT AUTHORITY OF BRAINERD
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2014**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
Primary Government				
Governmental Activities				
General Government	238,562	\$ 143,916	\$ -	\$ -
Economic Development	97,412	-	113,520	-
Interest	37,659	-	-	-
Total Governmental Activities	373,633	143,916	113,520	-
Business-Type Activities				
Public Housing	1,352,593	587,171	312,734	185,616
Housing Choice Vouchers	1,416,901	214,466	1,212,168	-
Trail Ridge II	156,036	137,031	-	-
Total Business-Type Activities	2,925,530	938,668	1,524,902	185,616
Total Primary Government	\$ 3,299,163	\$ 1,082,584	\$ 1,638,422	\$ 185,616

General Revenues
Property Taxes
Grants and Contributions not Restricted to Specific Programs
Unrestricted Investment Earnings
Miscellaneous
Total General Revenues
Change in Net Position

Net Position (Deficit) - Beginning of Year
Net Position (Deficit) - End of Year

See accompanying Notes to Financial Statements.

Net (Expense) Revenue and Changes in Net Position

<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
\$ (94,646)	\$ -	\$ (94,646)
16,108	-	16,108
<u>(37,659)</u>	-	<u>(37,659)</u>
(116,197)	-	(116,197)
-	(267,072)	(267,072)
-	9,733	9,733
-	<u>(19,005)</u>	<u>(19,005)</u>
-	<u>(276,344)</u>	<u>(276,344)</u>
(116,197)	(276,344)	(392,541)
156,520	-	156,520
5	-	5
38	(248)	(210)
14,378	212,754	227,132
<u>170,941</u>	<u>212,506</u>	<u>383,447</u>
54,744	(63,838)	(9,094)
<u>(189,043)</u>	4,232,922	4,043,879
<u>\$ (134,299)</u>	<u>\$ 4,169,084</u>	<u>\$ 4,034,785</u>

**HOUSING AND REDEVELOPMENT AUTHORITY OF BRAINERD
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2014**

	General Fund	Downtown TIF Fund	Debt Service Fund	Totals
ASSETS				
Cash and Investments	\$ 340,259	\$ -	\$ -	\$ 340,259
Accounts Receivable	1,458	-	-	1,458
Prepayments	1,652	-	-	1,652
Advance to Other Funds	162,002	-	-	162,002
Land Held for Resale	12,000	-	-	12,000
Total Assets	\$ 517,371	\$ -	\$ -	\$ 517,371
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accrued Expenses	\$ 7,521	\$ -	\$ -	\$ 7,521
Advance from Other Funds	-	97,786	-	97,786
Total Liabilities	7,521	97,786	-	105,307
FUND BALANCES (DEFICITS)				
Nonspendable				
Prepayments	1,652	-	-	1,652
Advance to Other Funds	162,002	-	-	162,002
Committed				
Scattered Sites Project	40,974	-	-	40,974
Housing Rehab	14,837	-	-	14,837
Assigned				
Downtown TIF Funding	12,000	-	-	12,000
Unassigned	278,385	(97,786)	-	180,599
Total Fund Balances	509,850	(97,786)	-	412,064
Total Liabilities and Fund Balances	\$ 517,371	\$ -	\$ -	\$ 517,371

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, 2014**

Total Fund Balances for Governmental Funds \$ 412,064

Total net position reported for governmental activities in the statement of 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. (13,337)

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	\$ (447,000)	
Notes Payable	(148,328)	
Other Postemployment Benefits	(5,075)	
Compensated Absences Payable	(10,023)	(610,426)
Total Net Position of Governmental Activities		<u>\$ (134,299)</u>

HOUSING AND REDEVELOPMENT AUTHORITY OF BRAINERD
STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2014

	General Fund	Downtown TIF Fund	Debt Service Fund	Totals
REVENUES				
Taxes	\$ 122,325	\$ 34,195	\$ -	\$ 156,520
Intergovernmental				
State				
Grant	76,803	-	-	76,803
Market Value Real Estate Credit	5	-	-	5
Management Fees	130,106	-	-	130,106
Interest	38	-	-	38
Miscellaneous	28,188	-	-	28,188
Contributions and Donations	35,243	-	-	35,243
Total Revenues	<u>392,708</u>	<u>34,195</u>	<u>-</u>	<u>426,903</u>
EXPENDITURES				
Current				
General Government	230,390	-	-	230,390
Economic Development	100,430	211	-	100,641
Debt Service				
Principal	15,675	-	13,000	28,675
Interest	6,278	-	31,798	38,076
Total Expenditures	<u>352,773</u>	<u>211</u>	<u>44,798</u>	<u>397,782</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	39,935	33,984	(44,798)	29,121
OTHER FINANCING SOURCES (USES)				
Transfers In	-	-	44,798	44,798
Transfers Out	-	(44,798)	-	(44,798)
Total Other Financing Sources (Uses)	<u>-</u>	<u>(44,798)</u>	<u>44,798</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	39,935	(10,814)	-	29,121
Fund Balance (Deficit) - Beginning of Year	<u>469,915</u>	<u>(86,972)</u>	<u>-</u>	<u>382,943</u>
FUND BALANCE (DEFICIT) - END OF YEAR	<u>\$ 509,850</u>	<u>\$ (97,786)</u>	<u>\$ -</u>	<u>\$ 412,064</u>

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, 2014**

Net Change in Fund Balances - Governmental Funds \$ 29,121

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	\$	15,675	
Repayment of Bond Principal		13,000	
Change in Accrued Interest Expense		417	
Other Postemployment Benefits		<u>(519)</u>	28,573

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 2014, compensated absences payable increased.

