

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

**HERITAGE PARK SENIOR SERVICES CENTER
MINNEAPOLIS, MINNESOTA
(A COMPONENT UNIT OF THE
MINNEAPOLIS PUBLIC HOUSING AUTHORITY)**

YEAR ENDED DECEMBER 31, 2015

Description of the Office of the State Auditor

The mission of the Office of the State Auditor is to oversee local government finances for Minnesota taxpayers by helping to ensure financial integrity and accountability in local governmental financial activities.

Through financial, compliance, and special audits, the State Auditor oversees and ensures that local government funds are used for the purposes intended by law and that local governments hold themselves to the highest standards of financial accountability.

The State Auditor performs approximately 150 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

Audit Practice - conducts financial and legal compliance audits of local governments;

Government Information - collects and analyzes financial information for cities, towns, counties, and special districts;

Legal/Special Investigations - provides legal analysis and counsel to the Office and responds to outside inquiries about Minnesota local government law; as well as investigates allegations of misfeasance, malfeasance, and nonfeasance in local government;

Pension - monitors investment, financial, and actuarial reporting for approximately 700 public pension funds; and

Tax Increment Financing - promotes compliance and accountability in local governments' use of tax increment financing through financial and compliance audits.

The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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This document can be made available in alternative formats upon request. Call 651-296-2551 [voice] or 1-800-627-3529 [relay service] for assistance; or visit the Office of the State Auditor's web site: www.auditor.state.mn.us.

**HERITAGE PARK SENIOR SERVICES CENTER
MINNEAPOLIS, MINNESOTA
(A COMPONENT UNIT OF THE
MINNEAPOLIS PUBLIC HOUSING AUTHORITY)**

Year Ended December 31, 2015



**Audit Practice Division
Office of the State Auditor
State of Minnesota**

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**HERITAGE PARK SENIOR SERVICES CENTER
MINNEAPOLIS, MINNESOTA**

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**HERITAGE PARK SENIOR SERVICES CENTER
MINNEAPOLIS, MINNESOTA**

**ORGANIZATION
DECEMBER 31, 2015**

		<u>Term Expires</u>
Board of Directors and Officers		
F. Clayton Tyler	Director, Chair	December 31, 2015
Charles T. Lutz	Director, Vice Chair	December 31, 2016
Daisy Nguyen	Director, Secretary	December 31, 2017
Tom DeAngelo	Director	December 31, 2015
Cara Letofsky	Director	December 31, 2016
James Rosenbaum	Director	December 31, 2017
Dorothy Robinson	Director	December 31, 2015
Berra Toka	Director	December 31, 2017
Cora McCorvey	Director, President	Indefinite
Tim Durose	Treasurer	Indefinite

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Members of the Board of Directors
Heritage Park Senior Services Center
Minneapolis, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the Heritage Park Senior Services Center (HPSSC), a component unit of the Minneapolis Public Housing Authority, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the HPSSC'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.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the HPSSC'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 HPSSC's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the HPSSC as of December 31, 2015, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 8, 2016, on our consideration of the HPSSC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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 HPSSC's internal control over financial reporting and compliance.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

September 8, 2016

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**HERITAGE PARK SENIOR SERVICES CENTER
MINNEAPOLIS, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE PERIOD ENDED DECEMBER 31, 2015**

This section of the Heritage Park Senior Services Center, Incorporated, (HPSSC) annual financial report presents our Management's Discussion and Analysis (MD&A) of the HPSSC's financial performance during the period ended on December 31, 2015. The MD&A is designed to assist the reader in focusing on significant financial issues, to provide an overview of the HPSSC's financial activity and position, and to identify financial trends and concerns.

Since this section is designed to focus on the current year's activities, resulting changes, and currently known facts, please read it in conjunction with the HPSSC's financial statements.

FINANCIAL HIGHLIGHTS

- Incorporated in the State of Minnesota on May 13, 2010.
- Determined to be a 501(c)(3) organization by the Internal Revenue Service on November 3, 2010.
- Received a \$15,247,000 construction loan advance to build a community center.
- Completed \$15,483,708 worth of the construction activity on the community center.
- The Senior Services Center opened in February 2012.

AGENCY OVERVIEW

The HPSSC became incorporated and began operations on May 13, 2010, as a non-profit affiliate organization of the Minneapolis Public Housing Authority (MPHA). On November 3, 2010, the Internal Revenue Service officially determined that the HPSSC would be described as a 501(c)(3) organization under the Internal Revenue Code. The HPSSC's purpose is to provide a fully accessible multi-purpose senior community center.

