



**Washington State Auditor's Office**

**Troy Kelley**

**Integrity • Respect • Independence**

**Financial Statements and Federal Single Audit  
Report**

**Housing Authority of Grays Harbor County**

**Grays Harbor County**

**For the period January 1, 2013 through December 31, 2013**

**Published September 2, 2014**

**Report No. 1012408**





**Washington State Auditor**  
**Troy Kelley**

September 2, 2014

Board of Directors  
Housing Authority of Grays Harbor County  
Aberdeen, Washington

**Report on Financial Statements and Federal Single Audit**

Please find attached our report on the Housing Authority of Grays Harbor County's financial statements and compliance with federal laws and regulations.

We are issuing this report in order to provide information on the Housing Authority's financial condition.

Sincerely,

TROY KELLEY  
STATE AUDITOR

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# Federal Summary

## Housing Authority of Grays Harbor County January 1, 2013 through December 31, 2013

The results of our audit of the Housing Authority of Grays Harbor County are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

### ***FINANCIAL STATEMENTS***

An unmodified opinion was issued on the financial statements of the business-type activities and the aggregate discretely presented component units.

#### ***Internal Control Over Financial Reporting:***

- ***Significant Deficiencies:*** We reported no deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.
- ***Material Weaknesses:*** We identified no deficiencies that we consider to be material weaknesses.

We noted no instances of noncompliance that were material to the financial statements of the Housing Authority.

### ***FEDERAL AWARDS***

#### ***Internal Control Over Major Programs:***

- ***Significant Deficiencies:*** We reported no deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.
- ***Material Weaknesses:*** We identified no deficiencies that we consider to be material weaknesses.

We issued an unmodified opinion on the Housing Authority's compliance with requirements applicable to each of its major federal programs.

We reported no findings that are required to be disclosed under section 510(a) of OMB Circular A-133.

***Identification of Major Programs:***

The following were major programs during the period under audit:

<u>CFDA No.</u>	<u>Program Title</u>
14.195	Section 8 Project-Based Cluster - Section 8 Housing Assistance Payments Program
14.871	Housing Voucher Cluster - Section 8 Housing Choice Vouchers
14.872	CFP Cluster - Public Housing Capital Fund (CFP)

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was \$300,000.

The Housing Authority did not qualify as a low-risk auditee under OMB Circular A-133.

**Independent Auditor’s 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***

**Housing Authority of Grays Harbor County  
January 1, 2013 through December 31, 2013**

Board of Directors  
Housing Authority of Grays Harbor County  
Aberdeen, Washington

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 business-type activities and the aggregate discretely presented component units of the Housing Authority of Grays Harbor County, Washington, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Housing Authority’s basic financial statements, and have issued our report thereon dated August 19, 2014.

Our report includes a reference to other auditors who audited the financial statements of the Housing Authority of Grays Harbor County – Emerson Manor Limited Partnership, as described in our report on the Authority’s financial statements. This report includes our consideration of the results of the other auditor’s testing of internal control over financial reporting and compliance and other matters that are reported on separately by those other auditors. However, this report, insofar as it relates to the results of the other auditors, is based solely on the reports of the other auditors.

***INTERNAL CONTROL OVER FINANCIAL REPORTING***

In planning and performing our audit of the financial statements, we considered the Housing Authority’s internal control over financial reporting (internal control) 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 Housing Authority’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Housing Authority’s internal control.

*A deficiency in internal control* 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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Housing Authority'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 attention by those charged with governance.

