

DeSMET HOUSING & REDEVELOPMENT COMMISSION
DeSMET, SOUTH DAKOTA

PROJECT CODE: SD009
ANNUAL CONTRIBUTION CONTRACT NUMBER: C-783

FINANCIAL REPORT
FOR THE ONE YEAR ENDING DECEMBER 31, 2015
WITH INDEPENDENT AUDITOR'S REPORTS

INDEPENDENT AUDIT SERVICES, P.C.

Benjamin Elliott, CPA

P.O. Box 262

Madison, South Dakota 57042

DeSMET HOUSING & REDEVELOPMENT COMMISSION
A COMPONENT UNIT OF THE CITY OF DeSMET, SOUTH DAKOTA

PROJECT CODE: SD009
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FOR THE ONE YEAR ENDING DECEMBER 31, 2015

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NOTE: All figures shown in this financial report are in U.S. dollars.
For space considerations, the "\$" symbol is not used.

INDEPENDENT AUDIT SERVICES, P.C.

Benjamin Elliott, CPA
P.O. Box 262
Madison, South Dakota 57042
605.483.3225

Board of Commissioners
DeSmet Housing & Redevelopment Commission
DeSmet, South Dakota

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

I have audited the accompanying financial statements of each major fund of the DeSmet Housing & Redevelopment Commission (Commission), a component unit of the City of DeSmet, Kingsbury County, South Dakota, as of and for the one year ending December 31, 2015, and the related notes to the financial statements, which collectively comprise the Commission'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 controls relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my 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 I 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 judgement, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, I 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.

I believe that the audit evidence I obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund of the DeSmet Housing & Redevelopment Commission, a component unit of the City of DeSmet, South Dakota as of December 31, 2015, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters - Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (page 3 to 6) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board who considers it to be an essential part of financial reporting by placing the basic financial statements in an appropriate operational, economic, or historical context. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Matters - Other Supplementary Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commission's basic financial statements as a whole.

The financial data schedules (page 22 to 25) are presented for purposes of additional analysis, as required by the U.S. Department of Housing and Urban Development, and are not a required part of the basic financial statements.

The financial data schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subject 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 my opinion, the financial data schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued my report dated May 12, 2016 (page 19) on my tests of its compliance with certain provisions of laws, regulations, contracts, and other matters and my consideration of the Commission's internal control over financial reporting. The purpose of that report is to describe the scope of my testing of compliance and internal control over financial reporting, and the results of that testing, and not to provide an opinion on compliance or internal control over financial reporting. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commission's compliance and internal control over financial reporting.

Independent Audit Services, PC
Benjamin Elliott, CPA
Madison, South Dakota



May 12, 2016

DESMET HOUSING & REDEVELOPMENT COMMISSION
Desmet, South Dakota

Management's Discussion and Analysis
December 31, 2015

Management's Discussion and Analysis (MD&A) is a reporting model adopted by the Governmental Accounting Standards Board (GASB) in their statement No. 34 *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, issued June 1999.

Our discussion and analysis of the Desmet Housing & Redevelopment Commission (herein referred to as "the Housing Authority"), Desmet, South Dakota, financial performance provides an overview of the Housing Authority's financial activities for the fiscal year ended December 31, 2015. Please read the MD&A in conjunction with the Housing Authority's financial statements.

For accounting purposes, the Housing Authority is classified as an enterprise fund. Enterprise funds account for activities similar to those found in the private business sector, where the determination of net income is necessary or useful to sound financial administration. Enterprise funds are reported using the full accrual method of accounting in which all assets and all liabilities associated with the operation of these funds are included on the Statement of Net Position. The focus of enterprise funds is on income measurement, which, together with the maintenance of equity, is an important financial indication.

Financial Highlights

Total assets of the Housing Authority for the year ended December 31, 2015 were \$1,143,456. Total liabilities were \$572,189. Total assets exceeded total liabilities by \$571,267 (net position).

Unrestricted net position totals \$130,308. This is the amount of the Authority's reserve.

Total operating and non-operating revenue for the year ended December 31, 2015, was \$174,139 and expenses totaled \$228,558, expenses exceeded revenue by \$54,419.

Overview of the Financial Statements

This annual report includes this Management Discussion and Analysis report, the Basic Financial Statements and the Notes to the Financial Statements. The Housing Authority's financial statements are presented as program level financial statements because the Housing Authority only has proprietary funds.

The financial statements report information of the Housing Authority using accounting methods similar to those used by private sector companies. These statements offer short-term and long-term financial information about the Housing Authority's activities. The Statement of Net Position includes all the Housing Authority's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations to the Housing Authority's creditors (liabilities). It also provides the basis for evaluating the capital structure of the Housing Authority and assessing the liquidity and financial flexibility of the Housing Authority.

All of the current year's revenues and expenses are accounted for in the Statement of Changes in Net Position. This statement measures the success of the Housing Authority's operations over the past year and can be used to determine whether the Housing Authority has successfully recovered all its costs through its user fees and other charges, profitability and credit worthiness.

DESMET HOUSING & REDEVELOPMENT COMMISSION
Desmet, South Dakota

Management's Discussion and Analysis
December 31, 2015

(Continued)

The Statement of Cash Flows reports cash receipts, cash payments, and net changes in cash resulting from operating, investing, and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

Financial Analysis

The Housing Authority's basic financial statements are the Statement of Net Position and the Statement of Changes in Net Position. The Statement of Net Position provides a summary of the Housing Authority's assets and liabilities as of the close of business on December 31, 2015. The Statement of Changes in Net Position summarizes the revenues and sources of those revenues, and expenses incurred in operating the Housing Authority for the year ended December 31, 2015.

Conventional Public Housing – Under the Conventional Public Housing Program, the Authority rents units that it owns to low-income households. The Conventional Public Housing Program is operated under an Annual Contributions Contract (ACC) with HUD, and HUD provides Operating Subsidy and Capital Grant funding to enable the PHA to provide the housing at a rent that is based upon 30% of household income.

Capital Fund Program- The Capital Fund Program is the primary funding source for physical and management improvements to the Authority's properties.