The HPSSC reports as an enterprise fund. This presentation is designed to be corporate-like in that all business-type activities are consolidated into one organization-wide total. The HPSSC is presented in these basic financial statements prepared in conformity with accounting principles generally accepted in the United States of America. These statements include the financial results for the period ending December 31, 2015.

The basic financial statements are designed to provide readers with a broad overview of the HPSSC’s finances in a manner similar to a private-sector business. These statements include:

- Statement of Net Position, which presents information on all of the HPSSC’s assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position usually serve as a useful indicator of whether the financial position of the HPSSC is improving or deteriorating. The Statement of Net Position can be found as Exhibit 1 on page 8.
- Statement of Revenues, Expenses, and Changes in Net Position, which presents information showing how the HPSSC’s net position changed during the most recent period. This statement shows the total revenues and total expenses of the HPSSC and the difference between them, the HPSSC’s “net income.” This statement can be found as Exhibit 2 on page 9.
- Statement of Cash Flows, which presents changes in cash and cash equivalents, resulting from operations and capital and noncapital financing activities. The Statement of Cash Flows can be found as Exhibit 3 on page 10.
- The Notes to the Financial Statements provide additional information that is essential to the full understanding of the data provided in the HPSSC’s other basic financial statements. The Notes to the Financial Statements can be found on pages 11 through 15 of this report.

FINANCIAL POSITION

The following table provides a comparative analysis of the HPSSC’s financial position as of the fiscal years ending December 31, 2015 and 2014. It provides a summary of the economic resources (assets), the claims on these resources (liabilities) by outside creditors, and the net resources (equity) available to the organization.

Statement of Net Position			
	2015	2014	Percent Change (%)
Assets			
Current and other assets	\$ 142,954	\$ 32,312	342.4
Restricted assets	194,923	285,648	(31.8)
Capital assets (net of accumulated depreciation)	<u>13,814,964</u>	<u>14,166,628</u>	(2.5)
Total Assets	<u>\$ 14,152,841</u>	<u>\$ 14,484,588</u>	(2.3)

	<u>2015</u>	<u>2014</u>	<u>Percent Change (%)</u>
Liabilities			
Current liabilities	\$ 156,797	\$ 118,624	32.2
Noncurrent liabilities	<u>15,247,000</u>	<u>15,247,000</u>	-
Total Liabilities	<u>\$ 15,403,797</u>	<u>\$ 15,365,624</u>	0.2
Net Position			
Net investment in capital assets	\$ (1,432,036)	\$ (1,080,372)	32.6
Restricted	<u>181,080</u>	<u>199,336</u>	(9.2)
Total Net Position	<u>\$ (1,250,956)</u>	<u>\$ (881,036)</u>	42.0

The HPSSC entered into an agreement with New Markets Investment, LLC, on September 16, 2010, to borrow funds for the construction of a 50,000-square foot Senior Community Center (Center) located in Minneapolis, Minnesota. At the completion of the construction, the HPSSC subleased the Center to the MPHA to provide services primarily for low-income senior citizens who reside in MPHA properties. The construction note calls for the HPSSC to repay the principal amount of \$15,247,000, or so much thereof as has been advanced, together with interest at an annual rate of 0.795 percent. As of December 31, 2015, New Markets Investment, LLC, had advanced \$15,247,000.

The HPSSC's assets consist primarily of \$13,814,964 of capital assets; the cost of the building, furniture, fixtures and equipment, leasehold improvements, net of depreciation, as of December 31, 2015; and \$194,923 of restricted cash. The restricted cash and cash equivalents will be used to pay quarterly management fees and operating expenses to New Markets Investment, LLC.

The HPSSC's liabilities consist of \$116,392 due to primary government (the MPHA) for leasehold improvements incurred but not paid as of December 31, 2015. In addition, there was \$40,405 in accrued interest payable on the \$15,247,000 loan from New Markets Investment, LLC.

The HPSSC's net position decreased \$369,920 during the current fiscal year, mainly due to depreciation expenses of \$468,056.

OPERATING ACTIVITIES

The HPSSC opened for business in February 2012. The HPSSC's revenues represent interest earnings and rental revenue from the MPHA in accordance with the lease agreement. The HPSSC's expenses were in administrative costs, insurance, interest, and depreciation. The HPSSC finished 2015 with a net loss of \$369,920.

