

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

COMMUNITY HOUSING RESOURCES
MINNEAPOLIS, MINNESOTA
(A COMPONENT UNIT OF THE
MINNEAPOLIS PUBLIC HOUSING AUTHORITY)

YEAR ENDED DECEMBER 31, 2005

Description of the Office of the State Auditor

The mission of the State Auditor's Office 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 160 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 730 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.

Office of the State Auditor
525 Park Street, Suite 500
Saint Paul, Minnesota 55103
(651) 296-2551
state.auditor@state.mn.us
www.auditor.state.mn.us

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**COMMUNITY HOUSING RESOURCES
MINNEAPOLIS, MINNESOTA
(A COMPONENT UNIT OF THE
MINNEAPOLIS PUBLIC HOUSING AUTHORITY)**

Year Ended December 31, 2005



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

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**COMMUNITY HOUSING RESOURCES
MINNEAPOLIS, MINNESOTA**

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**COMMUNITY HOUSING RESOURCES
MINNEAPOLIS, MINNESOTA**

**ORGANIZATION
DECEMBER 31, 2005**

		<u>Term Expires</u>
Board of Directors		
Cornell Moore	Chair	December 31, 2006
Carol Batsell-Benner	Director	December 31, 2005
Judy Karon	Director	December 31, 2005
Grace Lee	Director	December 31, 2005
Darlene Rogers	Director	December 31, 2005
Westley Wheeler	Director	December 31, 2006
William L. Dooley, Jr.	Director	December 31, 2007
Mark Manbeck	Director	December 31, 2007
Elizabeth Ryan	Director	December 31, 2007
Cora McCorvey	Director and President	Indefinite

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Community Housing Resources

We have audited the financial statements of the Community Housing Resources, a component unit of the Minneapolis Public Housing Authority, as of and for the year ended December 31, 2005, as listed in the table of contents. These financial statements are the responsibility of the Community Housing Resources' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Community Housing Resources as of December 31, 2005, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis listed in the table of contents is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2006, on our consideration of the Community Housing Resources' 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* and should be considered in assessing the results of our audit.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: October 19, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**COMMUNITY HOUSING RESOURCES
MINNEAPOLIS, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2005
(Unaudited)**

INTRODUCTION

This section of Community Housing Resources, Incorporated, (CHR) annual financial report presents our discussion and analysis of the organization's financial performance for the year ended December 31, 2005. The Management's Discussion and Analysis is designed to assist the reader in focusing on significant financial issues, to provide an overview of the 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 financial statements.

FINANCIAL HIGHLIGHTS

- All capital assets, consisting of a duplex and the land on which the duplex was situated, were sold on July 18, 2005, resulting in an economic gain of \$46,360 and a cash inflow of \$31,474.

OVERVIEW OF THE FINANCIAL STATEMENTS

The CHR became incorporated and began operations on June 18, 2001, as a non-profit affiliate organization of the Minneapolis Public Housing Authority (MPHA). On April 22, 2002, the Internal Revenue Service officially determined that the CHR would be described as a 501(c)(3) organization under the Internal Revenue Code. The CHR's purpose is to support the MPHA in the development and operation of affordable housing.

The CHR 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 CHR is presented in these basic financial statements prepared in conformity with generally accepted accounting principles in the United States of America. These statements include the financial results for the year ending December 31, 2005.

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

- Statement of Net Assets which presents information on all of the CHR's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets usually serve as a useful indicator of whether the financial position of the CHR is improving or deteriorating. The Statement of Net Assets can be found as Exhibit A.
- Statement of Revenues, Expenses, and Changes in Net Assets which presents information showing how the CHR's net assets changed during the most recent period. This statement shows the total revenues and total expenses of the CHR and the difference between them, the CHR's net income. This statement can be found as Exhibit B.
- Statement of Cash Flows which presents changes in cash and cash equivalents resulting from operations. The Statement of Cash Flows can be found as Exhibit C.
- The Notes to the Financial Statements provide additional information essential to the full understanding of the data provided in the CHR's basic financial statements. The Notes to the Financial Statements can be found on pages 11-15 of this report.