Change in Net Position of Governmental Activities		<u>(2,950)</u>	
	\$	<u>54,744</u>	

HOUSING AND REDEVELOPMENT AUTHORITY OF BRAINERD
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2014

	Business-Type Activities - Enterprise Funds			
	Public Housing	Housing Choice Vouchers	Trail Ridge II	Totals
ASSETS				
Current Assets				
Cash and Cash Equivalents	\$ 453,064	\$ 69,584	\$ 67,372	\$ 590,020
Real Estate Tax and Insurance Escrow	-	-	546	546
Accounts Receivable (Net of Allowances for Uncollectibles)	1,985	11,209	184	13,378
Prepayments	43,374	2,854	743	46,971
Restricted Assets				
Restricted Assets - Cash and Cash Equivalents	55,784	41,334	83,746	180,864
Total Current Assets	554,207	124,981	152,591	831,779
Noncurrent Assets				
Other Assets	-	-	3,139	3,139
Capital Assets				
Land and CIP	299,262	-	75,000	374,262
Other Capital Assets, Net of Depreciation	3,214,296	-	759,927	3,974,223
Net Capital Assets	3,513,558	-	838,066	4,351,624
 Total Assets	 \$ 4,067,765	 \$ 124,981	 \$ 990,657	 \$ 5,183,403
LIABILITIES				
Current Liabilities				
Accounts Payable	\$ 9,195	\$ -	\$ 3,256	\$ 12,451
Accrued Wages Payable	15,570	4,553	-	20,123
Accrued Real Estate Taxes	-	-	12,558	12,558
Current Portion of Long-Term Debt	25,093	-	23,475	48,568
Due to Other Governmental Units	19,644	-	-	19,644
Tenants Security Deposits	54,084	33,110	7,537	94,731
Accrued Interest Payable	192	-	76,500	76,692
Compensated Absences	28,307	7,948	-	36,255
Total Current Liabilities	152,085	45,611	123,326	321,022
Noncurrent Liabilities				
Advances from Other Funds	-	-	64,216	64,216
Accrued Investor Services Fee	-	-	29,847	29,847
Other Postemployment Benefits Payable	24,272	8,147	-	32,419
Unearned Revenues	3,994	14,068	-	18,062
Revenue Bonds Payable	50,822	-	497,931	548,753
Total Noncurrent Liabilities	79,088	22,215	591,994	693,297
Total Liabilities	231,173	67,826	715,320	1,014,319
NET POSITION				
Net Invested in Capital Assets	3,437,643	-	313,521	3,751,164
Unrestricted	398,949	57,155	(38,184)	417,920
Total Net Position	\$ 3,836,592	\$ 57,155	\$ 275,337	\$ 4,169,084

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, 2014

	Business-Type Activities - Enterprise Funds			
	Public Housing	Housing Choice Vouchers	Trail Ridge II	Totals
OPERATING REVENUES				
Intergovernmental				
HUD Contributions	\$ 312,734	\$ 1,212,168	\$ -	\$ 1,524,902
Administrative Fees Earned	-	214,466	-	214,466
Total Intergovernmental Revenues	<u>312,734</u>	<u>1,426,634</u>	<u>-</u>	<u>1,739,368</u>
Rental Income				
Dwelling Income	583,843	-	-	583,843
Excess Utilities	3,328	-	-	3,328
Gross Potential Apartment Rents	-	-	139,590	139,590
Less Vacancies	-	-	(2,559)	(2,559)
Total Rental Income	<u>587,171</u>	<u>-</u>	<u>137,031</u>	<u>724,202</u>
Other Miscellaneous Income				
Tower Rental Income	43,591	-	-	43,591
CIP Funding	25,000	-	-	25,000
Maintenance Fees	15,000	-	-	15,000
Laundry Income	22,510	-	-	22,510
Miscellaneous	99,512	3,804	3,337	106,653
Total Other Miscellaneous Income	<u>205,613</u>	<u>3,804</u>	<u>3,337</u>	<u>212,754</u>
Total Operating Revenues	1,105,518	1,430,438	140,368	2,676,324
OPERATING EXPENSES				
Administration	422,115	181,686	26,015	629,816
Housing Assistance Payments	-	1,228,842	-	1,228,842
Utilities	179,100	-	14,701	193,801
Ordinary Maintenance and Operations	471,937	453	46,947	519,337
General Expense	20,064	5,920	22,622	48,606
Depreciation	255,874	-	35,546	291,420
Total Operating Expenses	<u>1,349,090</u>	<u>1,416,901</u>	<u>145,831</u>	<u>2,911,822</u>
OPERATING INCOME (LOSS)	(243,572)	13,537	(5,463)	(235,498)
NONOPERATING REVENUES (EXPENSES)				
Interest Income	(483)	23	212	(248)
Intergovernmental Revenue	185,616	-	-	185,616
Interest Expense	(3,503)	-	(7,726)	(11,229)
Investor Services Fee	-	-	(2,479)	(2,479)
Total Nonoperating Revenues (Expenses)	<u>181,630</u>	<u>23</u>	<u>(9,993)</u>	<u>171,660</u>
CHANGE IN NET POSITION	(61,942)	13,560	(15,456)	(63,838)
Net Position - Beginning of Year	<u>3,898,534</u>	<u>43,595</u>	<u>290,793</u>	<u>4,232,922</u>
NET POSITION - END OF YEAR	<u>\$ 3,836,592</u>	<u>\$ 57,155</u>	<u>\$ 275,337</u>	<u>\$ 4,169,084</u>

See accompanying Notes to Financial Statements.

