

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)**

FROM INCEPTION THROUGH DECEMBER 31, 2010

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 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.

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

From Inception Through December 31, 2010



**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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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Heritage Park Senior Services Center

We have audited the basic financial statements of the Heritage Park Senior Services Center (HPSSC), a component unit of the Minneapolis Public Housing Authority, from inception through December 31, 2010, as listed in the table of contents. These financial statements are the responsibility of the Heritage Park Senior Services Center's 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 basic financial statements referred to above present fairly, in all material respects, the financial position of the HPSSC as of December 31, 2010, and the changes in its financial position and its cash flows from inception through December 31, 2010, in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis 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. In accordance with auditing standards generally accepted in the United States of America, we have applied certain limited procedures to the required supplementary information, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2011, 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, 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

September 27, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FROM INCEPTION THROUGH DECEMBER 31, 2010
(Unaudited)**

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 from inception through December 31, 2010. 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

- The HPSSC was incorporated in the State of Minnesota on May 13, 2010.
- The HPSSC was determined to be a 501(c)(3) organization by the Internal Revenue Service on November 3, 2010.
- A \$5,082,332 construction loan advance was received to build a community center.
- \$4,345,943 worth of construction activity was completed on the community center.

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 generally accepted accounting principles in the United States of America. These statements include the financial results from inception through December 31, 2010.

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 Assets which presents information on all of the HPSSC'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 HPSSC is improving or deteriorating. The Statement of Net Assets can be found as Exhibit 1 on page 7.
- Statement of Revenues, Expenses, and Changes in Net Assets which presents information showing how the HPSSC's net assets 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 8.
- 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 9.
- The Notes to the Financial Statements provide additional information that is essential to the full understanding of the data provided in the HPSSC's basic financial statements. The Notes to the Financial Statements can be found on pages 10 to 13 of this report.

Financial Position

The following table provides an analysis of the HPSSC's financial position as of December 31, 2010. 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. The HPSSC began operations on May 13, 2010. Comparative information will be provided in future years.

Statement of Net Assets

Assets	
Current and other assets	\$ 461
Restricted assets	2,570,048
Capital assets (net of accumulated depreciation)	<u>4,345,943</u>
Total Assets	<u>\$ 6,916,452</u>
Liabilities	
Current liabilities	\$ 1,833,356
Noncurrent liabilities	<u>5,082,332</u>
Total Liabilities	<u>\$ 6,915,688</u>
Net Assets	
Restricted for other purposes	\$ 963
Unrestricted	<u>(199)</u>
Total Net Assets	<u>\$ 764</u>

(Unaudited)

Page 5

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 intends to sublease the 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 the annual rate of 0.795 percent. As of December 31, 2010, New Markets Investment, LLC had advanced \$5,082,332.

The HPSSC's assets consist primarily of \$4,345,943 of construction in progress, the cost of the Center construction as of December 31, 2010; and \$2,570,048 of restricted cash. The restricted cash represents the cash balance remaining on the note proceeds from the \$5,082,332 advance.

The HPSSC's liabilities consist of accounts payable for construction and financing costs incurred but not paid as of December 31, 2010, and the construction note advance of \$5,082,332.

The HPSSC's net assets consist of \$963 of interest earnings on the construction advance less \$199 incurred in organizational administrative costs.

OPERATING ACTIVITIES

The HPSSC's revenues represent interest earnings on the construction note it received in September 2010. These interest earnings are offset by administrative expense needed to cover the organization's start-up costs. The HPSSC finished 2010 with a "net income" of \$764. The HPSSC had very little operating activity in 2010, the first year of existence. Comparative information will be provided in future years.

Statement of Revenues And Expenses

Nonoperating Revenues		
Investment income	\$	963
Operating Expenses		
Administrative		199
		<hr/>
Change in Net Assets	\$	<u>764</u>

CONTACTING HERITAGE PARK SENIOR SERVICES CENTER, INC., 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, Inc., ATTN: Finance Department, 1001 Washington Avenue North, Minneapolis, Minnesota 55401.

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BASIC FINANCIAL STATEMENTS

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

EXHIBIT 1

**STATEMENT OF NET ASSETS
DECEMBER 31, 2010**

Assets

Current assets

Cash and cash equivalents	\$ 461
Restricted assets	
Cash and cash equivalents	<u>2,570,048</u>

Total current assets **\$ 2,570,509**

Noncurrent assets

Capital assets

Construction in progress	<u>4,345,943</u>
--------------------------	------------------