Financial Position

The following table provides a comparative analysis of the CHR's financial position as of the fiscal years ending December 31, 2005 and 2004. 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 Assets

	2005	2004	Percent Change (%)
Assets			
Current and other assets	\$ 45,213	\$ 28,002	61
Restricted assets	-	1,000	(100)
Capital assets (net of accumulated depreciation)	-	243,239	(100)
Total Assets	\$ 45,213	\$ 272,241	(83)
Liabilities			
Current liabilities	\$ 155	\$ 1,991	(92)
Noncurrent liabilities	-	255,000	(100)
Total Liabilities	\$ 155	\$ 256,991	(100)
Net Assets			
Invested in capital assets (net of debt)	\$ -	\$ (11,761)	100
Unrestricted	45,058	27,011	67
Total Net Assets	\$ 45,058	\$ 15,250	195

(Unaudited)

Page 5

The CHR received a \$255,000 loan from the MPHA in June 2002 to finance the purchase of a duplex. Under the terms of the loan agreement with the MPHA, the CHR is required to make annual loan payments to the MPHA based on the availability of proceeds from the net operating income of the duplex. Based on the net operating income from 2004, the amount of \$3,052 was determined as available for payment on the loan, and this amount was taken into consideration in satisfaction of the original loan when the duplex was sold to the MPHA on July 18, 2005.

Current assets increased by 61 percent from 2004 due to an increase in cash derived from the sale of the property. Restricted assets decreased 100 percent due to payments of security deposits to prior tenants. Capital assets decreased by 100 percent due to the sale of the sole property owned by the CHR. Total net assets increased by 195 percent from the value as of December 31, 2004. This was a result of the sale of the property for a gain and the extinguishment of the loan liability through the settlement process.

Operating Activities

The CHR received its operating revenues to support its operating expenses from rental charges and Section 8 housing assistance payments. These revenues were only received for January 1 through July 1, 2005. The CHR also received a \$25,000 grant from the MPHA in June 2001 to finance the organization's start-up and initial operating costs. The following schedule summarizes the organization's operating transactions.

Statement of Revenues and Expenses

	<u>2005</u>	<u>2004</u>	<u>Percent Change (%)</u>
Revenues			
Tenant revenue	\$ 3,829	\$ 4,274	(10)
Section 8 rental assistance	9,975	19,164	(48)
Other revenue	-	986	(100)
	<u>\$ 13,804</u>	<u>\$ 24,424</u>	(43)
Expenses			
Contracted services	\$ 8,308	\$ 7,868	6
Materials and supplies	9,213	429	2,048
Utilities	753	1,049	(28)
Insurance	633	1,026	(38)
Property taxes	1,790	3,336	(46)
Depreciation	3,125	5,359	(42)
Interest on tenant deposits and other	6,534	871	650
	<u>\$ 30,356</u>	<u>\$ 19,938</u>	52
Net Income (Loss)	<u>\$ (16,552)</u>	<u>\$ 4,486</u>	(469)

The CHR operated its duplex for a full year in 2004 but only seven months in 2005. This resulted in a corresponding decrease in tenant rental revenue and Section 8 housing assistance payments received, as well as other operating expenses such as insurance and property taxes. The increase in materials and supplies is due to an increase in maintenance work required to prepare the property for sale. The contracted services line item is comprised of work done by MPHA staff and reimbursed by the CHR. Other expenses also increased significantly due to pre-sale inspections, and other rehab work by outside contractors. The net result of these operations was a loss of \$16,552. This loss was offset by an economic gain on the sale of the duplex in the amount of \$46,360.

CONTACTING COMMUNITY HOUSING RESOURCES, INC., FINANCIAL MANAGEMENT

The financial report is designed to provide a general overview of the CHR's finances. If you have any questions about this report or need additional financial information, contact Community Housing Resources, Inc., ATTN: Finance Department, 1001 Washington Avenue North, Minneapolis, Minnesota 55401.

BASIC FINANCIAL STATEMENTS

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**COMMUNITY HOUSING RESOURCES
MINNEAPOLIS, MINNESOTA**

EXHIBIT A

**STATEMENT OF NET ASSETS
DECEMBER 31, 2005**

Assets

Current assets

Cash on deposit	\$ 45,213
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Liabilities

Current liabilities (payable from current assets)

Accounts payable	<u>155</u>
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Net Assets

Unrestricted	<u><u>\$ 45,058</u></u>
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**COMMUNITY HOUSING RESOURCES
MINNEAPOLIS, MINNESOTA**

