

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

MANAGEMENT AND COMPLIANCE REPORT

**HOUSING AND REDEVELOPMENT
AUTHORITY OF THE CITY OF SAINT PAUL
SAINT PAUL, MINNESOTA
(A COMPONENT UNIT OF THE CITY OF SAINT PAUL)**

YEAR ENDED DECEMBER 31, 2013

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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**HOUSING AND REDEVELOPMENT
AUTHORITY OF THE CITY OF SAINT PAUL
SAINT PAUL, MINNESOTA
(A COMPONENT UNIT OF THE CITY OF SAINT PAUL)**

Year Ended December 31, 2013



Management and Compliance Report

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

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**HOUSING AND REDEVELOPMENT
AUTHORITY OF THE CITY OF SAINT PAUL
SAINT PAUL, MINNESOTA**

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**HOUSING AND REDEVELOPMENT
AUTHORITY OF THE CITY OF SAINT PAUL
SAINT PAUL, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2013**

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: **Unmodified**

Internal control over financial reporting:

- Material weaknesses identified? **Yes**
- Significant deficiencies identified? **Yes**

Noncompliance material to the financial statements noted? **No**

Federal Awards

Internal control over major programs:

- Material weaknesses identified? **No**
- Significant deficiencies identified? **Yes**

Type of auditor's report issued on compliance for major programs: **Unmodified**

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? **Yes**

The major program is:

HOME Investment Partnerships Program

CFDA #14.239

The threshold for distinguishing between Types A and B programs was \$300,000.

The Housing and Redevelopment Authority of the City of Saint Paul qualified as a low-risk auditee? **No**

II. FINDINGS RELATED TO FINANCIAL STATEMENTS AUDITED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

Finding 2011-002

Audit Adjustments

Criteria: 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 of the financial statements on a timely basis. Clarified Auditing Standards AU-C Section 265 defines a material weakness as a deficiency, or 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.

Condition: During our audit, we identified a material adjustment that resulted in a significant change to the HRA's financial statements.

Context: The HRA internally prepares and reports appropriate government-wide and fund financial statements, including the related notes to the financial statements. The inability to detect material misstatements in the financial statements increases the likelihood that the financial statements would not be fairly presented.

Effect: An audit adjustment was necessary to properly present accrued interest receivable and the related interest revenue at December 31, 2013.

- The accrued interest receivable and related interest revenue were both decreased by \$258,998 in the HRA Federal & State Programs Special Revenue Fund.

The adjustment was reviewed and approved by the appropriate HRA staff and is reflected in the financial statements.

Cause: When preparing the fund financial statements as of and for the year ended December 31, 2013, the fund preparer used the general ledger amount which did not include a necessary adjustment previously noted by HRA staff for the correct accrued interest receivable and related interest revenue.

Recommendation: We recommend the HRA review its policies and procedures for the preparation of its financial statements to ensure that the financial information prepared by the accounting staff is accurately presented in the HRA financial statements in accordance with generally accepted accounting principles.

Client's Response:

The Risk Rating report, prepared from the loans on file in the Nortridge Loan Servicing System, will include a column for uncollectible loan interest allowance, calculated with the risk rating for each loan in the system. This report will be presented after the close of the current year's loan transactions, and will be used to verify ledger balances for uncollectible loan interest allowances.

Finding 2012-001

Monitoring Internal Controls

Criteria: Management is responsible for developing and monitoring its internal controls over the various accounting cycles. The monitoring process includes performing an annual risk assessment of existing controls over significant functions of its accounting system used to produce financial information, documenting the significant internal controls for each transaction cycle/account balance, monitoring those controls on a regular basis, and documenting the monitoring activity performed.

Condition: Management has not yet formalized its assessment of risks in its review of internal controls, nor has it documented the significant internal controls, performed monitoring of those controls on a regular basis, or documented the monitoring activity.

Context: Assessing risk and monitoring transaction cycles and account balances ensures activity is being properly recorded and reported in the financial statements.

Effect: Without monitoring of internal controls, management cannot be assured that internal controls are operating effectively and transactions are processed according to policy.