Our 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 our audit we and the other auditors did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

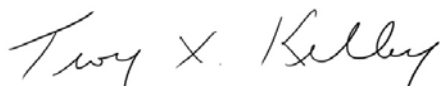
## ***COMPLIANCE AND OTHER MATTERS***

As part of obtaining reasonable assurance about whether the Housing Authority's financial statements are free from material misstatement, we performed tests of the Housing Authority's 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 and the report of the other auditors disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## ***PURPOSE OF THIS REPORT***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Housing Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Housing Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



**TROY KELLEY**  
STATE AUDITOR

August 19, 2014

# **Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance in Accordance with OMB Circular A-133**

**Housing Authority of Grays Harbor County  
January 1, 2013 through December 31, 2013**

Board of Directors  
Housing Authority of Grays Harbor County  
Aberdeen, Washington

## ***REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM***

We have audited the compliance of the Housing Authority of Grays Harbor County, Washington, 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 each of its major federal programs for the year ended December 31, 2013. The Housing Authority's major federal programs are identified in the accompanying Federal Summary.

### ***Management's Responsibility***

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

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the Housing Authority's major federal programs 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 Housing Authority'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 each major federal program. Our audit does not provide a legal determination on the Housing Authority's compliance.



### ***Opinion on Each Major Federal Program***

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

### ***REPORT ON INTERNAL CONTROL OVER COMPLIANCE***

Management of the Housing Authority 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 Housing Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each 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 Housing Authority's internal control over compliance.

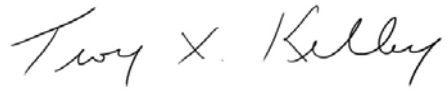
*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement 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 a 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 attention by 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 that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### ***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. However, this report is a matter of public record and its distribution is not limited. It

also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in cursive script that reads "Troy X. Kelley".

**TROY KELLEY**  
STATE AUDITOR

August 19, 2014

# Independent Auditor's Report on Financial Statements

## Housing Authority of Grays Harbor County January 1, 2013 through December 31, 2013

Board of Directors  
Housing Authority of Grays Harbor County  
Aberdeen, Washington

### ***REPORT ON THE FINANCIAL STATEMENTS***

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of the Housing Authority of Grays Harbor County, Washington, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Housing Authority's basic financial statements as listed on page 14.

#### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Housing Authority of Grays Harbor County – Emerson Manor Limited Partnership, which represents 100 percent of the assets, net assets, and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Housing Authority of Grays Harbor County – Emerson Manor Limited Partnership, is based on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor

considers internal control relevant to the Housing Authority'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 Housing Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### ***Opinion***

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of the Housing Authority of Grays Harbor County, as of December 31, 2013, and the respective changes in financial position and, where applicable, 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 on pages 15 through 20 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We and the other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

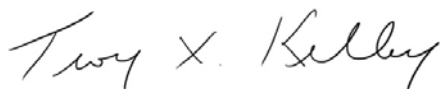
#### ***Supplementary and Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Housing Authority's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The accompanying Financial Data Schedule is supplementary information required by HUD. These schedules are 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 by us and other auditors. In our opinion, based on our audit, the procedures performed as described above, and the report of the other auditors, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

***OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS***

In accordance with *Government Auditing Standards*, we have also issued our report dated August 19, 2014 on our consideration of the Housing Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Housing Authority's internal control over financial reporting and compliance.



**TROY KELLEY**  
STATE AUDITOR

August 19, 2014

# Financial Section

## Housing Authority of Grays Harbor County January 1, 2013 through December 31, 2013

### ***REQUIRED SUPPLEMENTARY INFORMATION***

Management's Discussion and Analysis – 2013

### ***BASIC FINANCIAL STATEMENTS***

Statement of Net Position – 2013

Statement of Revenues, Expenses and Changes in Fund Net Position – 2013

Statement of Cash Flows – 2013

Notes to Financial Statements – 2013

### ***SUPPLEMENTARY AND OTHER INFORMATION***

Schedule of Expenditures of Federal Awards – 2013

Notes to the Schedule of Expenditures of Federal Awards – 2013

Financial Data Schedules - 2013

**HOUSING AUTHORITY OF GRAYS HARBOR COUNTY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
December 31, 2013

As management of the Housing Authority of Grays Harbor County ("Housing Authority"), we offer readers of the Housing Authority's financial statements this narrative overview and analysis of the financial activities of the Housing Authority for the year ended December 31, 2013. We encourage readers to consider the information presented here in conjunction with the Housing Authority's financial statements.