HOUSING AND REDEVELOPMENT AUTHORITY OF BRAINERD
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2014

	Business-Type Activities - Enterprise Funds			
	Public Housing	Housing Choice Vouchers	Trail Ridge II	Totals
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash Received from Rent	\$ 584,222	\$ -	\$ -	\$ 584,222
Cash Received from Other Sources	212,935	-	141,985	354,920
Operating Subsidies - HUD	312,734	1,422,855	(110,557)	1,625,032
Cash Paid to Other Suppliers of Goods or Services	(618,034)	(1,217,547)	-	(1,835,581)
Cash Payments to Employees for Services	(535,572)	(195,010)	-	(730,582)
Net Cash Provided (Used) by Operating Activities	(43,715)	10,298	31,428	(1,989)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Capital Grants Received	185,616	-	-	185,616
Acquisition of Capital Assets	(119,532)	-	-	(119,532)
Interest and Fiscal Charges Paid	(3,563)	-	(3,226)	(6,789)
Repayment of Long-Term Debt	(24,109)	-	(22,550)	(46,659)
Net Cash Provided (Used) by Capital and Related Financing Activities	38,412	-	(25,776)	12,636
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest Paid to Tenant Security Deposits	(465)	-	-	(465)
Interest Received	(18)	23	212	217
Net Cash Provided by Investing Activities	(483)	23	212	(248)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(5,786)	10,321	5,864	10,399
Cash and Cash Equivalents - Beginning of Year	514,634	100,597	145,254	760,485
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 508,848</u>	<u>\$ 110,918</u>	<u>\$ 151,118</u>	<u>\$ 770,884</u>
RECONCILIATION OF CASH AND INVESTMENTS TO THE STATEMENT OF NET POSITION				
Cash and Cash Equivalents	\$ 453,064	\$ 69,584	\$ 67,372	\$ 590,020
Restricted Assets - Cash and Investments	55,784	41,334	83,746	180,864
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 508,848</u>	<u>\$ 110,918</u>	<u>\$ 151,118</u>	<u>\$ 770,884</u>

See accompanying Notes to Financial Statements.

**HOUSING AND REDEVELOPMENT AUTHORITY OF BRAINERD
STATEMENT OF CASH FLOWS (CONTINUED)
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2014**

	Business-Type Activities - Enterprise Funds			
	Public Housing	Housing Choice Vouchers	Trail Ridge II	Totals
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Operating Income (Loss)	\$ (243,572)	\$ 13,537	\$ (5,463)	\$ (235,498)
Adjustment to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Depreciation	255,874	-	35,546	291,420
(Increase) Decrease in Assets:				
Accounts Receivable	379	(7,583)	1,376	(5,828)
Prepayments	(6,060)	(249)	-	(6,309)
Other Assets	-	-	240	240
Increase (Decrease) in Liabilities:				
Accounts Payable	(57,659)	(236)	(3,778)	(61,673)
Due to Other Governmental Units	115	-	-	115
Unearned Revenue	3,994	-	-	3,994
Tenants Security Deposits	5,097	5,597	1,174	11,868
Other Postemployment Benefits Payable	1,370	408	-	1,778
Accrued Expenses	(3,253)	(1,176)	2,333	(2,096)
Net Cash Provided (Used) by Operating Activities	<u>\$ (43,715)</u>	<u>\$ 10,298</u>	<u>\$ 31,428</u>	<u>\$ (1,989)</u>

See accompanying Notes to Financial Statements.

**HOUSING AND REDEVELOPMENT AUTHORITY OF BRAINERD
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUND
DECEMBER 31, 2014**

	<u>Agency Fund</u>
ASSETS	
Cash and Investments	<u>\$ 752,140</u>
LIABILITIES	
Cash Held for Other Agencies	<u>\$ 752,140</u>

See accompanying Notes to Financial Statements.

HOUSING AND REDEVELOPMENT AUTHORITY OF BRAINERD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2014

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Housing and Redevelopment Authority of Brainerd (the 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 a voting majority of an organization's governing body and has the ability to impose its will on the governing body; or there is a specific financial benefit or to impose a specific financial burden on the Primary Government.

The basic financial statements of the Authority include Trail Ridge II. Trail Ridge II is an entity legally separate from the Authority. The Authority reports Trail Ridge II as blended component unit in accordance with GASB Statement No. 14, as amended because the Authority's board is the governance for Trail Ridge II and the Authority makes day to day decisions for this project. 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 \$136,805 at December 31, 2014.

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, 2014

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, 2014

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.

Trail Ridge II – The Trail Ridge II Fund is a blended component unit of the Authority used to account for providing low income housing utilizing the housing tax credit program.

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, 2014

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 as uncollectible. Bad debt expense of \$8,348 for 2014 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, 2014**

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 unavailable 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 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 Authority. The county treasurer must pay the balance to the Authority 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, 2014

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, 2014, 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 are amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

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, 2014

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 investment 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 its 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. Nonspendable fund balance represents amounts that are inherently nonspendable or assets that are legally or contractually required to be maintained intact. 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, 2014

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).