EXHIBIT B

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2005**

Operating Revenues	
Tenant rental revenue	\$ <u>13,804</u>
Operating Expenses	
Contracted services	\$ 8,308
Materials and supplies	9,213
Insurance	633
Utilities	753
Depreciation	3,125
Property taxes	1,790
Interest on tenant deposits	47
Other	<u>6,487</u>
Total Operating Expenses	\$ <u>30,356</u>
Operating Income (Loss)	\$ (16,552)
Nonoperating Revenues (Expenses)	
Gain on disposal of capital assets	<u>46,360</u>
Change in Net Assets	\$ 29,808
Net Assets, January 1	<u>15,250</u>
Net Assets, December 31	<u><u>\$ 45,058</u></u>

**COMMUNITY HOUSING RESOURCES
MINNEAPOLIS, MINNESOTA**

EXHIBIT C

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2005**

Cash Flows from Operating Activities	
Tenant receipts	\$ 13,262
Payments to suppliers	(26,907)
Return of tenant security deposits	(1,000)
	<hr/>
Net cash provided by (used in) operating activities	\$ (14,645)
Cash Flows from Capital and Related Financing Activities	
Proceeds from sale of capital assets	31,474
	<hr/>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 16,829
Cash and Cash Equivalents - Beginning of Year	28,384
	<hr/>
Cash and Cash Equivalents - End of Year	\$ 45,213
	<hr/> <hr/>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities	
Operating income (loss)	\$ (16,552)
	<hr/>
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities	
Depreciation	\$ 3,125
(Increase) decrease in assets	
Prepaid items	618
Increase (decrease) in liabilities	
Accounts payable	(468)
Due to primary government	(368)
Tenant security deposits	(1,000)
	<hr/>
Total adjustments	\$ 1,907
	<hr/>
Net Cash Provided by (Used in) Operating Activities	\$ (14,645)
	<hr/> <hr/>
Noncash Investing, Capital and Financing Activities	
Satisfaction of loan payable to primary government in exchange for capital assets	\$ 255,000

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**COMMUNITY HOUSING RESOURCES
MINNEAPOLIS, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2005**

1. Summary of Significant Accounting Policies

A. Reporting Entity

The Community Housing Resources (CHR) is a public nonprofit corporation created by the Minneapolis Public Housing Authority (MPHA) on June 18, 2001. The CHR's primary purpose is to support the MPHA in the development and operation of affordable housing.

The CHR is governed by a ten-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 CHR is a blended component unit of the MPHA and is included in the MPHA's annual financial report for the year ended September 30, 2006. The MPHA provides staffing and administrative services for the CHR in accordance with an operating agreement.

B. Basis of Accounting and Measurement Focus

The CHR'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 CHR distinguishes operating revenues and expenses from nonoperating revenues and expenses. Principal operating revenue is tenant rent. Operating expenses include: contracted services, materials and supplies, insurance, utilities, depreciation, and property taxes.

Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the CHR has elected to apply Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

**COMMUNITY HOUSING RESOURCES
MINNEAPOLIS, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

C. Statement of Cash Flows

Cash and cash equivalents are identified only for the purpose of the statement of cash flows reporting. The CHR's cash and cash equivalents include current and restricted amounts in its demand deposit account.

D. Restricted Cash on Deposit

Tenant security deposits reflect amounts which may eventually be returned to tenants and are reported as an equal and offsetting restricted asset and liability.

E. Capital Assets

Land, property, and equipment are recorded as capital assets on the statement of net assets. The CHR defines capital assets as assets with an initial, individual cost of more than \$500 and an estimated useful life in excess of at least three years. Purchased capital assets are stated at historical cost. Improvements are capitalized and added to the cost basis of the asset improved.

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

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
Building improvements	20
Furniture and equipment	3 - 7

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

**COMMUNITY HOUSING RESOURCES
MINNEAPOLIS, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

F. Equity Classifications

Equity is classified as net assets. Unrestricted net assets are net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

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

2. Deposits

Minn. Stat. ch. 118A authorizes the CHR to deposit cash and invest in certificates of deposit in financial institutions designated by the governing body. Minnesota statutes require that all CHR deposits be covered by deposit insurance, surety bond, or pledged collateral. At December 31, 2005, the carrying amount of the CHR’s deposits was \$45,213; the bank balance of the CHR’s deposits was \$45,736.

Custodial credit risk is the risk that in the event of a financial institution failure, the CHR’s deposits may not be returned to it. The CHR does not have a deposit policy for custodial credit risk. As of December 31, 2005, the CHR’s bank balance was completely covered by FDIC insurance and, therefore, not exposed to custodial credit risk.

The deposits as described above are recorded in the financial statements as “cash on deposit.”