**Financial Highlights**

Net Position

- At December 31, 2013, the Housing Authority's assets exceeded its liabilities (net position) by approximately \$9.6 million. Of this amount, \$2,485,784 (unrestricted net position) may be used to meet the Housing Authority's ongoing obligations to citizens and creditors. Total net position at December 31, 2013 increased from the previous year by \$111,167.
- At December 31, 2013, the Housing Authority's component unit's assets exceeded its liabilities by approximately \$2.0 million, which represents a decrease of \$53,474 from the previous year's net position. The Component Unit had unrestricted net position of \$92,185 at December 31, 2013.

Unrestricted Cash

- The Housing Authority's unrestricted cash balances decreased from the previous year by approximately \$185,000 and totaled \$1,949,602 at the end of the fiscal year.
- The Component Unit's unrestricted cash balances increased from the previous year by approximately \$4,500 and totaled \$217,527 at the end of the fiscal year.

Capital Assets

- During the year ended December 31, 2013, the Housing Authority acquired or constructed capital assets with costs totaling \$692,782, including rehabilitation of its existing Low Rent Public Housing units, acquisition of vehicles and office equipment and preliminary costs toward the acquisition of a new apartment complex. The Component Unit had no capital asset additions during 2013.

Revenues and Expenses

- The Housing Authority's total revenues for the year ended December 31, 2013 of approximately \$3.5 million decreased from the prior year by \$161,300, and capital contributions of approximately \$560,000 increased from the prior year by approximately \$160,000. Total expenses for the year of approximately \$4.0 million, including depreciation and amortization of \$596,951, increased from the prior year by about \$179,400. These activities resulted in an increase in net position for the year ended December 31, 2013 of \$111,167.
- The Component Unit's total revenues for the year ended December 31, 2013 of approximately \$483,000 increased from the prior year by \$14,500. Total expenses for the year of \$536,000, including depreciation and amortization of \$106,179, decreased from the prior year by about \$4,900. These activities resulted in a decrease in net position for the year ended December 31, 2013 of \$53,474.

**HOUSING AUTHORITY OF GRAYS HARBOR COUNTY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

December 31, 2013

**Overview of the Financial Statements**

The financial statements included in this report are those of a special-purpose government engaged only in business-type activities. The following statements are included:

- Statement of Net Position -- reports the Housing Authority's current financial resources (short-term spendable resources) with capital assets and long-term debt obligations.
- Statement of Revenues, Expenses, and Changes in Fund Net Position -- reports the Housing Authority's operating and non-operating revenues by major source, along with operating and non-operating expenses and other changes in net position.
- Statement of Cash Flows -- reports the Housing Authority's cash flows from operating, investing, and capital and non-capital financing activities.

**Financial Analysis of the Housing Authority**

The Housing Authority has presented its financial statements under the reporting model required by the Governmental Accounting Standards Board. Prior year comparative information for this reporting period has been included in the following information to increase its usefulness.

The following table summarizes net position at December 31, 2013 and 2012:

**CONDENSED STATEMENTS OF NET POSITION**

**PRIMARY GOVERNMENT:**

	<u>2013</u>	<u>2012</u>
<b>Assets</b>		
Current and other assets	\$ 3,075,591	\$ 3,011,521
Capital assets	8,086,290	7,987,759
Total assets	<u>\$ 11,161,881</u>	<u>\$ 10,999,280</u>
<b>Liabilities</b>		
Current liabilities	\$ 412,019	\$ 337,481
Non-current liabilities	1,155,310	1,178,414
Total liabilities	<u>1,567,329</u>	<u>1,515,895</u>
<b>Net Position</b>		
Net investment in capital assets	6,882,334	6,787,348
Restricted	226,434	303,410
Unrestricted	2,485,784	2,392,627
Total net position	<u>9,594,552</u>	<u>9,483,385</u>
Total liabilities and net position	<u>\$ 11,161,881</u>	<u>\$ 10,999,280</u>