B. Excess of Disbursements over Budgeted Appropriations

The General Fund disbursements exceeded the budgeted appropriations by \$33,335 for the current year. The overage relates to contract costs associated with grant revenue that was received. None of these costs were budgeted for. All disbursements were approved by the Board.

C. Deficit Fund Equity

The Downtown TIF Fund had a deficit fund balance of \$97,786 as of December 31, 2014. The fund incurred expenditures that will be reimbursed by taxes collected or by a transfer from the General Fund.

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, 2014

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

1. 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, 2014 were entirely covered by federal depository insurance or by surety bonds and collateral in accordance with *Minnesota Statutes*.

2. 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, 2014.

**HOUSING AND REDEVELOPMENT AUTHORITY OF BRAINERD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2014**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

3. 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, 2014.

4. Interfund Receivables, Payables, and Transfers

At December 31, 2014, advance to/from other funds were as follows:

	Advance To:		
Advance From:	TIF Fund	Trail Ridge II	Total
General Fund	\$ 97,786	\$ 64,216	\$ 162,002

The General Fund made an advance to the TIF Fund during 2014 to fund current operations. The General Fund made an advance to Trail Ridge II to meet various capital and operating requirements.

Transfers of current financial resources at the fund level for the year ended December 31, 2014 are as follows:

	Transfer In:
Transfer Out:	Debt Service Fund
Downtown TIF Fund	\$ 44,798

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.

HOUSING AND REDEVELOPMENT AUTHORITY OF BRAINERD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2014

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

5. Capital Assets

Capital asset activity for the Authority for the year ended December 31, 2014, is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Governmental Activities				
Capital Assets, Not Being Depreciated:				
Land	\$ 77,400	\$ -	\$ -	\$ 77,400
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Business-Type Activities				
Capital Assets, Not Being Depreciated				
Land	\$ 374,262	\$ -	\$ -	\$ 374,262
Capital Assets, Being Depreciated				
Buildings and Improvements	12,791,362	83,500	-	12,874,862
Furniture, Fixtures and Equipment	356,752	36,032	(22,454)	370,330
Total Capital Assets, Being Depreciated	<u>13,148,114</u>	<u>119,532</u>	<u>(22,454)</u>	<u>13,245,192</u>
Less Accumulated Depreciation For				
Buildings and Improvements	(8,734,506)	(267,591)	-	(9,002,097)
Furniture, Fixtures and Equipment	(267,497)	(23,829)	22,454	(268,872)
Total Accumulated Depreciation	<u>(9,002,003)</u>	<u>(291,420)</u>	<u>22,454</u>	<u>(9,270,969)</u>
Total Capital Assets, Being Depreciated, Net	<u>4,146,111</u>	<u>(171,888)</u>	<u>-</u>	<u>3,974,223</u>
Business-Type Activities Capital Assets, Net	<u>\$ 4,520,373</u>	<u>\$ (171,888)</u>	<u>\$ -</u>	<u>\$ 4,348,485</u>

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

Business-Type Activities:	
Public Housing	\$ 255,874
Trail Ridge II	35,546
Total Depreciation Expense - Business-Type Activities	<u>\$ 291,420</u>

**HOUSING AND REDEVELOPMENT AUTHORITY OF BRAINERD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2014**

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.

First Mortgage Payable

Trail Ridge II entered into a \$257,000 long-term mortgage payable dated February 1, 1998. Monthly payments of \$2,148, including interest at 9%, were due through February 1, 2013. On November 2, 2012, this mortgage was extended to November 1, 2017. Monthly payments of \$2,313, including interest at 3.8%, are due through November 1, 2017. The mortgage is secured by the Project.

Second Mortgage Payable

Trail Ridge II entered into their second mortgage (MHFA Affordable Rental Investment fund Loan) payable to Minnesota Housing Finance Agency (MHFA) in the original amount of \$450,000 dated January 12, 1998, with interest at 1%. Principal and interest are due January 28, 2028. The mortgage is secured by the Project.

HOUSING AND REDEVELOPMENT AUTHORITY OF BRAINERD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2014

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities (Continued)

1. Long-Term Debt (Continued)

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

	Interest Rate	Amount Outstanding
REVENUE BONDS:		
2002B Public Facility Revenue Bonds	3.95%	\$ 75,915
2005 Taxable Tax Increment Note	6.96%	447,000
2007 Mortgage Note	3.95%	148,328
MHFA - ARIF	1.00%	450,000
Wells Fargo	3.80%	71,406
Total Revenue Bonds and Notes		\$ 1,192,649

The summary of long-term debt transactions for the year ended December 31, 2014 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
Bonds Payable					
Revenue Bonds	\$ 460,000	\$ -	\$ 13,000	\$ 447,000	\$ 15,000
Notes Payable	164,003	-	15,675	148,328	16,315
Compensated Absences Payable	7,073	10,195	7,245	10,023	10,023
Other Postemployment Benefits Payable	4,556	519	-	5,075	-
Governmental Activities Long-Term Liabilities	\$ 635,632	\$ 10,714	\$ 35,920	\$ 610,426	\$ 41,338
Business-Type Activities					
Bonds Payable					
Revenue Bonds	\$ 643,980	\$ -	\$ 46,659	\$ 597,321	\$ 48,568
Compensated Absences Payable	42,798	40,855	47,398	36,255	36,255
Other Postemployment Benefits Payable	30,641	1,778	-	32,419	-
Business-Type Activities Long-Term Liabilities	\$ 717,419	\$ 42,633	\$ 94,057	\$ 665,995	\$ 84,823