Statement of Net Position

| FOR THE YEAR ENDED December 31 | 2015 | 2014 |
|---|-------------|-------------|
| Current assets and prepaid expense | \$186,342 | \$176,803 |
| Inventory held for resale | \$0 | \$0 |
| Capital assets, net | \$957,114 | \$1,038,345 |
| Pension assets, net | | |
| Total Assets | \$1,143,456 | \$1,215,148 |
| Deferred Outflows of Resources | | |
| Current liabilities | \$69,635 | \$67,248 |
| Non-current liabilities | \$502,554 | \$539,120 |
| Total liabilities | \$572,189 | \$606,368 |
| Net Position | | |
| Invested in capital assets, net of related debt | \$440,959 | \$487,804 |
| Restricted | \$0 | |
| Unrestricted | \$130,308 | \$120,976 |
| Total Net Position | \$571,267 | \$608,780 |

DESMET HOUSING & REDEVELOPMENT COMMISSION
Desmet, South Dakota

Management's Discussion and Analysis
December 31, 2015

(Continued)

| | | |
|---|-------------|-------------|
| Total Liabilities, Deferred inflow of Resources and Equity/Net Position | \$1,143,456 | \$1,215,148 |
|---|-------------|-------------|

Comparative Statement of Revenues, Expenses and Changes in Net Position

| FOR THE YEAR ENDED December 31 | 2015 | 2014 | Change |
|--|-------------------|------------------|-------------------|
| Operating Revenue | | | |
| Tenant revenue | \$215,419 | \$207,870 | \$7,549 |
| Other income | \$10,884 | \$10,802 | \$82 |
| Total operating revenue | <u>\$226,303</u> | <u>\$218,672</u> | <u>\$7,631</u> |
| Operating Expenses | | | |
| Administration | \$38,850 | \$39,894 | (\$1,045) |
| Tenant Services | \$1,700 | \$1,694 | \$7 |
| Utilities | \$30,673 | \$29,251 | \$1,422 |
| Ordinary maintenance & operations | \$88,851 | \$83,071 | \$5,779 |
| General expenses | \$32,174 | \$25,230 | \$6,945 |
| Depreciation | \$90,227 | \$88,133 | \$2,094 |
| Total operating expense | <u>\$282,245</u> | <u>267,237</u> | <u>15,008</u> |
| Operating income (loss) | \$56,172 | \$48,601 | 7,571 |
| Federal grants and subsidies | \$34,066 | \$34,112 | (\$46) |
| Interest earned | \$406 | \$387 | \$19 |
| Interest Expense | (\$21,232) | (\$22,800) | (\$1,568) |
| Total nonoperating expenses | <u>\$13,240</u> | <u>\$11,699</u> | <u>\$1,541</u> |
| Net income (loss) before contributions | (\$42,932) | (\$36,904) | (\$6,028) |
| HUD capital contributions | \$5,576 | \$33,511 | (\$27,935) |
| Change in Net Position | <u>(\$37,356)</u> | <u>(\$3,393)</u> | <u>(\$33,963)</u> |
| Beginning Net Position | \$608,782 | \$612,174 | (\$3,392) |
| Ending Net Position | <u>\$571,426</u> | <u>\$608,782</u> | <u>(\$37,355)</u> |

Federal grants total \$ 39,642.

Capital Assets

Capital Assets at Year-end
(Net of Accumulated Depreciation)

| FOR THE YEAR ENDED December 31 | 2015 | 2014 | change |
|--------------------------------|------|------|--------|
|--------------------------------|------|------|--------|

DESMET HOUSING & REDEVELOPMENT COMMISSION
Desmet, South Dakota

Management's Discussion and Analysis
December 31, 2015

(Continued)

| | | | |
|---|---------------|---------------|------------|
| Land | \$19,679 | \$19,679 | \$0 |
| Buildings | \$2,766,781 | \$2,757,785 | \$8,996 |
| Furniture, Equipment & Machinery - Admin | \$42,667 | \$41,459 | \$1,208 |
| Furniture, Equipment & Machinery - Dwelling | \$0 | \$1,208 | (\$1,208) |
| Construction in Progress | \$675 | \$675 | \$0 |
| Subtotal | \$2,829,801 | \$2,820,805 | \$8,996 |
| Accumulated Depreciation | (\$1,872,687) | (\$1,782,460) | (\$90,227) |
| Total Capital assets | \$957,114 | \$1,038,345 | (\$81,231) |

Long Term Debt

The Housing Authority has long-term debt of \$515,817.

Economic Factors

The Housing Authority is primarily dependent upon HUD for the funding of operations; therefore, the Housing Authority is affected more by the federal budget than by local economic conditions. The funding of programs could be significantly affected by the federal budget for the current year (and future years).

Contacting the Housing Authority's Financial Management

Our financial report is designed to provide our citizens, taxpayers, and creditors with a general overview of the Housing Authority's finances and to show the Housing Authority's accountability for the money it receives. If you have questions about this report or wish to request additional financial information, contact Roger Osthus, Executive Director, at Desmet Housing & Redevelopment Commission, 408 Calumet Ave Ne, Desmet, South Dakota 57231 -- (605) 854-3213

DeSMET HOUSING AND REDEVELOPMENT COMMISSION
A COMPONENT UNIT OF THE CITY OF DeSMET, SOUTH DAKOTA
DeSMET, SOUTH DAKOTA

Project Code: SD009
Annual Contribution Contract Number: C-783

STATEMENT OF NET POSITION -- ENTERPRISE FUNDS
AS OF DECEMBER 31, 2015

| | Prairie Park Fund | Calumet Town Homes Fund | Totals |
|---|-------------------------|-------------------------------|---------------------|
| ASSETS | | | |
| Current assets: | | | |
| Petty cash | 100.00 | | 100.00 |
| Checking | 87,204.22 | 9,343.34 | 96,547.56 |
| Certificates of deposit | 59,185.35 | | 59,185.35 |
| Accounts receivable, tenant occupied | 12.00 | | 12.00 |
| Accounts receivable, vacant | 1,021.00 | | 1,021.00 |
| Allowance for doubtful accounts | (674.00) | | (674.00) |
| Accrued interest receivable | 92.89 | | 92.89 |
| Prepaid insurance | 14,187.25 | 2,139.98 | 16,327.23 |
| Total current assets | 161,128.71 | 11,483.32 | 172,612.03 |
| Capital assets: | | | |
| Land | 12,338.50 | 7,340.00 | 19,678.50 |
| Buildings and improvements | 1,967,703.08 | 799,077.01 | 2,766,780.09 |
| Equipment - administration | 42,666.90 | | 42,666.90 |
| Development costs | 675.13 | | 675.13 |
| Accumulated depreciation | (1,554,751.03) | (317,935.69) | (1,872,686.72) |
| Total capital assets | 468,632.58 | 488,481.32 | 957,113.90 |
| Restricted cash: | | | |
| Checking | 1,715.00 | 781.34 | 2,496.34 |
| Savings | | 7,383.66 | 7,383.66 |
| Certificates of deposit | 3,850.00 | | 3,850.00 |
| Total restricted cash | 5,565.00 | 8,165.00 | 13,730.00 |
| Total assets | 635,326.29 | 508,129.64 | 1,143,455.93 |
| LIABILITIES | | | |
| Current liabilities: | | | |
| Accounts payable | 1,084.15 | 68.00 | 1,152.15 |
| Payroll payable | 637.29 | | 637.29 |
| Payroll deductions payable | 806.06 | | 806.06 |
| Accrued payment in lieu of taxes | 9,408.94 | 4,532.83 | 13,941.77 |
| Accrued utilities payable | 558.74 | | 558.74 |
| Tenant security deposits | 5,565.00 | 8,165.00 | 13,730.00 |
| Prepaid tenant rents | 15.00 | | 15.00 |
| Current portion - accrued leave payable | 3,186.45 | | 3,186.45 |
| Current portion - long-term debt | | 35,136.52 | 35,136.52 |
| Total current liabilities | 21,261.63 | 47,902.35 | 69,163.98 |
| Noncurrent liabilities: | | | |
| Accrued leave payable | 22,006.35 | | 22,006.35 |
| Long-term debt | | 480,859.69 | 480,859.69 |
| Total liabilities | 43,267.98 | 528,762.04 | 572,030.02 |
| NET POSITION | | | |
| Net invested in capital assets | 468,632.58 | (27,514.89) | 441,117.69 |
| Unrestricted | 123,425.73 | 6,882.49 | 130,308.22 |
| Total net position | 592,058.31 | (20,632.40) | 571,425.91 |
| See accompanying notes. | | | |