**HOUSING AUTHORITY OF GRAYS HARBOR COUNTY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
December 31, 2013

**CONDENSED STATEMENTS OF NET POSITION (CONT.)**

**COMPONENT UNIT:**

	<u>2013</u>	<u>2012</u>
<b>Assets</b>		
Current and other assets	\$ 459,429	\$ 438,851
Capital assets	2,686,382	2,791,059
Total assets	<u>\$ 3,145,811</u>	<u>\$ 3,229,910</u>
<b>Liabilities</b>		
Current liabilities	\$ 209,991	\$ 195,622
Non-current liabilities	950,225	995,219
Total liabilities	<u>1,160,216</u>	<u>1,190,841</u>
<b>Net Position</b>		
Net investment in capital assets	1,692,885	1,758,795
Restricted	200,525	185,520
Unrestricted	92,185	94,754
Total net position	<u>1,985,595</u>	<u>2,039,069</u>
Total liabilities and net position	<u>\$ 3,145,811</u>	<u>\$ 3,229,910</u>

At December 31, 2013, the Housing Authority's current assets exceed current liabilities by \$2,507,572, for a current ratio of 7.1. The Component Unit's current assets exceed its current liabilities by \$39,321, resulting in a current ratio of 1.2. The current ratio is a measure of the ability to pay debts as they become due.

The following table summarizes changes in net position for the years ended December 31, 2013 and 2012:

**CONDENSED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION**

**PRIMARY GOVERNMENT:**

	<u>2013</u>	<u>2012</u>
<b>Revenues</b>		
Operating revenue:		
Rental revenue	\$ 1,245,912	\$ 1,206,508
Miscellaneous income	121,276	121,268
Non-operating revenue:		
Operating grants	2,139,022	2,344,182
Other non-operating revenue	11,103	6,644
Total revenues	<u>3,517,313</u>	<u>3,678,602</u>
<b>Expenses</b>		
Operating expenses	3,930,906	3,750,497
Interest expense	35,118	36,165
Total expenses	<u>3,966,024</u>	<u>3,786,662</u>
Loss before capital contributions	(448,711)	(108,060)
Capital contributions--HUD capital grants	<u>559,878</u>	<u>400,351</u>
Increase in net position	111,167	292,291
<b>Total Net Position, beginning of year</b>	<u>9,483,385</u>	<u>9,191,094</u>
<b>Total Net Position, end of year</b>	<u>\$ 9,594,552</u>	<u>\$ 9,483,385</u>

**HOUSING AUTHORITY OF GRAYS HARBOR COUNTY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
December 31, 2013

**CONDENSED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION (CONT.)**

**COMPONENT UNIT:**

	<b>2013</b>	<b>2012</b>
<b>Revenues</b>		
Operating revenue:		
Rental revenue	\$ 243,622	\$ 252,984
Miscellaneous income	4,968	5,925
Non-operating revenue:		
Operating grants	234,498	209,575
Other non-operating revenue	141	264
Total revenues	483,229	468,748
<b>Expenses</b>		
Operating expenses	504,516	499,207
Interest expense	31,468	41,716
Total expenses	535,984	540,923
Loss before distributions to owners	(52,755)	(72,175)
Distributions to owners	(719)	(3,442)
Decrease in net position	(53,474)	(75,617)
<b>Net Position</b> , beginning of year	2,039,069	2,114,686
<b>Net Position</b> , end of year	\$ 1,985,595	\$ 2,039,069

Overall, the financial condition of the Housing Authority improved, with an increase to net position of \$111,167. The financial condition of the component unit deteriorated slightly, with net position decreasing by \$53,474. The Housing Authority's operating revenue increased approximately 3.0% over the prior year, while operating expenses increased approximately 4.8%, resulting in an increase in net operating loss of 5.8%. The Component Unit's operating revenue decreased 4.0% over the prior year, while its operating expenses increased 1.1%, resulting in an increase in net operating loss of 6.5%.