Statement of Revenues and Expenses

	<u>2015</u>	<u>2014</u>	<u>Percent Change (%)</u>
Revenues			
Tenant rental revenue	\$ 159,010	\$ 156,416	1.6
Interest	25	33	(24.2)
Miscellaneous	<u>-</u>	<u>1,000</u>	-
Total Revenues	<u>\$ 159,035</u>	<u>\$ 157,449</u>	1.0
Expenses			
Administrative	\$ 100,669	\$ 101,001	(0.3)
Insurance	16,673	16,849	(1.0)
Depreciation	468,056	460,280	1.7
Interest	121,214	121,214	-
Miscellaneous	<u>1,257</u>	<u>307</u>	309.4
Total Expenses	<u>\$ 707,869</u>	<u>\$ 699,651</u>	1.2
Net Income (Loss) Before Contributions	\$ (548,834)	\$ (542,202)	1.2
Capital contributions	<u>178,914</u>	<u>75</u>	238452.0
Change in Net Position	<u>\$ (369,920)</u>	<u>\$ (542,127)</u>	(31.8)

CONTACTING THE HPSSC'S FINANCIAL MANAGEMENT

The financial report is designed to provide a general overview of the HPSSC's finances and to demonstrate the HPSSC's accountability to the lender that provided funds for the construction of the Center. If you have any questions about this report or need additional financial information, contact the Heritage Park Senior Services Center, ATTN: Finance Department, 1001 Washington Avenue North, Minneapolis, Minnesota 55401.

BASIC FINANCIAL STATEMENTS

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**HERITAGE PARK SENIOR SERVICES CENTER
MINNEAPOLIS, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET POSITION
DECEMBER 31, 2015**

Assets

Current assets

Cash and cash equivalents	\$	11,528
Prepaid items		15,034
Due from primary government		116,392
Restricted assets		
Cash and cash equivalents		194,923

Total current assets **\$ 337,877**

Capital assets

Buildings and equipment	\$	15,127,301
Furniture and equipment		356,407
Leasehold improvements		177,914
Less: accumulated depreciation		(1,846,658)

Total capital assets - net of accumulated depreciation **\$ 13,814,964**

Total Assets **\$ 14,152,841**

Liabilities

Current liabilities - payable from current assets

Due to primary government	\$	116,392
Accrued interest payable		40,405

Total current liabilities - payable from current assets **\$ 156,797**

Noncurrent liabilities

Notes payable		15,247,000
---------------	--	------------

Total Liabilities **\$ 15,403,797**

Net Position

Net investment in capital assets	\$	(1,432,036)
Restricted for other purposes		181,080

Total Net Position **\$ (1,250,956)**

**HERITAGE PARK SENIOR SERVICES CENTER
MINNEAPOLIS, MINNESOTA**

EXHIBIT 2

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2015**

Operating Revenues	
Tenant rental revenue	<u>\$ 159,010</u>
Operating Expenses	
Administrative	\$ 100,669
Insurance	16,673
Depreciation	468,056
Miscellaneous	<u>1,257</u>
Total Operating Expenses	<u>\$ 586,655</u>
Operating Income (Loss)	<u>\$ (427,645)</u>
Nonoperating Revenues (Expenses)	
Investment income	\$ 25
Interest expense	<u>(121,214)</u>
Total Nonoperating Revenues (Expenses)	<u>\$ (121,189)</u>
Income (loss) before contributions	<u>\$ (548,834)</u>
Capital contributions	<u>178,914</u>
Change in Net Position	<u>\$ (369,920)</u>
Net Position - January 1	<u>(881,036)</u>
Net Position - December 31	<u><u>\$ (1,250,956)</u></u>