**HOUSING AND REDEVELOPMENT AUTHORITY OF BRAINERD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2014**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities (Continued)

1. Long-Term Debt (Continued)

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

Notes Payable Governmental Activities			Revenue Bonds Governmental Activities			Revenue Bonds Business-Type Activities		
	Principal	Interest		Principal	Interest		Principal	Interest
2015	\$ 16,315	\$ 5,642	2015	\$ 15,000	\$ 30,868	2015	\$ 48,568	\$ 11,242
2016	16,981	4,977	2016	18,000	29,754	2016	50,499	9,384
2017	115,032	4,295	2017	20,000	28,466	2017	48,254	7,453
Total	<u>\$ 148,328</u>	<u>\$ 14,914</u>	2018	23,000	27,039	2018	-	5,445
			2019	26,000	25,369	2019	-	4,500
			2020-2024	182,000	94,377	2020-2024	-	22,500
			2025-2027	163,000	20,601	2025-2028	450,000	27,000
			Total	<u>\$ 447,000</u>	<u>\$ 256,474</u>	Total	<u>\$ 597,321</u>	<u>\$ 87,524</u>

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, 2014, the following conduit debt existed:

Lease Revenue Bonds	<u>\$ 2,265,000</u>
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HOUSING AND REDEVELOPMENT AUTHORITY OF BRAINERD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2014

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, 2014. That report may be obtained by contacting the Authority.

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, 2014, 2013, and 2012 were \$48,243, \$48,220, and \$47,275, respectively.

NOTE 5 OTHER POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

The Authority provides health insurance benefits for certain retired employees under the City of Brainerd's 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, 2012, there were no Authority retirees receiving health benefits from the health plan; however, there were five retiree employees from the City and two from Brainerd Public Utilities that were receiving health benefits from the health plan.

**HOUSING AND REDEVELOPMENT AUTHORITY OF BRAINERD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2014**

NOTE 5 OTHER POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

A. 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 2014, 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	1,584
Adjustment to ARC	<u>(9,736)</u>
Annual OPEB Cost	3,068
Employer Contribution	<u>(771)</u>
Increase in Net OPEB Obligation	2,297
Net OPEB - Beginning of the Year	<u>35,197</u>
Net OPEB - End of the Year	<u><u>\$ 37,494</u></u>

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2012, 2013, and 2014 were as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Employer Contribution</u>	<u>Percentage Contributed</u>	<u>Net OPEB Obligation</u>
December 31, 2012	\$ 12,988	\$ 800	0.1 %	\$ 32,386
December 31, 2013	4,526	1,715	0.4	35,197
December 31, 2014	3,068	771	0.3	37,494

**HOUSING AND REDEVELOPMENT AUTHORITY OF BRAINERD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2014**

NOTE 5 OTHER POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

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 Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((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.

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.

**HOUSING AND REDEVELOPMENT AUTHORITY OF BRAINERD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2014**

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 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 partner capital balance in the project is \$(179,134) at December 31, 2014. 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 .00475% at December 31, 2014.

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**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((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, 2014**

	Budget Original and Final	Actual	Variance With Budget Over (Under)
REVENUES			
Taxes	\$ 115,189	\$ 122,325	\$ 7,136
Intergovernmental			
State			
Grant	-	76,803	76,803
Market Value Real Estate Credit	-	5	5
Management Fees	129,500	130,106	606
Administrative Fees	55,000	-	(55,000)
Interest	50	38	(12)
Miscellaneous	10,600	28,188	17,588
Contributions and Donations	-	35,243	35,243
Total Revenues	310,339	392,708	82,369
EXPENDITURES			
Current			
General Government			
Administrative	282,541	217,330	(65,211)
Maintenance	1,100	381	(719)
General Expenses	2,840	12,679	9,839
Economic Development	11,000	100,430	89,430
Debt Service			
Principal	15,707	15,675	(32)
Interest	6,250	6,278	28
Total Expenditures	319,438	352,773	33,335
NET CHANGE IN FUND BALANCE	\$ (9,099)	39,935	\$ 49,034
Fund Balance - Beginning of Year		469,915	
FUND BALANCE - END OF YEAR		\$ 509,850	

See accompanying Notes to Required Supplementary Information.

**HOUSING AND REDEVELOPMENT AUTHORITY OF BRAINERD
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
GENERAL FUND
YEAR ENDED DECEMBER 31, 2014**

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.

The General Fund disbursements exceeded the budgeted appropriations by \$33,335 for the current year. The overage relates to contract costs associated with grant revenue that was received. None of these costs were budgeted for. All disbursements were 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, 2014