DeSMET HOUSING AND REDEVELOPMENT COMMISSION
A COMPONENT UNIT OF THE CITY OF DeSMET, SOUTH DAKOTA
DeSMET, SOUTH DAKOTA

Project Code: SD009
Annual Contribution Contract Number: C-783

STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET POSITION -- ENTERPRISE FUNDS
FOR THE YEAR ENDING DECEMBER 31, 2015

| | Prairie Park Fund | Calumet Town Homes Fund | Totals |
|---|-------------------------|-------------------------------|-------------|
| | ----- | ----- | ----- |
| Operating revenues: | | | |
| Dwelling rents | 123,214.00 | 92,205.00 | 215,419.00 |
| Excess utilities | 730.00 | | 730.00 |
| Management fees | 7,750.80 | | 7,750.80 |
| Other income | 2,403.00 | | 2,403.00 |
| | ----- | ----- | ----- |
| Total operating revenues | 134,097.80 | 92,205.00 | 226,302.80 |
| | ----- | ----- | ----- |
| Operating expenses: | | | |
| Administration | 29,313.46 | 9,536.54 | 38,850.00 |
| Tenant services | 1,700.48 | | 1,700.48 |
| Utilities | 29,124.60 | 1,548.37 | 30,672.97 |
| Maintenance and operations | 76,169.21 | 12,681.46 | 88,850.67 |
| General expenses | 23,673.74 | 8,500.33 | 32,174.07 |
| Depreciation | 68,576.93 | 21,649.55 | 90,226.48 |
| | ----- | ----- | ----- |
| Total operating expenses | 228,558.42 | 53,916.25 | 282,474.67 |
| | ----- | ----- | ----- |
| Operating income (loss): | (94,460.62) | 38,288.75 | (56,171.87) |
| Nonoperating revenues (expenses): | | | |
| HUD - operating subsidy | 34,066.00 | | 34,066.00 |
| Interest earned | 398.83 | 7.36 | 406.19 |
| Interest expense | | (21,231.92) | (21,231.92) |
| | ----- | ----- | ----- |
| Total nonoperating revenues (expenses): | 34,464.83 | (21,224.56) | 13,240.27 |
| | ----- | ----- | ----- |
| Net income (loss) before contributions | (59,995.79) | 17,064.19 | (42,931.60) |
| HUD capital contribution | 5,576.00 | | 5,576.00 |
| | ----- | ----- | ----- |
| Change in net position | (54,419.79) | 17,064.19 | (37,355.60) |
| Net position (deficit): | | | |
| January 1, 2015 | 646,478.10 | (37,696.59) | 608,781.51 |
| | ----- | ----- | ----- |
| December 31, 2015 | 592,058.31 | (20,632.40) | 571,425.91 |
| | ===== | ===== | ===== |

See accompanying notes.

DeSMET HOUSING AND REDEVELOPMENT COMMISSION
A COMPONENT UNIT OF THE CITY OF DeSMET, SOUTH DAKOTA
DeSMET, SOUTH DAKOTA

Project Code: SD009
Annual Contribution Contract Number: C-783

STATEMENT OF CASH FLOWS -- ENTERPRISE FUNDS
FOR THE YEAR ENDING DECEMBER 31, 2015

| | Prairie Park Fund | Calumet Town Homes Fund | Totals |
|---|-------------------------|-------------------------------|--------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Cash receipts from renters | 134,467.32 | 92,275.00 | 226,742.32 |
| Payments to employees for services | (54,591.81) | (28.34) | (54,620.15) |
| Payments to suppliers for goods and services | (118,308.44) | (32,969.65) | (151,278.09) |
| | ----- | ----- | ----- |
| Net cash provided (used) by operating activities | (38,432.93) | 59,277.01 | 20,844.08 |
| | ----- | ----- | ----- |
| CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES | | | |
| HUD operating subsidy | 34,066.00 | | 34,066.00 |
| Transfers between funds | 24.10 | (24.10) | 0.00 |
| | ----- | ----- | ----- |
| Net cash provided (used) by non-capital financing activities | 34,090.10 | (24.10) | 34,066.00 |
| | ----- | ----- | ----- |
| CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES | | | |
| HUD capital subsidy (CFPs) | 5,576.00 | | 5,576.00 |
| Cash paid for buildings and improvements | (6,194.25) | (2,800.00) | (8,994.25) |
| Bond payments - principle | | (34,544.44) | (34,544.44) |
| Bond payments - interest | | (21,231.92) | (21,231.92) |
| | ----- | ----- | ----- |
| Net cash provided (used) by capital financing activities | (618.25) | (58,576.36) | (59,194.61) |
| | ----- | ----- | ----- |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Interest received | 405.17 | 7.36 | 412.53 |
| Purchase certificates of deposit | (176.04) | | (176.04) |
| | ----- | ----- | ----- |
| Net cash provided (used) by investing activities | 229.13 | 7.36 | 236.49 |
| | ----- | ----- | ----- |
| Net increase (decrease) in cash | (4,731.95) | 683.91 | (4,048.04) |
| | ----- | ----- | ----- |
| Cash and cash equivalents: | | | |
| January 1, 2015 | 93,751.17 | 16,824.43 | 110,575.60 |
| | ----- | ----- | ----- |
| December 31, 2015 | 89,019.22 | 17,508.34 | 106,527.56 |
| | ===== | ===== | ===== |
| RECONCILIATION OF OPERATING (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | | | |
| Operating income (loss) | (94,460.62) | 38,288.75 | (56,171.87) |
| Adjustments required for reconciliation: | | | |
| Depreciation expense | 68,576.93 | 21,649.55 | 90,226.48 |
| Change in: | | | |
| Accounts receivable | (92.00) | | (92.00) |
| Prepaid insurance | (13,778.20) | (322.50) | (14,100.70) |
| Deferred charges | 775.52 | | 775.52 |
| Accounts payable | 933.40 | (595.00) | 338.40 |
| Accrued salary and benefits | (690.46) | | (690.46) |
| Accrued expenses | 616.50 | 186.21 | 802.71 |
| Prepaid rents | (589.00) | | (589.00) |
| Tenant security deposits | 275.00 | 70.00 | 345.00 |
| | ----- | ----- | ----- |
| Net cash provided (used) by operating activities | (38,432.93) | 59,277.01 | 20,844.08 |
| | ===== | ===== | ===== |
| Noncash financing, capital, and investing activities: | | | |
| None | | | |

See accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Reporting Entity:

The funds included in this report are controlled by or dependent upon the DeSmet Housing & Redevelopment Commission's (Commission) Board of Commissioners. The Commission is a component unit of the City of DeSmet, South Dakota which owns the project and approves all members of the Commission's Board.