**HERITAGE PARK SENIOR SERVICES CENTER
MINNEAPOLIS, MINNESOTA**

EXHIBIT 3

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2015**

Cash Flows from Operating Activities	
Receipts from tenants and other customers	\$ 159,010
Payments to suppliers	<u>(135,024)</u>
Net cash provided by (used in) operating activities	<u>\$ 23,986</u>
Cash Flows from Capital and Related Financing Activities	
Acquisition of capital assets	\$ (116,392)
Capital contributions	117,392
Interest paid on capital debt	<u>(121,214)</u>
Net cash provided by (used in) capital and related financing activities	<u>\$ (120,214)</u>
Cash Flows from Investing Activities	
Interest received	<u>\$ 25</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (96,203)
Cash and Cash Equivalents at January 1	<u>302,654</u>
Cash and Cash Equivalents at December 31	<u>\$ 206,451</u>
Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets	
Cash and Cash Equivalents	
Cash and cash equivalents	\$ 11,528
Restricted cash and cash equivalents	<u>194,923</u>
Total Cash and Cash Equivalents	<u>\$ 206,451</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities	
Operating income (loss)	<u>\$ (427,645)</u>
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities	
Depreciation expense	\$ 468,056
Changes in assets and liabilities	
(Increase) decrease in assets	
Prepaid items	272
Increase (decrease) in liabilities	
Due to primary government	<u>(16,697)</u>
Total adjustments	<u>\$ 451,631</u>
Net Cash Provided by (Used in) Operating Activities	<u>\$ 23,986</u>

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

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**HERITAGE PARK SENIOR SERVICES CENTER
MINNEAPOLIS, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2015**

1. Summary of Significant Accounting Policies

A. Reporting Entity

The Heritage Park Senior Services Center (HPSSC) is a public non-profit corporation created by the Minneapolis Public Housing Authority (MPHA) on September 17, 2010. The primary purpose of the HPSSC is to provide a fully accessible multi-purpose senior community center, which will include a health clinic, a fitness center to support health and wellness, an adult day program, and office space and programming space for social service providers, as well as a large multi-purpose gathering space to engage seniors in a variety of social activities.

The HPSSC is governed by a nine-member Board of Directors, which consists of those persons serving as members of the Board of Commissioners of the MPHA and the Executive Director of the MPHA. The Board is organized with a chair and a president. The chair is the person who serves as the Chair of the Board of Commissioners of the MPHA, and the president is the person who serves as the Executive Director of the MPHA.

The HPSSC is a blended component unit of the MPHA and is included in the MPHA's annual financial report for the year ended December 31, 2015.

The community center opened in February 2012.

B. Basis of Accounting and Measurement Focus

The HPSSC's 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 the related cash flows. The HPSSC distinguishes operating revenues and expenses from nonoperating revenues and expenses. Proprietary fund operating revenues, such as tenant rental revenue, result from exchange transactions associated with the principal activity of the entity. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as investment income, result from nonexchange transactions or incidental activities.

**HERITAGE PARK SENIOR SERVICES CENTER
MINNEAPOLIS, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basis of Accounting and Measurement Focus (Continued)

The HPSSC applies all applicable Governmental Accounting Standards Board (GASB) pronouncements.

C. Cash and Cash Equivalents

The HPSSC's cash and cash equivalents (including restricted assets) are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

D. Restricted Cash on Deposit

The restricted cash and cash equivalents will be used to pay quarterly management fees and operating expenses to New Markets Investment, LLC.

E. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements.

F. Capital Assets

Buildings and structures and equipment are recorded as capital assets on the statement of net position. The HPSSC defines capital assets as assets with an initial individual cost of more than \$500 and an estimated useful life of at least three years. Purchased capital assets are stated at historical cost. Donated capital assets are recorded at estimated fair value at the date of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed and are added to the cost basis of the asset improved.

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

**HERITAGE PARK SENIOR SERVICES CENTER
MINNEAPOLIS, MINNESOTA**

1. Summary of Significant Accounting Policies

F. Capital Assets (Continued)

Depreciation on capital assets is charged as an expense over the following periods using the straight-line method.

<u>Assets</u>	<u>Years</u>
Buildings	39
Leasehold improvements	20
Furniture and equipment	5

Accumulated depreciation is offset against the original cost of the capital assets on the statement of net position.

G. Equity Classifications

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

1. Net investment in capital assets - the amount of net position representing capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings (net of unspent related debt proceeds, if any) attributable to the acquisition, construction, or improvements of those assets.
2. Restricted - the amount of net position for which external restrictions have been imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
3. Unrestricted - the amount of net position that is not included in the net investment in capital assets or restricted components.