The Housing Authority's revenues are derived from various sources with approximately 60.8% received directly from the U.S. Department of Housing and Urban Development (HUD), 38.9% generated from the rental and management of Housing Authority-owned properties, and 0.3% from other sources. The Component Unit's revenues consist of 48.5% received directly from HUD, 51.5% generated from rental of the Emerson Manor project, and 0.0% from other sources.

The Housing Authority's most significant operating expenses are salaries, employee benefits and taxes, housing assistance payments, maintenance and operations, depreciation and amortization, and utilities. The Component Unit's most significant operating expenses are maintenance and operations, depreciation and amortization, utilities and management fees.

The Housing Authority's salaries expense increased 11.0% from the prior year and was 25.6% of total revenues and 22.9% of operating expenses for the year ended December 31, 2013. This increase is primarily due to adding new staff, along with the normal salary increases during 2013.

The Housing Authority's employee benefits and taxes, representing 10.6% of total revenues and 9.5% of operating expenses for the year ended December 31, 2013, increased 20.3% from the prior year, primarily due to increases in health insurance premiums and payroll tax rates.

**HOUSING AUTHORITY OF GRAYS HARBOR COUNTY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

December 31, 2013

The Housing Authority's housing assistance payments, representing 32.9% of total revenues and 29.5% of operating expenses for the year ended December 31, 2013, increased 0.3% from the prior year due primarily to the normal fluctuations in subsidy needs based on the number of bedrooms per unit and the tenant income levels. The housing assistance payments are budgeted to be fully funded by operating subsidies from HUD, which are included in non-operating revenues.

The Housing Authority's maintenance and operations expense, representing 7.8% of total revenues and 7.0% of operating expenses for the year ended December 31, 2013, increased 13.5% from the prior year. This increase is due primarily to additional maintenance needed for the Low Rent Public Housing projects and the Riverside III apartment complex in 2013 that wasn't necessary in 2012. The Component Unit's maintenance and operations expense, representing 21.6% of total revenues and 20.7% of operating expenses for the year ended December 31, 2013, decreased 2.8% from the prior year. This decrease occurred primarily because building leaks that needed to be repaired and carbon monoxide detectors installed in all units during 2012 wasn't necessary in 2013. The Housing Authority and the Component Unit are committed to maintaining their existing projects in exceptional condition.

The Housing Authority's depreciation and amortization, representing 17.0% of total revenues and 15.2% of operating expenses for the year ended December 31, 2013, increased 5.1% from the prior year due to capital asset additions in 2013. The Component Unit's depreciation and amortization, representing 22.0% of total revenues and 21.0% of operating expenses for the year ended December 31, 2013, increased 1.1% from the prior year, primarily due to additional amortization of loan fees in 2013 as a result of refinancing the bank loan.

The Housing Authority's utilities expense, representing 9.9% of total revenues and 8.9% of operating expenses for the year ended December 31, 2013, decreased 9.4% from the prior year, primarily due to a lower rate schedule established by the Grays Harbor PUD in July 2012. The Component Unit's utilities expense, representing 11.2% of total revenues and 10.7% of operating expenses for the year ended December 31, 2013, increased 3.8% from the prior year, primarily due to higher sewer rates that had gone in to effect during 2012 and higher electricity rates that went into effect in 2013.

The Component Unit's management fees, representing 22.6% of total revenues and 21.7% of operating expenses for the year ended December 31, 2013, decreased 1.7% from the prior year. This decrease occurred based on the results of Emerson Manor's operations; therefore, the property management company earned slightly higher management fees in accordance with the property management contract, but the Housing Authority earned lower management fees in accordance with the terms of the Limited Partnership Agreement.