The Commission is a Public Housing Authority, established under the authority of SDCL 11-7, to operate 35 low-income public housing units, know as Prairie Park. These units are subsidized by the U.S. Dept. of Housing and Urban Development (HUD). The Commission also operates 12 unsubsidized rental housing units, known as Calumet Townhomes.

At December 31, 2015, the Commission's officials were:

Mayor, City of DeSmet
Gary Wolkow

Executive Director:
Roger J. Osthus

Board of Commissioners:
Myrna Knadle, Chairperson
Lynn Kruse
Martin Reynhout
Rick Warne
Delver Williams

Attorney:
Wilkinson & Wilkinson

The Commission complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements.

b. Fund Accounting:

The accounts are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, net position, revenues, and expenses. The funds in this financial report are classified as an "enterprise" fund type.

Enterprise funds:

Enterprise funds are used to account for activity for which a fee is charged to external users for goods or services. The Commission maintains Prairie Park fund with 35 subsidized rental units and Calumet Townhomes fund with 12 unsubsidized rental units to account for its rental operations and related capital projects. Both of these funds are considered major funds.

c. Measurement Focus and Basis of Accounting:

Measurement focus refers to what financial resources make up a fund. Basis of accounting refers to when revenues and expenses are recognized by a fund and reported in the financial statements.

Enterprise Funds:

Measurement Focus - All enterprise funds are accounted for using a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with a fund are included in its statement of net position. Enterprise fund operating statements present increases (revenues) and decreases (expenses) in total net position.

Basis of Accounting - All enterprise funds are accounted for using the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash is received or paid. Revenues from grants, entitlements, and donations are recognized in the year in which all eligibility requirements are satisfied.

d. Capital Assets and Depreciation:

Capital assets must cost at least \$1,000. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at estimated fair value on the date donated.

Approximately 0% of the December 31, 2015 enterprise fund capital assets are determined by estimates of historical cost.

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

Depreciation of all exhaustible capital assets used by the enterprise funds is charged as an expense against that fund's operation. Depreciation has been provided over estimated useful life using the straight-line method. Buildings and improvements are given a useful life of 15 or 40 years, except for carpet that has a life of 5 years. Equipment is given a useful life of 5 years. Accumulated depreciation is reported on the enterprise fund statement of net position.

Interest cost incurred during construction of capital assets is capitalized along with other capital asset costs.

e. Long-term Liabilities:

Long-term liabilities consist of bonds and accrued leave payable. The portion due in the next year is reported as a current liability and balance is reported as a long-term liability.

f. Operating and Nonoperating Revenues:

Operating revenues are those associated with tenant activity such as rents, utilities, and laundry. Nonoperating revenues are those not associated with tenant activity such as the HUD subsidy, interest income and interest expense.

Prairie Park rental units generally are subsidized based on the higher of 30% of adjusted gross income (based on HUD guidelines) or 10% of gross income. HUD pays the remainder of the rent.

g. Net Position Classifications:

Net position is displayed in up to three components:

1. Net Invested in Capital Assets - Consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

2. Restricted Net Position - Net position with constraints placed on its use by either (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted Net Position - Net position that does not meet the criteria of 1 or 2 above.

h. Application of Net Position:

It is the Commission's policy to first use restricted net position, prior to the use of unrestricted net position, when an expense is incurred which can be charged to either restricted or unrestricted net position.

i. Interfund Transactions:

Transactions that constitute reimbursements to a fund for disbursements made from it, and that are properly applicable to another fund, are recorded as a disbursement in the reimbursing fund and as a reduction of a disbursement in the fund that is reimbursed. All other interfund transactions are reported as transfers.

j. Accounting Estimates:

The presentation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual amounts could differ from those estimates and assumptions. Following are some of the estimates made by management during the year:

- * Allowance for doubtful accounts -- estimated uncollectables
- * Depreciation -- estimated service lives

2. DEPOSITS, INVESTMENTS, RISK AND CASH FLOWS

Deposits - The Commission deposits are made in qualified public depositories as defined by SDCL 4-6A-1. Qualified depositories are required by SDCL 4-6A-3 to maintain, at all times, segregated from their other assets, eligible collateral with a value equal to at least 100 percent of the public deposit accounts that exceed deposit insurance such as FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank's public debt rating which may not be less than "AA" or better, or a qualified public depository may furnish a corporate surety bond from a corporation authorized to do business in South Dakota.

Deposits are reported at costs, plus interest, if the account is an add-on type.

The actual bank balances at December 31, 2015 were: Insured \$174,922 and Collateralized** \$0.00 for a total of \$174,922.

** Uninsured, collateral jointly held by state's/Commission's agent in the name of the state and the pledging financial institution. The carrying amount of these deposits at December 31, 2015 (plus petty cash of \$100) was \$169,563.

Investments - In general, SDCL 11-7-31 permits Housing & Redevelopment Commission funds "...to invest any funds held in reserves or debt service funds, or any funds not required for immediate disbursement, in property or securities in which savings banks may legally invest funds subject to their control."

Additionally, SDCL 4-5-6 permits Housing & Redevelopment Commission funds to be invested only in (a) securities of the United States and securities guaranteed by the United States Government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a) above; or in shares

of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above. Also, SDCL 4-5-9 requires investments to be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

Because certificates of deposit are insured, they are considered to be deposits. The Commission had no investments during the year ending December 31, 2015.

Investment Risk - State law limits eligible investments for the Commission as discussed above. The Commission has no investment policy that would further limit its investment choices.

Interest Rate Risk - The Commission does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. All certificates of deposits are at fixed interest rates for a specified term.

Concentration of Credit Risk - The Commission places no limit on the amount that may be deposited or invested in any one institution. At December 31, 2015, all of the Commission's cash and certificates of deposit are deposited in American Bank & Trust.

Credit Risk - The Commission had no credit risks because the Commission had no investments during the year ending December 31, 2015.

Custodial Risk - The risk that, in the event of a depository failure, the Commission's deposits may not be returned to it. As of December 31, 2015, the Commission's deposits in financial institutions were not exposed to custodial credit risk.

Cash Flows - For the purposes of the statement of cash flows, the Commission considers all highly liquid investments and deposits (including restricted assets) with a term to maturity of three months or less when purchased to be cash equivalents.

3. RECEIVABLES AND PREPAID EXPENSES

Receivables are not aggregated in these financial statements. The Commission expects to collect all receivables within one year.

Prepaid expenses of \$16,327 is for prepaid insurance.

4. PAYABLES, ACCRUED EXPENSES, SECURITY DEPOSITS, AND PREPAID REVENUES

Payables are not aggregated in these financial statements. Payables are for amounts due to vendors and contractors of \$1,152, payroll of \$637, and payroll deductions of \$806 for a total of \$2,595.