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

**HERITAGE PARK SENIOR SERVICES CENTER
MINNEAPOLIS, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

H. Operating and Nonoperating Revenues and Expenses

The HPSSC distinguishes operating revenues and expenses from nonoperating revenues and expenses. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary activity's principal ongoing operations. Operating revenues for the HPSSC consist of tenant rental revenue. Operating expenses include administrative expenses, insurance expense, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

2. Deposits

The HPSSC is authorized by Minn. Stat. §§ 118A.02 and 118A.04 to designate a depository for public funds and to invest in certificates of deposit. Minnesota statutes require that all HPSSC deposits be covered by deposit insurance, surety bond, or pledged collateral. At December 31, 2015, the carrying amount of the HPSSC's deposits was \$206,451; the bank balance of the HPSSC's deposits was \$222,852.

Custodial credit risk is the risk that in the event of a financial institution failure, the HPSSC's deposits may not be returned to it. The HPSSC's policy for custodial credit risk for deposits is to maintain compliance with Minnesota statutes that require that the HPSSC's deposits be protected by insurance, surety bond, or pledged collateral. As of December 31, 2015, the HPSSC's bank balance was completely covered by Federal Deposit Insurance Corporation insurance and collateral and, therefore, not exposed to custodial credit risk.

3. Capital Assets

The Center was constructed on a site owned by the MPHA and subject to a 60-year ground lease agreement between the MPHA as lessor and the HPSSC as lessee. As consideration for the lease, the HPSSC agreed to make certain improvements on the site, primarily the construction of the Center.

**HERITAGE PARK SENIOR SERVICES CENTER
MINNEAPOLIS, MINNESOTA**

3. Capital Assets (Continued)

Capital asset activity for the HPSSC for the year ended December 31, 2015, was as follows:

Type	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets depreciated				
Buildings	\$ 15,127,301	\$ -	\$ -	\$ 15,127,301
Furniture and equipment	356,407	-	-	356,407
Leasehold improvements	61,522	116,392	-	177,914
Total capital assets depreciated	\$ 15,545,230	\$ 116,392	\$ -	\$ 15,661,622
Less: accumulated depreciation for				
Buildings	\$ 1,163,639	\$ 387,880	\$ -	\$ 1,551,519
Furniture and equipment	213,844	71,281	-	285,125
Leasehold improvements	1,119	8,895	-	10,014
Total accumulated depreciation	\$ 1,378,602	\$ 468,056	\$ -	\$ 1,846,658
Capital Assets - Net	\$ 14,166,628	\$ (351,664)	\$ -	\$ 13,814,964

Depreciation expense for the year ended December 31, 2015, was \$468,056.

4. Notes Payable

The HPSSC entered into an agreement with New Markets Investment, LLC, to borrow funds for the construction of a senior community center. The HPSSC intends to sublease the community center to the MPHA for providing services primarily for low-income senior citizens who reside in MPHA properties. The construction note calls for the HPSSC to repay the principal amount of \$15,247,000, or so much thereof as has been advanced, together with interest at an annual rate of 0.795 percent. As of December 31, 2015, New Markets Investment, LLC, had advanced \$15,247,000. A repayment schedule is not available to date.

5. Risk Management

The HPSSC is exposed to various risks of loss related to theft of, damage to, and destruction of assets and natural disasters. The HPSSC manages its risk of these types of losses through the purchase of commercial insurance. The HPSSC retains risk for the deductible portions of the insurance. The amounts of these deductibles are considered immaterial to the financial statements. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three years. The HPSSC has not reduced its insurance coverage from the prior year.

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

Independent Auditor's Report

Members of the Board of Directors
Heritage Park Senior Services Center
Minneapolis, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Heritage Park Senior Services Center (HPSSC), a component unit of the Minneapolis Public Housing Authority, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the HPSSC's basic financial statements, and have issued our report thereon dated September 8, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the HPSSC's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the HPSSC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the HPSSC's internal control over financial reporting.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the HPSSC's

financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit the attention of those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the HPSSC's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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*.

Minnesota Legal Compliance

The *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven categories of compliance to be tested in connection with the audit of the HPSSC's financial statements: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for contracting and bidding as the HPSSC did not enter into any new contracts, public indebtedness as the HPSSC did not issue any debt, or tax increment financing as the HPSSC did not administer any tax increment financing districts.

In connection with our audit, nothing came to our attention that caused us to believe that the HPSSC failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*. 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 HPSSC's noncompliance with the above referenced provisions.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting, compliance, and the provisions of the *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions* and the results of that testing, and not to provide an opinion on the effectiveness of the HPSSC's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the HPSSC's internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 8, 2016