### **Capital asset and debt administration**

#### *Capital assets*

Detailed information regarding the Housing Authority's capital assets may be found in Note 6 to the financial statements. The following table summarizes the changes in capital assets between fiscal years 2013 and 2012:

**HOUSING AUTHORITY OF GRAYS HARBOR COUNTY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

December 31, 2013

**PRIMARY GOVERNMENT**

	<u>January 1, 2013</u>	<u>December 31, 2013</u>	<u>Net Change</u>
Land and land improvements	\$ 2,059,162	\$ 2,075,333	\$ 16,171
Buildings and improvements	20,737,141	21,306,390	569,249
Equipment and vehicles	<u>543,042</u>	<u>582,368</u>	<u>39,326</u>
Totals	23,339,345	23,964,091	624,746
Accumulated depreciation	<u>(15,351,586)</u>	<u>(15,877,801)</u>	<u>(526,215)</u>
Capital assets, net	<u>\$ 7,987,759</u>	<u>\$ 8,086,290</u>	<u>\$ 98,531</u>

**COMPONENT UNIT**

	<u>January 1, 2013</u>	<u>December 31, 2013</u>	<u>Net Change</u>
Land and land improvements	\$ 289,914	\$ 289,914	\$ -
Buildings and improvements	3,640,109	3,640,109	-
Equipment and vehicles	<u>148,459</u>	<u>148,459</u>	<u>-</u>
Totals	4,078,482	4,078,482	-
Accumulated depreciation	<u>(1,287,423)</u>	<u>(1,392,100)</u>	<u>(104,677)</u>
Capital assets, net	<u>\$ 2,791,059</u>	<u>\$ 2,686,382</u>	<u>\$ (104,677)</u>

The Housing Authority has a preventative maintenance program to preserve the value and extend the life of its housing assets, as well as those of its component unit. The Housing Authority invested \$175,925 in repairs, maintenance, and minor capital replacements for its buildings and equipment during 2013. The Component Unit invested \$96,287 in repairs, maintenance, and minor capital replacements for the Emerson Manor project. Additionally, the Housing Authority and the Component Unit set aside cash in capital replacement reserves for future expenditures.

The Housing Authority's change in capital assets consists of improvements to the Low Rent Public Housing properties totaling \$559,878, the acquisition of four vehicles for \$86,511 and office equipment for \$20,851, and preliminary costs paid for the acquisition of a new apartment complex totaling \$25,542. During 2013, the Housing Authority disposed of equipment with an original cost of \$68,036.

***Long-term debt***

The Housing Authority typically issues various types of debt obligations, including installment notes, deferred notes, mortgages and revenue bonds to finance the acquisition and rehabilitation of its properties. Detailed information regarding the outstanding long-term debt of the Housing Authority and the Component Unit may be found in Note 7 to the financial statements.

At December 31, 2013, the Housing Authority had long-term debt outstanding in the amount of \$1.18 million, and the Component Unit had outstanding long-term debt of \$993,500. The Housing Authority's primary government had no new debt during the year ended December 31, 2013. During 2013, the Housing Authority's component unit refinanced its bank loan, reducing its interest rate from 7.25% per annum to 4.5% per annum.

**Contacting the Housing Authority's Financial Management**

The financial report is designed to provide a general overview of the Housing Authority's finances for all those with an interest. Questions concerning any of the information should be addressed to the Executive Director of the Housing Authority of Grays Harbor County. The Housing Authority's offices are located at 602 E. 1<sup>st</sup> Street, Aberdeen, Washington 98520. The telephone number is (360) 532-0570.

# HOUSING AUTHORITY OF GRAYS HARBOR COUNTY

## STATEMENT OF NET POSITION

December 31, 2013

### ASSETS

	<u>PRIMARY GOVERNMENT</u>	<u>COMPONENT UNIT</u>
<b>CURRENT ASSETS:</b>		
Cash	\$ 1,949,602	\$ 217,527
Investments	284,222	-
Restricted cash and investments	147,092	13,044
Accounts receivable	399,341	3,128
Due from component unit	125,512	-
Inventory	9,907	-
Prepaid expenses	3,915	15,613
Total current assets	<u>2,919,591</u>	<u>249,312</u>
<b>NONCURRENT ASSETS:</b>		
Restricted cash and investments--noncurrent	156,000	200,525
Property and equipment--net	8,060,748	2,686,382
Other assets	25,542	9,592
Total noncurrent assets	<u>8,242,290</u>	<u>2,896,499</u>
Total assets	<u>\$ 11,161,881</u>	<u>\$ 3,145,811</u>