Total Assets **\$ 6,916,452**

Liabilities

Current liabilities - payable from restricted assets

Accounts payable	\$ 1,820,912
Other current liabilities	<u>12,444</u>

Total current liabilities - payable from restricted assets **\$ 1,833,356**

Noncurrent liabilities

Notes payable	<u>5,082,332</u>
---------------	------------------

Total Liabilities **\$ 6,915,688**

Net Assets

Restricted for	
Other purposes	\$ 963
Unrestricted	<u>(199)</u>

Total Net Assets **\$ 764**

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

EXHIBIT 2

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FROM INCEPTION THROUGH DECEMBER 31, 2010**

Operating Revenues	
Miscellaneous	\$ -
Operating Expenses	
Administrative	<u>199</u>
Operating Income (Loss)	\$ (199)
Nonoperating Revenues (Expenses)	
Investment income	<u>963</u>
Change in Net Assets	\$ 764
Net Assets - January 1	<u>-</u>
Net Assets - December 31	<u><u>\$ 764</u></u>

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

EXHIBIT 3

**STATEMENT OF CASH FLOWS
FROM INCEPTION THROUGH DECEMBER 31, 2010**

Cash Flows from Operating Activities	
Payments to suppliers	\$ <u>(199)</u>
Cash Flows from Capital and Related Financing Activities	
Loan proceeds	\$ 5,082,332
Acquisition of capital assets	<u>(2,512,587)</u>
Net cash provided by (used in) capital and related financing activities	\$ <u>2,569,745</u>
Cash Flows from Investing Activities	
Interest received	<u>963</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 2,570,509
Cash and Cash Equivalents at January 1	<u>-</u>
Cash and Cash Equivalents at December 31	\$ <u>2,570,509</u>
Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets	
Cash and Cash Equivalents	
Cash and cash equivalents	\$ 461
Restricted cash and cash equivalents	<u>2,570,048</u>
Total Cash and Cash Equivalents	\$ <u>2,570,509</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities	
Operating income (loss)	<u>(199)</u>
Net Cash Provided by (Used in) Operating Activities	\$ <u>(199)</u>
Noncash Investing, Capital, and Financing Activities	
Capital assets purchased on account - construction in progress	<u>1,833,356</u>

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

**NOTES TO THE FINANCIAL STATEMENTS
FROM INCEPTION THROUGH DECEMBER 31, 2010**

1. Summary of Significant Accounting Policies

A. Reporting Entity

The Heritage Park Senior Services Center (HPSSC) is a public nonprofit 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, 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 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 HPSSC 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, 2010.

Since its inception through December 31, 2010, the HPSSC started the process of building the multi-purpose senior community center. As such, there were no operating activities, but rather \$4.34 million in construction costs which were recorded in the construction in progress account.

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.

**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 as well as all Financial Accounting Standards Board pronouncements issued on or before November 30, 1989.

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 vendors and the borrower during the construction phase.

E. Capital Assets

Construction in Progress (CIP) accumulates the cost of construction work which is not yet completed. A CIP item is not depreciated until the asset is placed in service. Normally, upon completion, a CIP item is reclassified, and the reclassified asset is capitalized and depreciated. While costs are added to the project, the related CIP account is increased with corresponding offsets to accounts payable, accrued expenses, cash, and others. When the project is completed, related long-term asset accounts such as buildings, building improvements, and furniture and equipment are reported, and the CIP account is eliminated.

The center is being 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 has agreed to make certain improvements on the site, primarily the construction of the center.

**HERITAGE PARK SENIOR SERVICES CENTER
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 HPSSC’s policy to use restricted resources first and then unrestricted resources as needed.

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, 2010, the carrying amount of the HPSSC’s deposits was \$2,570,509; the bank balance of the HPSSC’s deposits was \$2,570,509.

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, 2010, the HPSSC’s bank balance was completely covered by FDIC insurance and collateral and, therefore, not exposed to custodial credit risk.

3. Notes Payable

The HPSSC entered into an agreement with New Markets Investment, LLC to borrow funds for the construction of a senior community center. At the completion of the construction, 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, 2010, New Markets Investment, LLC had advanced \$5,082,332. The future principal and interest payments will not be determined until the entire note has been drawn down, which should occur during 2012.

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

4. 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.

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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*

Board of Directors
Heritage Park Senior Services Center

We have audited the basic financial statements of the Heritage Park Senior Services Center (HPSSC), a component unit of the Minneapolis Public Housing Authority, from inception through December 31, 2010, and have issued our report thereon dated September 27, 2011. 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 HPSSC's internal control over financial reporting as a basis for designing our auditing procedures 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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the HPSSC'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 Political Subdivisions*, 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 Political Subdivisions* 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 that we did not test for compliance in contracting and bidding, deposits and investments, public indebtedness, and claims and disbursements because they were tested in conjunction with the audit of the financial statements of the Minneapolis Public Housing Authority.

The results of our tests indicate that, for the items tested, the HPSSC 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 of the HPSSC, management, and others within the HPSSC 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

September 27, 2011