Line Item #	Account Description	Public Housing Low Rent 14.850	Housing Choice Vouchers 14.871	Trail Ridge II
ASSETS				
CURRENT ASSETS				
CASH				
111	Cash - Unrestricted	\$ 453,064	\$ 69,584	\$ 67,372
113	Cash - Other Restricted	-	33,113	72,540
114	Cash - Tenant Security Deposits	55,784	-	11,206
115	Cash - Restricted for Payment of Current Liabilities	-	8,221	-
100	Total Cash	<u>508,848</u>	<u>110,918</u>	<u>151,118</u>
ACCOUNTS AND ACCOUNTS RECEIVABLE				
124	Accounts Receivable - Other Government	-	11,209	-
126	Accounts Receivable - Tenants	1,985	-	184
120	Total Receivables, Net of Allowances for Doubtful Accounts	<u>1,985</u>	<u>11,209</u>	<u>184</u>
142	Prepaid Expenses and Other Assets	43,374	2,854	743
144	Interprogram - Due From	-	-	-
145	Assets Held for Sale	-	-	-
150	Total Current Assets	<u>554,207</u>	<u>124,981</u>	<u>152,045</u>
NONCURRENT ASSETS				
FIXED ASSETS				
161	Land	299,262	-	75,000
162	Buildings	11,354,402	-	1,520,460
163	Furniture, Equipment and Machinery - Dwellings	275,515	-	38,843
164	Furniture, Equipment and Machinery - Administration	52,722	3,250	-
166	Accumulated Depreciation	<u>(8,468,343)</u>	<u>(3,250)</u>	<u>(799,376)</u>
160	Total Fixed Assets, Net of Accumulated Depreciation	<u>3,513,558</u>	<u>-</u>	<u>834,927</u>
174	Other Assets	-	-	3,685
180	Total Noncurrent Assets	<u>3,513,558</u>	<u>-</u>	<u>838,612</u>
190	Total Assets	<u>\$ 4,067,765</u>	<u>\$ 124,981</u>	<u>\$ 990,657</u>

Economic Development and Supporting Services	State/Local	Fiduciary Fund Agency	Total
\$ -	\$ 340,259	\$ 752,140	\$ 1,682,419
-	-	-	105,653
-	-	-	66,990
-	-	-	8,221
-	340,259	752,140	1,863,283
-	1,458	-	12,667
-	-	-	2,169
-	1,458	-	14,836
-	1,652	-	48,623
-	162,002	-	162,002
-	12,000	-	12,000
-	517,371	752,140	2,100,744
-	77,400	-	451,662
-	-	-	12,874,862
-	-	-	314,358
-	-	-	55,972
-	-	-	(9,270,969)
-	77,400	-	4,425,885
-	-	-	3,685
-	77,400	-	4,429,570
\$ -	\$ 594,771	\$ 752,140	\$ 6,530,314

HOUSING AND REDEVELOPMENT AUTHORITY OF BRAINERD
FINANCIAL DATA SCHEDULE (CONTINUED)
DECEMBER 31, 2014

Line Item #	Account Description	Public Housing Low Rent 14.850	Housing Choice Vouchers 14.871	Trail Ridge II
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
312	Accounts Payable < 90 Days	\$ 420	\$ -	\$ 3,256
321	Accrued Wage/Payroll Taxes Payable	15,570	4,553	-
322	Accrued Compensated Absences	28,307	7,948	-
325	Accrued Interest Payable	192	-	76,500
333	Accounts Payable - Other Government	19,644	-	-
341	Tenant Security Deposits	54,084	-	7,537
342	Unearned Revenue	3,994	14,068	-
343	Current Portion of Long-Term Debt - Capital Projects/ Mortgage Revenue Bonds	25,093	-	23,475
345	Other Current Liabilities	-	3,357	-
346	Accrued Liabilities - Other	8,775	-	42,405
347	Interprogram Due To	-	-	64,216
310	Total Current Liabilities	<u>156,079</u>	<u>29,926</u>	<u>217,389</u>
NONCURRENT LIABILITIES				
351	Long-Term Debt, Net of Current - Capital Projects/ Mortgage Revenue Bonds	50,822	-	497,931
353	Noncurrent Liabilities - Other	-	29,753	-
357	Accrued Pension and OPEB Liabilities	24,272	8,147	-
350	Total Noncurrent Liabilities	<u>75,094</u>	<u>37,900</u>	<u>497,931</u>
300	Total Liabilities	231,173	67,826	715,320
NET POSITION				
508.1	Net Investment in Capital Assets	3,437,643	-	313,521
512.1	Unrestricted Net Position	398,949	57,155	(38,184)
513	Total Net Position	<u>3,836,592</u>	<u>57,155</u>	<u>275,337</u>
600	Total Liabilities and Net Position	<u>\$ 4,067,765</u>	<u>\$ 124,981</u>	<u>\$ 990,657</u>

Economic Development and Supporting Services	State/Local	Fiduciary Fund Agency	Total
\$ -	\$ -	\$ -	\$ 3,676
-	7,310	-	27,433
-	10,023	-	46,278
12,963	374	-	90,029
-	-	-	19,644
-	-	-	61,621
-	-	-	18,062
15,000	16,315	-	79,883
-	-	-	3,357
-	211	752,140	803,531
97,786	-	-	162,002
<u>125,749</u>	<u>34,233</u>	<u>752,140</u>	<u>1,315,516</u>
432,000	132,013	-	1,112,766
-	-	-	29,753
-	5,075	-	37,494
<u>432,000</u>	<u>137,088</u>	<u>-</u>	<u>1,180,013</u>
557,749	171,321	752,140	2,495,529
-	-	-	3,751,164
<u>(557,749)</u>	<u>423,450</u>	<u>-</u>	<u>283,621</u>
<u>(557,749)</u>	<u>423,450</u>	<u>-</u>	<u>4,034,785</u>
<u>\$ -</u>	<u>\$ 594,771</u>	<u>\$ 752,140</u>	<u>\$ 6,530,314</u>