Cause: Management determined that it was not cost-effective, since the FM System (financial accounting system) is being replaced as of January 1, 2014.

Recommendation: We recommend that the HRA document the significant internal controls in the accounting system and formalize a plan to assess and monitor these controls on a regular basis, no less than annually. Significant functions and internal controls include and cover such areas as cash, capital assets, major funding sources, expenditure processing, and payroll. The monitoring of these functions and areas should be documented to show the results of the review, changes required as a result of the risk assessment, and who performed the work.

Client's Response:

The Enterprise Resource Processes financial package (ERP), known as INFOR Lawson, incorporates multi-level separation of duties with budget editing at the entry spending level to provide internal controls for management of accounting cycles. This ERP package is documented with workflows at every activity monitored in the package. All transactions can be traced back to the originator of the activity and reviewed by higher level management for processing per policy. ERP was installed and began operations January 1, 2014. Ongoing modifications are made where it is determined that original procedures were not adequately designed.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

ITEM ARISING THIS YEAR

Finding 2013-001

Reporting

Program: U.S. Department of Housing and Urban Development's (HUD) HOME Investment Partnerships Program (CFDA No. 14.239)

Criteria: As required by the Federal Funding Accountability and Transparency Act (FFATA) and subsequent OMB guidance, information on the first-tier subawards related to federal contracts and grants and the executive compensation of awardees must be made publicly available. Prime contractors awarded a federal contract or order that is subject to Federal Acquisition Regulation clause 52.204-10 (Reporting Executive Compensation and First-Tier Subcontract Awards) are required to file a FFATA subaward report by the end of the month following the month in which the prime contractor awards any subcontract greater than \$25,000.

Condition: There are no policies or procedures in place to ensure the HRA is reporting its first-tier subawards associated with federal grants and contracts in the Central Contractor Registration System (CCR) and the FFATA Subaward Reporting System (FSRS). The HRA had two subrecipients during 2013 that each received over \$25,000 of pass-through HOME funds from the HRA, which are required to be reported in these two systems.

Questioned Costs: None.

Context: This requirement is applicable for all new federal, non-Recovery Act funded grant awards.

Effect: The HRA is not in compliance with the federal requirements of the FFATA for its subrecipients during 2013.

Cause: The HRA has not designated a person to be responsible for this reporting requirement.

Recommendation: We recommend the HRA establish and implement policies and procedures to ensure the entity's compliance with these federal reporting requirements.

Corrective Action Plan:

Name of Contact Person Responsible for Correction Action:

Tami Jansen, Accounting Manager, Office of Financial Services

Corrective Action Planned:

Planning and Economic Development (PED) Department grant staff will compile information on first-tier subawards related to Federal contracts and grants which are greater than \$25,000, and forward that information within 30 days of the grant agreement signing to the City, to be entered in the FFATA Subaward Reporting System (FSRS) by a designated employee in the Office of Finance Services.

Anticipated Completion Date:

September 1, 2014

PREVIOUSLY REPORTED ITEMS RESOLVED

Reporting (CFDA No. 14.239) (2012-002)

There were no established policies and procedures to provide reasonable assurance that federal reports, specifically the HUD 60002 Section 3 reports, were reviewed by someone other than the preparer prior to submission.

Resolution

For the applicable 2013 HUD 60002 Section 3 report, the information was compiled by the City of Saint Paul's Human Rights and Equal Economic Opportunity (HREEO) Department. Information for the HRA was received by a Project Manager in the Planning and Economic Development (PED) Department and then entered onto the Section 3 report. PED's Administrative and Financial Services Manager then reviewed and approved this report before it was submitted to HUD.

Davis-Bacon Act (CFDA No. 14.239) (2012-003)

Policies and procedures were in place for peer reviews to be performed to the monitoring of contractors' and subcontractors' compliance with the Davis-Bacon requirements; however, there was not always formal documentation maintained to support that such peer reviews were performed.

Resolution

For the projects reviewed, a peer review was documented as completed towards the beginning of the project to ensure that the correct wage rates were entered into the LCPtracker labor compliance software.