Accrued expenses are for payment-in-lieu of taxes of \$13,942, utilities of \$559 and compensated absences of \$25,193 for a total of \$39,694.

Tenant security deposits of \$13,730 is payable from restricted cash.

Prepaid revenues are prepaid tenant rents of \$15.

5. CHANGES IN CAPITAL ASSETS (see schedule one, page 16)

A summary of the changes in capital assets for the one year ending December 31, 2015 is presented in schedule one at the end of these footnotes.

At the Prairie Park apartments, \$6,195 was spent for bathroom remodels and flooring as listed on page 16. Depreciation recorded against Prairie Park capital assets was \$68,577.

At the Calumet Townhomes, \$2,800 was spent for flooring. Depreciation recorded against Calumet Townhomes capital assets was \$21,649.55.

6. LONG-TERM DEBT (see schedule two, page 17)

A summary of changes in long-term debt is presented in schedule two at the end of these footnotes. Long-term debt was paid down by \$34,544.44. There was no new debt. Accrued leave payable of \$25,991.82 is shown as a long-term liability.

In 2015 the Commission had no short-term or conduit debt.

Debt related to the original acquisition and early modernization of the public housing development is funded, guaranteed and serviced by HUD. There is no debt or pledge of faith and credit by the Commission. Accordingly, this debt has not been recorded in the financial statements of the DeSmet Housing & Redevelopment Commission. HUD no longer provides the Commission with debt service information since the Commission has no obligation for that debt.

7. INTERFUND ACTIVITY AND BALANCES

In 2015 Calumet Townhomes paid Prairie Park a management fee of \$7,750.80.

At December 31, 2015 there were no interfund balances between Calumet Townhomes and Prairie Park.

8. DEFICIT NET POSITION

The deficit net position in Calumet Townhomes Fund is the result of prior year annual depreciation being more than principal reduction on related debt service. Adding back accumulated depreciation yields a positive net position of \$297,303.29. The deficit net position condition is expected to continue for another two years.

9. PAYMENT IN LIEU OF TAXES

The Commission does not pay property taxes based tax levies against the real property owned by the Commission. Instead, in 2015 they made payments in lieu of taxes (PILOT) based on a percentage of gross rents less utility costs.

PILOT for the 2015 year was determined as follows:

| | Total | Prairie Park | Calumet Townhomes |
|---------------------|-------------|-----------------|----------------------|
| Rental income | 215,419.00 | 123,214.00 | 92,205.00 |
| Less: utility costs | (30,672.97) | (29,124.60) | (1,548.37) |
| | ----- | ----- | ----- |
| Net shelter rent | 184,746.03 | 94,089.40 | 90,656.63 |
| | ===== | ===== | ===== |
| PILOT percentage | | 10% | 5% |
| PILOT for 2014 | 13,941.77 | 9,408.94 | 4,532.83 |
| | ===== | ===== | ===== |

10. ECONOMIC DEPENDENCY AND HUD GRANTS

In 2015 the Commission received approximately 15% of its revenue from HUD. If the amount of revenue received from HUD falls, the Commissions operations would be adversely affected.

In 2015 the following grants were received from HUD under the Annual Contributions Contract.

| | |
|-----------------------|-----------|
| Operating subsidy | 34,066.00 |
| Capital fund projects | 5,576.00 |
| | ----- |
| | 39,642.00 |

11. COMMITMENTS AND CONTINGENCIES

Litigation:

The Commission was not involved in any litigation at December 31, 2015.

Examination:

The Commission is subject to possible examination made by federal and state authorities who determine compliance with terms, conditions, laws and regulations governing grants given to the Commission in the current and prior years. There were no examinations during the year ending December 31, 2015.

Grant Disallowances:

Amounts received or receivable from HUD are subject to audit and adjustment by HUD. Any disallowed claims, including amounts already collected, may constitute a liability of the Commission. The amount of expenditures, if any, which may be disallowed by HUD cannot be determined at this time. The Commission would expects such amounts, if any, to be immaterial.

12. RISK MANAGEMENT

The Commission is exposed to various risks of loss related to torts; theft, damage, or destruction of assets; errors and omissions; injuries to employees' and natural disasters. During the one year ending December 31, 2015, the Commission managed its risks as follows:

Health insurance: The Commission reimburses the executive director for the cost of his health insurance.

Liability, fire, and worker's compensation: The Commission maintains liability, fire, and worker's compensation insurance through a commercial carrier. Settled claims have not exceeded this commercial coverage in any of the past 3 years.

Unemployment benefits: The Commission maintains unemployment insurance through the State of South Dakota.

13. OTHER DISCLOSURES AND SUBSEQUENT EVENT

In 2015 the Commission purchased of \$2,383 of parts and service from a Board member as allowed by law.

In December 2015 the Commission was approved for a \$298,500 South Dakota Housing Opportunity Fund Program grant to construct an additional 4 Townhome units on land owed by Calumet Townhomes. The cost is expected to be approximately \$600,000 with \$298,500 coming from the grant and difference coming from an Essential Function Housing Development Revenue Bond. The units will be built by F & L Development.

DE SMET HOUSING AND REDEVELOPMENT COMMISSION
A COMPONENT UNIT OF THE CITY OF DE SMET, SOUTH DAKOTA

NOTES TO THE FINANCIAL STATEMENTS -- SCHEDULE ONE
CHANGES IN CAPITAL ASSETS
FOR THE YEAR ENDING DECEMBER 31, 2015

| | Beginning 12-31-14 | Book Adjustments | Additions | (Deletions) | Ending 12-31-15 | Accumulated Depreciation 12-31-14 | Book Adjustments | (Additions) | Deletions | Ending 12-31-15 | Remaining Cost 12-31-15 |
|--------------------------------|-----------------------|---------------------|-----------|-------------|--------------------|---|---------------------|--------------|-----------|--------------------|-------------------------------|
| Prairie Park Fund: | | | | | | | | | | | |
| Land | 12,338.50 | | | | 12,338.50 | | | | | - | 12,338.50 |
| Buildings and improvements | 1,961,507.66 | | 6,195.42 | | 1,967,703.08 | (1,458,483.55) | (1.17) | (63,724.84) | | (1,522,209.56) | 445,493.52 |
| Equipment - dwellings | 1,208.00 | (1,208.00) | | | - | (1,208.00) | 1,208.00 | | | - | - |
| Equipment - administration | 41,458.90 | 1,208.00 | | | 42,666.90 | (26,481.38) | (1,208.00) | (4,852.09) | | (32,541.47) | 10,125.43 |
| Development costs | 675.13 | | | | 675.13 | | | | | - | 675.13 |
| | 2,017,188.19 | - | 6,195.42 | - | 2,023,383.61 | (1,486,172.93) | (1.17) | (68,576.93) | - | (1,554,751.03) | 468,632.58 |
| | ===== | ===== | ===== | ===== | ===== | ===== | ===== | ===== | ===== | ===== | ===== |
| | | | (A) | | | | | | | | |
| Additions: | | | | | | | | | | | |
| Bathroom remodels | 5,006.82 | | | | | | | | | | |
| Flooring | 1,188.60 | | | | | | | | | | |
| | 6,195.42 | (A) | | | | | | | | | |
| | ===== | | | | | | | | | | |
| Calumet Town Home Fund: | | | | | | | | | | | |
| Land | 7,340.00 | | | | 7,340.00 | | | | | - | 7,340.00 |
| Buildings and improvements | 796,277.01 | | 2,800.00 | | 799,077.01 | (296,286.14) | | (21,649.55) | | (317,935.69) | 481,141.32 |
| | 803,617.01 | - | 2,800.00 | - | 806,417.01 | (296,286.14) | - | (21,649.55) | - | (317,935.69) | 488,481.32 |
| | ===== | ===== | ===== | ===== | ===== | ===== | ===== | ===== | ===== | ===== | ===== |
| | | | (B) | | | | | | | | |
| Additions: | | | | | | | | | | | |
| Flooring | 2,800.00 | (B) | | | | | | | | | |
| | ===== | | | | | | | | | | |