### LIABILITIES AND NET POSITION

<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 145,142	\$ 17,620
Accrued payroll and taxes	74,208	-
Accrued compensated absences	81,211	-
Tenant security deposits	76,658	13,044
Unearned revenue	8,995	2,379
Due to primary government	-	125,512
Accrued interest payable	2,701	4,004
Distributions payable	-	4,160
Current portion of long-term debt	23,104	43,272
Total current liabilities	<u>412,019</u>	<u>209,991</u>
<b>LONG-TERM DEBT--net of current portion</b>	<u>1,155,310</u>	<u>950,225</u>
Total liabilities	<u>1,567,329</u>	<u>1,160,216</u>
<b>NET POSITION:</b>		
Net investment in capital assets	6,882,334	1,692,885
Restricted for:		
Operating deficits	133,500	-
Capital replacements	22,500	200,525
Housing assistance payments	70,434	-
Unrestricted	2,485,784	92,185
Total net position	<u>9,594,552</u>	<u>1,985,595</u>
Total liabilities and net position	<u>\$ 11,161,881</u>	<u>\$ 3,145,811</u>

The accompanying notes are an integral part of this financial statement.

**HOUSING AUTHORITY OF GRAYS HARBOR COUNTY**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION**  
For the year ended December 31, 2013

	<b>PRIMARY GOVERNMENT</b>	<b>COMPONENT UNIT</b>
<b>OPERATING REVENUES:</b>		
Tenant rental revenue	\$ 1,245,912	\$ 166,216
Management fee revenue	26,960	-
Commercial rental revenue	-	77,406
Miscellaneous income	94,316	4,968
Total operating revenues	1,367,188	248,590
<b>OPERATING EXPENSES:</b>		
Salaries	898,865	-
Employee benefits and taxes	373,152	-
Housing assistance payments	1,157,822	-
Maintenance and operations	273,966	104,272
Management fees	-	109,346
Administration	-	25,903
Utilities	349,967	54,102
Telephone	27,872	6,456
Office	44,016	4,772
Professional services	74,260	33,766
Insurance	46,406	41,031
Training and travel	16,395	881
Fees & charges	10,171	4,350
Operating expenses	9,528	760
Protective services	11,558	9,787
Depreciation and amortization	596,951	106,179
Bad debts	34,182	338
Advertising	4,564	498
Miscellaneous expense	1,231	2,075
Total operating expenses	3,930,906	504,516
Operating loss	(2,563,718)	(255,926)
<b>NON-OPERATING REVENUES (EXPENSES):</b>		
HUD operating grants	2,139,022	234,498
Interest income	6,373	141
Interest expense	(35,118)	(31,468)
Gain on sale of assets	4,730	-
Net non-operating revenues (expenses)	2,115,007	203,171
Loss before capital contributions and distributions	(448,711)	(52,755)
Capital contributions--HUD capital grants	559,878	-
Distributions to owners	-	(719)
<b>INCREASE (DECREASE) IN NET POSITION</b>	111,167	(53,474)
<b>TOTAL NET POSITION, beginning of year</b>	9,483,385	2,039,069
<b>TOTAL NET POSITION, end of year</b>	\$ 9,594,552	\$ 1,985,595

The accompanying notes are an integral part of this financial statement.