**HOUSING AND REDEVELOPMENT AUTHORITY OF BRAINERD
FINANCIAL DATA SCHEDULE (CONTINUED)
YEAR ENDED DECEMBER 31, 2014**

Line Item #	Account Description	Public Housing Low Rent 14.850	Public Housing Capital Fund Program 14.872
REVENUE			
70300	Net Tenant Rental Revenue	\$ 592,191	\$ -
70400	Tenant Revenue - Other	67,228	-
70500	Total Tenant Revenue	659,419	-
70600	HUD PHA Operating Grants	312,734	185,616
70700	Total Fee Revenue	312,734	185,616
70800	Other Government Grants	-	-
71100	Unrestricted Investment Income	(483)	-
71400	Fraud Recovery	-	-
71500	Other Revenue	141,713	-
70000	Total Revenue	1,113,383	185,616
EXPENSES			
<u>Administrative</u>			
91100	Administrative Salaries	239,974	-
91200	Auditing Fees	11,562	-
91400	Advertising and Marketing	677	-
91500	Employee Benefit Contributions - Administrative	88,563	-
91600	Office Expenses	27,142	-
91700	Legal Expense	1,458	-
91800	Travel	1,450	-
91000	Total Operating - Administrative	370,826	-
<u>Tenant Services</u>			
92100	Tenant Services - Other	-	-
92300	Employee Benefit Contributions - Tenant Services	-	-
92500	Total Tenant Services	-	-
<u>Utilities</u>			
93100	Water	24,074	-
93200	Electricity	66,645	-
93300	Gas	57,491	-
93600	Sewer	30,890	-
93000	Total Utilities	179,100	-
<u>Ordinary Maintenance and Operation</u>			
94100	Ordinary Maintenance and Operations - Labor	167,828	-
94200	Ordinary Maintenance and Operations - Materials and Other	58,418	-
94300	Ordinary Maintenance and Operations - Contract Costs	171,562	-
94500	Employee Benefit Contributions - Ordinary Maintenance	73,041	-
94000	Total Maintenance	470,849	-
95200	Protective Services - Other Contract Costs	1,088	-
950	Total Protective Services	1,088	-

Housing Choice Vouchers 14,871	Trail Ridge II	Economic Development and Supporting Services	State/Local	Total
\$ -	\$ 137,031	\$ -	\$ -	\$ 729,222
-	-	-	-	67,228
-	137,031	-	-	796,450
1,426,634	-	-	-	1,924,984
1,426,634	-	-	-	1,924,984
-	-	-	76,803	76,803
23	212	-	38	(210)
1,788	-	-	-	1,788
2,016	3,337	34,195	317,341	498,602
1,430,461	140,580	34,195	394,182	3,298,417
80,650	-	-	175,980	496,604
3,081	8,250	-	6,897	29,790
68	238	-	1,113	2,096
32,372	-	-	51,834	172,769
3,680	17,286	100	15,522	63,730
168	-	111	3,139	4,876
1,223	-	-	1,313	3,986
121,242	25,774	211	255,798	773,851
40,605	-	-	-	40,605
17,402	-	-	-	17,402
58,007	-	-	-	58,007
-	2,384	-	-	26,458
-	2,746	-	-	69,391
-	9,571	-	-	67,062
-	-	-	-	30,890
-	14,701	-	-	193,801
-	8,839	-	-	176,667
-	38,108	-	1,902	98,428
453	-	-	54,346	226,361
-	-	-	-	73,041
453	46,947	-	56,248	574,497
-	-	-	-	1,088
-	-	-	-	1,088

**HOUSING AND REDEVELOPMENT AUTHORITY OF BRAINERD
FINANCIAL DATA SCHEDULE (CONTINUED)
YEAR ENDED DECEMBER 31, 2014**

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	\$ 32,374	\$ -
96120	Liability Insurance	6,830	-
96130	Workmen's Compensation	10,031	-
96140	All Other Insurance	2,054	-
96100	Total Insurance Premiums	<u>51,289</u>	<u>-</u>
96200	Other General Expenses	-	-
96300	Payments in Lieu of Taxes	20,064	-
96400	Bad Debt - Tenant Rents	8,348	-
96000	Total Other General Expenses	<u>28,412</u>	<u>-</u>
96710	Interest of Mortgage (or Bonds) Payable	<u>3,503</u>	<u>-</u>
96900	Total Operating Expenses	<u>1,105,067</u>	<u>-</u>
97000	EXCESS OPERATING REVENUE OVER OPERATING EXPENSES	8,316	185,616
	<u>Other Expenses</u>		
97300	Housing Assistance Payments	-	-
97400	Depreciation Expense	255,874	-
90000	Total Expenses	<u>1,360,941</u>	<u>-</u>
	<u>Other Financing Sources (Uses)</u>		
10010	Operating Transfers In	185,616	-
10020	Operating Transfers Out	-	(185,616)
10100	Total Other Financing Sources (Uses)	<u>185,616</u>	<u>(185,616)</u>
10000	EXCESS (DEFICIENCY) OF TOTAL REVENUE OVER (UNDER) TOTAL EXPENSES	<u>\$ (61,942)</u>	<u>\$ -</u>
	<u>Memo Account Information</u>		
11020	Required Annual Debt Principal Payments	\$ 24,109	\$ -
11030	Beginning Equity	3,898,534	-
11170	Administrative Fee Equity	-	-
11190	Unit Months Available	2,410	-
11210	Number of Unit Months Leased	2,366	-