DE SMET HOUSING AND REDEVELOPMENT COMMISSION
A COMPONENT UNIT OF THE CITY OF DE SMET, SOUTH DAKOTA

NOTES TO THE FINANCIAL STATEMENTS -- SCHEDULE TWO
CHANGES IN LONG-TERM DEBT
FOR THE YEAR ENDING DECEMBER 31, 2015

| | Beginning 12-31-14 ----- | Additions ----- | (Deletions) ----- | Ending 12-31-15 ----- | Due in 2016 ----- |
|---|--------------------------------|--------------------|----------------------|-----------------------------|-------------------------|
| 1999 Essential Function Housing Development | | | | | |
| Revenue Bond, Series 1999-1: | | | | | |
| Original issue of \$277,500 | | | | | |
| Maturing in 2026 | | | | | |
| Interest at 4.00% at December 31, 2013 | | | | | |
| Interest rate adjusted on July 26, 2004 and every | | | | | |
| 5 years thereafter to 200 basis points under the | | | | | |
| national prime rate | | | | | |
| Callable as provided by SDCL 6-8B-23 | | | | | |
| Secured only by real and personal property | | | | | |
| of the 4-plex built with this bond | | | | | |
| Paid by Calumet Town Homes Fund | 170,537 | | (12,234) | 158,303 | 12,451 |
| 1999 Essential Function Housing Development | | | | | |
| Revenue Bond, Series 1999-2: | | | | | |
| Original issue of \$277,500 | | | | | |
| Maturing in 2025 | | | | | |
| Interest at 4.00% at December 31, 2013 | | | | | |
| Interest rate adjusted on July 1, 2005 and every | | | | | |
| 5 years thereafter adjusted to 200 basis points | | | | | |
| under the national prime rate | | | | | |
| Callable as provided by SDCL 6-8B-23 | | | | | |
| Secured only by real and personal property | | | | | |
| of the 4-plex built with this bond | | | | | |
| Paid by Calumet Town Homes Fund | 159,204 | | (13,031) | 146,173 | 13,270 |
| 2001 Essential Function Housing Development | | | | | |
| Revenue Bond, Series 2001: | | | | | |
| Original issue of \$277,500 | | | | | |
| Maturing in 2032 | | | | | |
| Interest at 4.00% at December 31, 2013 | | | | | |
| Interest rate adjusted on July 1, 2007 and every | | | | | |
| 5 years thereafter adjusted to 200 basis points | | | | | |
| under the national prime rate | | | | | |
| Callable as provided by SDCL 6-8B-23 | | | | | |
| Secured only by real and personal property | | | | | |
| of the 4-plex built with this bond | | | | | |
| Paid by Calumet Town Homes Fund | 220,799 | | (9,279) | 211,520 | 9,415 |
| | ----- | ----- | ----- | ----- | ----- |
| | 550,540 | 0 | (34,544) | 515,996 | 35,136 |
| | ===== | ===== | ===== | ===== | ===== |
| Leave liability: | | | | | |
| Vacation and sick leave paid by Prairie Park F | 25,992 | 356 | (1,155) | 25,193 | 25,193 |
| | ----- | ----- | ----- | ----- | ----- |
| | 25,992 | 356 | (1,155) | 25,193 | |
| | ===== | ===== | ===== | ===== | |

DE SMET HOUSING AND REDEVELOPMENT COMMISSION
A COMPONENT UNIT OF THE CITY OF DE SMET, SOUTH DAKOTA

NOTES TO THE FINANCIAL STATEMENTS -- SCHEDULE TWO
CHANGES IN LONG-TERM DEBT (continued)
FOR THE YEAR ENDING DECEMBER 31, 2015

| Payment Schedules: | Total Payments | Principal | Interest | Balance |
|--|-------------------|-----------|----------|---------|
| | ----- | ----- | ----- | ----- |
| 1999 Essential Function Housing Development | | | | |
| Revenue Bond, Series 1999-1: | | | | |
| 2016 | 18,783 | 12,451 | 6,332 | 145,852 |
| 2017 | 18,783 | 12,949 | 5,834 | 132,903 |
| 2018 | 18,783 | 13,467 | 5,316 | 119,436 |
| 2019 | 18,783 | 14,006 | 4,777 | 105,430 |
| 2020 | 18,783 | 14,566 | 4,217 | 90,864 |
| 2021-2025 | 93,917 | 82,051 | 11,866 | 8,813 |
| 2026 | 9,165 | 8,813 | 352 | 0 |
| | ----- | ----- | ----- | |
| | 196,997 | 158,303 | 38,694 | |
| | ===== | ===== | ===== | |
| 1999 Essential Function Housing Development | | | | |
| Revenue Bond, Series 1999-2: | | | | |
| 2016 | 19,117 | 13,270 | 5,847 | 132,903 |
| 2017 | 19,117 | 13,800 | 5,317 | 119,103 |
| 2018 | 19,117 | 14,353 | 4,764 | 104,750 |
| 2019 | 19,117 | 14,927 | 4,190 | 89,823 |
| 2020 | 19,117 | 15,524 | 3,593 | 74,299 |
| 2021-2025 | 82,437 | 74,299 | 8,138 | 0 |
| | ----- | ----- | ----- | |
| | 178,022 | 146,173 | 31,849 | |
| | ===== | ===== | ===== | |
| 2001 Essential Function Housing Development | | | | |
| Revenue Bond, Series 2001: | | | | |
| 2016 | 17,876 | 9,415 | 8,461 | 202,105 |
| 2017 | 17,876 | 9,792 | 8,084 | 192,313 |
| 2018 | 17,876 | 10,184 | 7,692 | 182,129 |
| 2019 | 17,876 | 10,591 | 7,285 | 171,538 |
| 2020 | 17,876 | 11,015 | 6,861 | 160,523 |
| 2021-2025 | 89,381 | 62,045 | 27,336 | 98,478 |
| 2026-2030 | 89,381 | 75,488 | 13,893 | 22,990 |
| 2031-2032 | 24,151 | 22,990 | 1,161 | 0 |
| | ----- | ----- | ----- | |
| | 292,293 | 211,520 | 80,773 | |
| | ===== | ===== | ===== | |

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

Board of Commissioners
DeSmet Housing & Redevelopment Commission
DeSmet, South Dakota

Independent Auditor's Report

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of each major fund of the DeSmet Housing & Redevelopment Commission (Commission), a component unit of the City of DeSmet, South Dakota, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements, and have issued my unmodified report thereon dated May 12, 2016.