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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

Commissioners of the Housing and Redevelopment
Authority of the City of Saint Paul
Saint Paul, 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 governmental activities, the business-type activities, and each major fund of the Housing and Redevelopment Authority (HRA) of the City of Saint Paul, a component unit of the City of Saint Paul, Minnesota, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the HRA's basic financial statements, and have issued our report thereon dated June 23, 2014.

Internal Control Over Financial Reporting

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

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 and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness and an item that we consider to be a significant deficiency.

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 HRA's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2011-002 to be a material weakness.

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 attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2012-001 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the HRA'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 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 HRA'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 for tax increment financing, which was tested in conjunction with our audit of the financial statements of the HRA, the other listed categories were tested in conjunction with our audit of the financial statements of the City of Saint Paul.

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

HRA's Response to Findings

The HRA's responses to the internal control findings identified in our audit have been included in the Schedule of Findings and Questioned Costs. The HRA's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 Political Subdivisions* and the results of that testing, and not to provide an opinion on the effectiveness of the HRA'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 HRA'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

June 23, 2014

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REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Independent Auditor's Report

Commissioners of the Housing and Redevelopment
Authority of the City of Saint Paul
Saint Paul, Minnesota

Report on Compliance for Each Major Federal Program

We have audited the Housing and Redevelopment Authority (HRA) of the City of Saint Paul's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on the HRA's major federal program for the year ended December 31, 2013. The HRA is a component unit of the City of Saint Paul. The HRA's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the HRA's major federal program 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 HRA'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 the major federal program. However, our audit does not provide a legal determination of the HRA's compliance with those requirements.

Opinion on Each Major Federal Program

In our opinion, the HRA complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2013.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2013-001. Our opinion on the major federal program is not modified with respect to this matter.

The HRA's response to the noncompliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs as a Corrective Action Plan. The HRA's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the HRA 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 HRA's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the 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 HRA'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 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 the attention of 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 and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as item 2013-001, that we consider to be a significant deficiency.

The HRA's response to the internal control over compliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs as a Corrective Action Plan. The HRA's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of the HRA of the City of Saint Paul as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the HRA's basic financial statements. We have issued our report thereon dated June 23, 2014, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (SEFA) is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the SEFA is fairly stated in all material respects in relation to the basic financial statements as a whole.

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 results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

/s/Rebecca Otto

REBECCA OTTO
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/s/Greg Hierlinger

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June 23, 2014

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**HOUSING AND REDEVELOPMENT
AUTHORITY OF THE CITY OF SAINT PAUL
SAINT PAUL, MINNESOTA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Housing and Urban Development		
Direct Grants		
Housing Counseling Assistance Program	14.169	\$ 28,604
HOME Investment Partnerships Program	14.239	<u>1,684,266</u>
Total U.S. Department of Housing and Urban Development		\$ 1,712,870
U.S. Department of the Treasury		
Passed Through Minnesota Housing Finance Agency		
National Foreclosure Mitigation Counseling	21.000	<u>69,360</u>
Total Federal Awards		<u>\$ 1,782,230</u>

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**HOUSING AND REDEVELOPMENT
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SAINT PAUL, MINNESOTA**

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2013

1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by the Housing and Redevelopment Authority (HRA) of the City of Saint Paul, a blended component unit of the City of Saint Paul. The HRA's reporting entity is defined in Note 1 to the basic financial statements.

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the HRA under programs of the federal government for the year ended December 31, 2013. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of the HRA, it is not intended to and does not present the financial position, changes in net position, or cash flows of the HRA.

3. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the basis of accounting used by the individual funds of the HRA. Governmental funds use the modified accrual basis of accounting. Proprietary funds use the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through grant numbers were not assigned by the pass-through agencies.

4. Subrecipients

Of the expenditures presented in the schedule, the HRA provided federal awards to subrecipients as follows:

<u>CFDA Number</u>	<u>Program Name</u>	<u>Amount Provided to Subrecipients</u>
14.239	HOME Investment Partnerships Program	\$ 137,207