Housing Choice Vouchers 14.871	Trail Ridge II	Economic Development and Supporting Services	State/Local	Total
\$ 494	\$ -	\$ -	\$ 659	\$ 33,527
1,343	-	-	581	8,754
935	-	-	847	11,813
1,027	10,032	-	1,027	14,140
3,799	10,032	-	3,114	68,234
2,121	15,069	-	14,727	31,917
-	-	-	5,876	25,940
2,437	-	-	-	10,785
4,558	15,069	-	20,603	68,642
-	7,726	31,421	6,238	48,888
188,059	120,249	31,632	342,001	1,787,008
1,242,402	20,331	2,563	52,181	1,511,409
1,228,842	-	-	-	1,228,842
-	35,787	-	-	291,661
1,416,901	156,036	31,632	342,001	3,307,511
-	-	-	-	185,616
-	-	-	-	(185,616)
-	-	-	-	-
\$ 13,560	\$ (15,456)	\$ 2,563	\$ 52,181	\$ (9,094)
\$ -	\$ 22,550	\$ 13,000	\$ 15,675	\$ 75,334
43,595	290,793	(560,312)	371,269	4,043,879
57,155	-	-	-	57,155
3,840	-	-	-	6,250
3,821	-	-	-	6,187

OTHER INFORMATION

**HOUSING AND REDEVELOPMENT AUTHORITY OF BRAINERD
STATEMENT AND CERTIFICATION OF ACTUAL CAPITAL FUND GRANT COSTS
YEAR ENDED DECEMBER 31, 2014
(UNAUDITED)**

	<u>MN46P03250112</u>	<u>MN46P03250113</u>	<u>MN46P03250114</u>
The actual modernization costs are as follows:			
Funds Approved - Total Grant	\$ 185,616	\$ 182,129	\$ 204,321
Funds Expended - Grant Expenditures to Date	<u>185,616</u>	<u>66,000</u>	<u>-</u>
Excess of Funds Approved	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Funds Advanced - 2014	\$ 119,616	\$ 66,000	\$ -
Funds Expended - 2014	<u>119,616</u>	<u>66,000</u>	<u>-</u>
Excess of Funds Advanced	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Funds Received During Current Year	<u>\$ 119,616</u>	<u>\$ 66,000</u>	<u>\$ -</u>
Status	Complete	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 (the Authority), a component unit of the City of Brainerd, as of and for the year ended December 31, 2014, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated March 23, 2015. Our report includes a reference to other auditors who audited the financial statements of Trail Ridge II, as described in our report on the Housing and Redevelopment Authority of Brainerd. The financial statements of Trail Ridge II were not audited in accordance with *Government Auditing Standards*.

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.

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

Internal Control Over Financial Reporting (Continued)

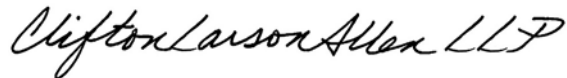
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

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
March 23, 2015

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

Report on Compliance for Each Major Federal Program

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, 2014. The Authority's major federal programs are identified in the Summary of Auditors' Results section of the accompanying schedule of findings and questioned costs. Our report includes a reference to other auditors who audited the financial statements of Trail Ridge II, as described in our report on the HRA. Trail Ridge II was not audited under OMB Circular A-133 because it received no federal grant funding in 2014.

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, 2014.

Report on Internal Control Over Compliance

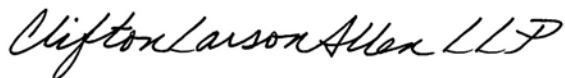
Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the 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.

Purpose of This Report

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
March 23, 2015

**HOUSING AND REDEVELOPMENT AUTHORITY OF BRAINERD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2014**

Federal Agency/ Pass-Through Grantor / Program Title	Federal CFDA Number	Federal Expenditures
U.S. Department of Housing and Urban Development		
Direct:		
Public and Indian Housing - Operating Subsidy	14.850	\$ 312,734
Housing Choice Voucher Program	14.871	1,426,634
Public Housing Capital Fund Program	14.872	185,616
Passed Through Minnesota Department of Health		
Lead-Based Paint Hazard Control in Privately-Owned Housing	14.900	<u>6,365</u>
Total U.S. Department of Housing and Urban Development		<u>\$ 1,931,349</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.

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 (the Authority), a component unit of the City of Brainerd, as of December 31, 2014 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 March 23, 2015. Our report includes a reference to other auditors who audited the financial statements of Trail Ridge II, as described in our report on the Housing and Redevelopment Authority of Brainerd's financial statements.

The HRA's basic financial statements include the operations of Trail Ridge II. Our audit, described below, did not include the operations of Trail Ridge II because it engaged for its own separate audit and it is not a Minnesota Political Subdivision.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions* contains 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
March 23, 2015

**HOUSING AND REDEVELOPMENT AUTHORITY OF BRAINERD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2014**

SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unmodified opinion on the basic financial statements of the Housing and Redevelopment Authority of Brainerd (the Authority).
2. No instances of material weakness in internal controls to the financial statements of the Authority were disclosed during the audit.
3. No instances of noncompliance material to the financial statements of the Authority 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 "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."
5. The auditors' report on compliance for the major federal award program for the Housing and Redevelopment Authority of Brainerd expresses an unmodified 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
--------------------------------	-----------------
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, 2014**

INTERNAL CONTROL OVER FINANCIAL REPORTING:

None Noted.

OTHER ITEMS FOR CONSIDERATION (LEGAL COMPLIANCE):

None Noted.

PRIOR YEAR FINDINGS

None Noted.