Compliance and Other Matters:

As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, and contracts, 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 my audit and, accordingly, I do not express such an opinion.

The results of my tests disclosed no instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting:

In planning and performing my audit of the financial statements, I considered the Commission's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, I do not express an opinion on the effectiveness of DeSmet Housing & Redevelopment Commission's internal control.

A deficiency in internal control exist 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, such that there is a reasonable possibility that a material misstatement of the Commission's financial statements will not be prevented, or detected and corrected, on a timely basis.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit the attention of those charged with governance.

Report on Compliance and Other Matters and on Internal Control
Page Two

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

I did note minor matters involving internal control over financial reporting that I reported to the governing body and management of DeSmet Housing & Redevelopment Commission in a separate Letter of Comments dated May 12, 2016.

Purpose of the Report

The purpose of this report is solely to describe the scope of my testing of compliance and internal control and the results of that testing, and not to provide an opinion on the effectiveness of the Commission's compliance or on its internal control. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Commission's compliance and internal control. Accordingly, this communication is not suitable for any other purpose.

As required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.

Independent Audit Services, PC
Benjamin Elliott, CPA
Madison, South Dakota

May 12, 2016



SCHEDULE OF PRIOR AUDIT FINDINGS

There were no written prior audit findings.

SCHEDULE OF CURRENT AUDIT FINDINGS

There are no written current audit findings to report.

DeSMET HOUSING AND REDEVELOPMENT COMMISSION
A COMPONENT UNIT OF THE CITY OF DeSMET, SOUTH DAKOTA
DECEMBER 31, 2015

Financial Data Schedule

| Financial Data Schedule (FDS) For the One Year Ending December 31, 2015 Required by the Dept. of Housing and Urban Development (HUD) | | Audit | Reclass | Low Rent Public Housing CFDA # 14.850a 12-31-15 | Public Housing Capital Fund Program CFDA # 14.885 12-31-15 |
|---|---|---|---------|--|--|
| Line Item # | | Low Rent Public Housing 12-31-15 | | | |
| ASSETS | | | | | |
| Current assets: | | | | | |
| 111.000 | Cash - unrestricted | 87,304 | | 87,304 | |
| 114.000 | Cash - tenant security deposits | 1,715 | (3,850) | 5,565 | |
| 126.000 | Accounts rec - tenants | 1,033 | | 1,033 | |
| 126.100 | Allowance for doubtful accounts - tenants | (674) | | (674) | |
| 129.000 | Accrued interest receivable | 93 | | 93 | |
| 131.000 | Investments - unrestricted | 59,185 | | 59,185 | |
| 132.000 | Investments - restricted | 3,850 | 3,850 | 0 | |
| 142.000 | Prepaid expenses and other assets | 14,187 | | 14,187 | |
| 150.000 | Total current assets: | 166,693 | 0 | 166,693 | 0 |
| Noncurrent assets: | | | | | |
| 161.000 | Land | 12,338 | | 12,338 | |
| 162.000 | Buildings | 1,967,704 | | 1,967,704 | |
| 164.000 | Furniture, equipment - administration | 42,667 | | 42,667 | |
| 166.000 | Accumulated depreciation | (1,554,751) | | (1,554,751) | |
| 167.000 | Construction-in-progress | 675 | | 675 | |
| 160.000 | Total non-current assets: | 468,633 | 0 | 468,633 | 0 |
| 190.000 | Total assets | 635,326 | 0 | 635,326 | 0 |
| LIABILITIES | | | | | |
| Current liabilities: | | | | | |
| 312.000 | Accounts payable <= 90 days | 1,084 | | 1,084 | |
| 321.000 | Accrued payroll payable | 1,443 | | 1,443 | |
| 322.000 | Accrued compensated absences | 3,187 | | 3,187 | |
| 333.000 | Accounts payable - other government | 9,409 | | 9,409 | |
| 341.000 | Tenant security deposits | 5,565 | | 5,565 | |
| 342.000 | Unearned revenue | 15 | | 15 | |
| 346.000 | Accrued liabilities - other | 559 | | 559 | |
| 310.000 | Total current liabilities | 21,262 | 0 | 21,262 | 0 |
| Noncurrent liabilities: | | | | | |
| 354.000 | Accrued compensated absences | 22,006 | | 22,006 | |
| 300.000 | Total liabilities | 43,268 | 0 | 43,268 | 0 |
| NET POSITION | | | | | |
| 508.400 | Net investment in capital assets | 468,633 | | 468,633 | |
| 512.400 | Unrestricted net position | 123,425 | | 123,425 | |
| 513.000 | Total net position | 592,058 | 0 | 592,058 | 0 |
| Total liabilities and net position | | | | | |
| | | 635,326 | 0 | 635,326 | 0 |

DESMET HOUSING AND REDEVELOPMENT COMMISSION
A COMPONENT UNIT OF THE CITY OF DESMET, SOUTH DAKOTA
DECEMBER 31, 2015

Financial Data Schedule

Financial Data Schedule (FDS)
For the One Year Ending December 31, 2015
Required by the Dept. of Housing
and Urban Development