3. Capital Assets

Capital asset activity for the year ended December 31, 2005, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not depreciated				
Land	\$ 50,000	\$ -	\$ 50,000	\$ -
Capital assets depreciated				
Property and equipment				
Buildings	\$ 206,248	\$ -	\$ 206,248	\$ -
Appliances	384	-	384	-
Total capital assets depreciated	<u>\$ 206,632</u>	<u>\$ -</u>	<u>\$ 206,632</u>	<u>\$ -</u>

**COMMUNITY HOUSING RESOURCES
MINNEAPOLIS, MINNESOTA**

3. Capital Assets (Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Less: accumulated depreciation for				
Property and equipment				
Buildings	\$ 13,260	\$ 3,094	\$ 16,354	\$ -
Appliances	133	31	164	-
Total accumulated depreciation	<u>\$ 13,393</u>	<u>\$ 3,125</u>	<u>\$ 16,518</u>	<u>\$ -</u>
Total capital assets, net of depreciation	<u>\$ 193,239</u>	<u>\$ (3,125)</u>	<u>\$ 190,114</u>	<u>\$ -</u>
Total Capital Assets, Net of Depreciation	<u><u>\$ 243,239</u></u>	<u><u>\$ (3,125)</u></u>	<u><u>\$ 240,114</u></u>	<u><u>\$ -</u></u>

Depreciation expense during the seven-month period the CHR operated the duplex rental property was \$3,125.

On July 18, 2005, for a contract sale price of \$288,000, the CHR exchanged the duplex rental property in satisfaction of the loan payable with the MPHA on the property. The CHR realized an economic gain of \$46,360 and a cash inflow of \$31,474 from this transaction.

4. Loan Payable

The CHR and the MPHA entered into a business loan and mortgage agreement on June 27, 2002. The amount borrowed by the CHR was \$255,000 for the purpose of buying, maintaining, and improving a duplex rental property. The CHR was to repay the loan based on the availability of proceeds from the net operating income of the property. The net operating income is defined as the gross rental revenues of the property, less the direct costs incurred in operating the property, including, but not limited to: administration, maintenance, property management, insurance, and a reasonable replacement reserve. The annual payment was 75 percent of the net operating income from the preceding fiscal year. The CHR was to make 20 annual payments to the MPHA beginning on March 15, 2004, and ending February 15, 2023, or until the loan was paid in full. The CHR may prepay the zero interest loan at any time.

The CHR had net operating income for the preceding fiscal year. Based on the net operating income from 2004, the amount of \$3,052 was determined as available for payment on the loan. This amount was taken into consideration in satisfaction of the original MPHA loan when the duplex was conveyed to the MPHA.

**COMMUNITY HOUSING RESOURCES
MINNEAPOLIS, MINNESOTA**

5. Operating Agreement and Grant

The CHR and the MPHA entered into an interim operating agreement on July 1, 2002, whereby the CHR agreed to provide the MPHA with reimbursement for actual costs the MPHA incurs for the property management, maintenance, and administration needed in the operation of the CHR and the property owned by the CHR. This agreement remains in force until either party terminates it by five-day written notice to the other party.

During the year ended December 31, 2005, the CHR did not have any employees.

6. Risk Management

The CHR is exposed to various risks of loss related to theft of, damage to, and destruction of assets and natural disasters. The CHR manages its risk of these types of losses through the purchase of commercial insurance. The CHR retains risk for the deductible portions of the insurance. The amounts of these deductibles are considered immaterial to the financial statements. There have been no significant reductions in insurance from the prior year. There were no settlements in excess of insurance coverage for the past three fiscal years.

7. Other Item

The primary operations of the CHR were the purchase and rehab of a duplex at 4721 and 4723 Chicago Avenue South in Minneapolis as a Section 8 low-income rental property. The CHR operated this duplex for that purpose until its conveyance to the MPHA on July 18, 2005.

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

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 Directors
Community Housing Resources

We have audited the financial statements of the Community Housing Resources (CHR), a component unit of the Minneapolis Public Housing Authority, as of and for the year ended December 31, 2005, and have issued our report thereon dated October 19, 2006. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the CHR's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the CHR'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*.

Minnesota Legal Compliance

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Local Government* contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our study included all of the listed categories, except contracting and bidding, public indebtedness, claims and disbursements, and miscellaneous provisions because they are not applicable to the CHR.

The results of our tests indicate that, for the items tested, the CHR complied with the material terms and conditions of applicable legal provisions.

This report is intended solely for the information and use of the Board of Directors and management, and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: October 19, 2006