| Line Item # | | Audit | | Reclass | Low Rent | Public |
|---|--|---|----------|---------|--|--|
| | | Low Rent Public Housing 12-31-15 | | | Housing Public CFDA # 14.850a 12-31-15 | Housing Capital Fund Program CFDA # 14.885 12-31-15 |
| REVENUE | | | | | | |
| 703.000 | Net tenant rental revenue | 123,214 | | | 123,214 | |
| 704.000 | Tenant revenue - other | 730 | | | 730 | |
| 706.000 | HUD operating grant | 0 | (39,642) | | 39,642 | |
| 711.000 | Investment income - unrestricted | 0 | (399) | | 399 | |
| 715.000 | Other revenue - management fee | 7,751 | 7,751 | | 0 | |
| 715.000 | Other revenue | 2,403 | (7,751) | | 10,154 | |
| 700.000 | Total revenue | 134,098 | (40,041) | | 174,139 | 0 |
| EXPENSES | | | | | | |
| Expenses - administrative: | | | | | | |
| 911.000 | Salaries | 14,493 | | | 14,493 | |
| 912.000 | Auditing fees | 2,400 | | | 2,400 | |
| 915.000 | Employee benefit contributions | 2,438 | | | 2,438 | |
| 916.000 | Office expenses | 9,981 | | | 9,981 | |
| Expenses - tenant services: | | | | | | |
| 924.000 | Other | 1,700 | | | 1,700 | |
| Expenses - utilities: | | | | | | |
| 931.000 | Water | 804 | | | 804 | |
| 932.000 | Electricity | 19,022 | | | 19,022 | |
| 933.000 | Gas | 7,781 | | | 7,781 | |
| 936.000 | Sewer | 588 | | | 588 | |
| 938.000 | Other | 930 | | | 930 | |
| Expenses - ordinary maint. & operation: | | | | | | |
| 941.000 | Labor | 32,287 | | | 32,287 | |
| 942.000 | Materials and other | 8,232 | | | 8,232 | |
| 943.000 | Ordinary maint. & operations contracts | 30,967 | | | 30,967 | |
| 945.000 | Employee benefit contributions | 4,683 | | | 4,683 | |
| Expenses - protective services: | | | | | | |
| 853.000 | Other | 0 | | | 0 | |
| Expenses - general: | | | | | | |
| 961.100 | Property | 13,588 | | | 13,588 | |
| 961.200 | Liability insurance | 150 | | | 150 | |
| 963.000 | Payment in lieu of taxes | 9,409 | | | 9,409 | |
| 964.000 | Bad debt = tenant rents | 528 | | | 528 | |
| Other expenses: | | | | | | |
| 974.000 | Depreciation | 68,577 | | | 68,577 | |
| 900.000 | Total expenses | 228,558 | 0 | | 228,558 | 0 |
| Other financing sources (uses): | | | | | | |
| 706.000 | HUD operating grant | 34,066 | 34,066 | | | |
| 711.000 | Investment income - unrestricted | 399 | 399 | | | |
| 10010.000 | Transfer in | 0 | (5,576) | | 5,576 | |
| 10020.000 | Transfer out | 0 | 5,576 | | (5,576) | |
| 10100.000 | Total other financing sources (uses): | 34,465 | 34,465 | | 0 | 0 |
| 10000.000 | Net income (loss) before contributions | (59,995) | (5,576) | | (54,419) | 0 |
| 706.100 | HUD capital grant | 5,576 | 5,576 | | | |
| | Change in net position | (54,419) | 0 | | (54,419) | 0 |
| NET POSITION | | | | | | |
| 1103.000 | Beginning | 646,477 | | | 646,477 | |
| | Ending | 592,058 | 0 | | 592,058 | 0 |

DeSMET HOUSING AND REDEVELOPMENT COMMISSION
 A COMPONENT UNIT OF THE CITY OF DeSMET, SOUTH DAKOTA
 DECEMBER 31, 2015

Financial Data Schedule (FDS)
 For the One Year Ending December 31, 2015
 Required by the Dept. of Housing
 and Urban Development (HUD)

| Line Item # | | Audit Business Activity 12-31-15 | Reclass | Financial Data Schedule 12-31-15 |
|------------------------------------|--|---|---------|---|
| ASSETS | | | | |
| Current assets: | | | | |
| 111.000 | Cash - unrestricted | 9,344 | | 9,344 |
| 114.000 | Cash - tenant security deposits | 8,165 | | 8,165 |
| 142.000 | Prepaid expenses and other assets | 2,140 | | 2,140 |
| 150.000 | Total current assets: | 19,649 | 0 | 19,649 |
| Noncurrent assets: | | | | |
| 161.000 | Land | 7,340 | | 7,340 |
| 162.000 | Buildings | 799,077 | | 799,077 |
| 166.000 | Accumulated depreciation | (317,936) | | (317,936) |
| 160.000 | Total non-current assets: | 488,481 | 0 | 488,481 |
| 190.000 | Total assets | 508,130 | 0 | 508,130 |
| LIABILITIES | | | | |
| Current liabilities: | | | | |
| 312.000 | Accounts payable <= 90 days | 68 | | 68 |
| 333.000 | Accounts payable - other government | 4,533 | | 4,533 |
| 341.000 | Tenant security deposits | 8,165 | | 8,165 |
| 343.000 | Current portion of long-term debt | 35,137 | (470) | 35,607 |
| 310.000 | Total current liabilities | 47,903 | (470) | 48,373 |
| 351.000 | Long-term debt, net of current portion | 480,860 | 312 | 480,548 |
| 300.000 | Total liabilities | 528,763 | (158) | 528,921 |
| NET POSITION | | | | |
| 508.400 | Net investment in capital assets | (27,515) | 159 | (27,674) |
| 512.400 | Unrestricted net position | 6,882 | (1) | 6,883 |
| 513.000 | Total net position | (20,633) | 158 | (20,791) |
| Total liabilities and net position | | 508,130 | 0 | 508,130 |

DESMET HOUSING AND REDEVELOPMENT COMMISSION
A COMPONENT UNIT OF THE CITY OF DESMET, SOUTH DAKOTA
DECEMBER 31, 2015

Financial Data Schedule (FDS)
For the One Year Ending December 31, 2015
Required by the Dept. of Housing
and Urban Development (HUD)

| Line Item # | | Audit Business Activity 12-31-15 | Reclass | Financial Data Schedule 12-31-15 |
|---|--|---|----------|---|
| REVENUE | | | | |
| 703.000 | Net tenant rental revenue | 92,205 | | 92,205 |
| 711.000 | Investment income - unrestricted | 0 | (7) | 7 |
| 700.000 | Total revenue | 92,205 | (7) | 92,212 |
| EXPENSES | | | | |
| Expenses - administrative: | | | | |
| 912.000 | Auditing fees | 800 | | 800 |
| 913.000 | Management fee | 7,751 | | 7,751 |
| 916.000 | Office expenses | 986 | | 986 |
| Expenses - utilities | | | | |
| 931.000 | Water | 1,362 | | 1,362 |
| 932.000 | Electricity | 132 | | 132 |
| 933.000 | Gas | 54 | | 54 |
| Expenses - ordinary maint. & operation: | | | | |
| 941.000 | Ordinary maint. & operations labor | 371 | | 371 |
| 942.000 | Materials and other | 2,386 | | 2,386 |
| 943.000 | Ordinary maint. & operations contracts | 9,924 | | 9,924 |
| Expenses - general: | | | | |
| 961.100 | Property insurance | 3,967 | | 3,967 |
| 963.000 | Payment in lieu of taxes | 4,533 | | 4,533 |
| 967.200 | Interest expense | 0 | (21,390) | 21,390 |
| Other expenses: | | | | |
| 974.000 | Depreciation | 21,650 | | 21,650 |
| 900.000 | Total expenses | 53,916 | (21,390) | 75,306 |
| Other financing sources (uses): | | | | |
| 711.000 | Investment income - unrestricted | 7 | 7 | 0 |
| 967.000 | Interest expense | (21,232) | (21,232) | 0 |
| 1010.000 | Total other financing sources (uses): | (21,225) | (21,225) | 0 |
| | Change in net position | 17,064 | 158 | 16,906 |
| NET POSITION | | | | |
| 11030.000 | Beginning | (37,697) | | (37,697) |
| | Ending | (20,633) | 158 | (20,791) |