# HOUSING AUTHORITY OF GRAYS HARBOR COUNTY

## STATEMENT OF CASH FLOWS For the year ended December 31, 2013

	<b>PRIMARY GOVERNMENT</b>	<b>COMPONENT UNIT</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from tenants	\$ 1,314,395	\$ 248,011
Cash payments to suppliers for goods and services	(2,175,812)	(369,579)
Cash payments to employees for services	(1,058,260)	-
Net cash used by operating activities	(1,919,677)	(121,568)
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:</b>		
Operating grants received	2,139,022	235,244
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Purchases of property and equipment	(692,782)	-
Proceeds from sales of property and equipment	4,730	-
Principal payments on long-term debt	(21,995)	(43,235)
Loan fees paid on refinancing of notes payable	-	(1,800)
Interest paid on bonds and notes	(35,202)	(28,105)
Capital grants received	263,861	-
Distributions paid to owners	-	(21,425)
Net cash used by capital and related financing activities	(481,388)	(94,565)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Net cash received from (deposited into) restricted funds	74,086	(14,798)
Interest income received	6,373	141
Interest income reinvested in investments	(3,836)	-
Net cash received (used) by investing activities	76,623	(14,657)
<b>NET INCREASE (DECREASE) IN CASH</b>	(185,420)	4,454
<b>CASH, beginning of year</b>	2,135,022	213,073
<b>CASH, end of year</b>	\$ 1,949,602	\$ 217,527
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:</b>		
Operating loss	\$ (2,563,718)	\$ (255,926)
Adjustments to reconcile operating loss to net cash used by operating activities--		
Depreciation and amortization	596,951	106,179
(Increase) decrease in--		
Accounts receivable--operating	1,269	(1,721)
Due from component unit	(27,277)	-
Prepaid expenses	(415)	(53)
Increase (decrease) in--		
Accounts payable--operating	66,250	1,196
Accrued payroll and taxes	(1,733)	-
Accrued compensated absences	1,915	-
Tenant security deposits	2,891	(207)
Unearned revenue--operating	4,190	1,687
Due to primary government	-	27,277
Net cash used by operating activities	\$ (1,919,677)	\$ (121,568)

The accompanying notes are an integral part of this financial statement.

# HOUSING AUTHORITY OF GRAYS HARBOR COUNTY

## NOTES TO FINANCIAL STATEMENTS

December 31, 2013

### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

This summary of the major accounting policies of the Housing Authority of Grays Harbor County (HAGH) is presented to assist the reader in evaluating the Authority's financial statements.

a. Nature of business--

The Housing Authority of Grays Harbor County (HAGH) was established in 1951 by a Grays Harbor County resolution and operates under the laws of the State of Washington applicable to Housing Authorities (Chapter 35.82 RCW). During 2013, the Housing Authority received funding under four federal programs administered by the U. S. Department of Housing and Urban Development (HUD)--the Section 8 Housing Choice Vouchers Program, the Section 8 Housing Assistance Payments Program, the Low Rent Public Housing Program, and the Public Housing Capital Fund Program.

b. Basis of accounting and reporting--

The financial statements have been prepared in accordance with U.S. generally accepted accounting principles, using the accrual basis of accounting and the economic resources measurement focus. Revenues are recognized when earned, and expenses are recorded when incurred. All activities of HAGH have been included in these financial statements.

The Housing Authority applies all Governmental Accounting Standards Board (GASB) pronouncements and implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, for preparation of the 2013 financial statements.

c. Component units--

As discussed in Note 11, the Housing Authority is the general partner of the HAGH-Emerson Manor Limited Partnership with sole control and management of the Partnership. Also, both entities have the same Board of Commissioners. Because the Housing Authority exercises significant influence over the Partnership, the Partnership is a component unit of the Housing Authority.

The Partnership has issued separately audited financial statements. The financial statements of the Partnership may be obtained by contacting the Housing Authority of Grays Harbor County at 602 E. First Street, Aberdeen, WA 98520. The accompanying financial statements present the Housing Authority (primary government) and its component unit (the Partnership). The component unit is discretely presented in a separate column.

Certain reported amounts on the Partnership's audited financial statements have been adjusted or reclassified to conform to the Housing Authority's financial statement presentation.

d. Programs--

The following are the federal programs administered by HAGH and included in these financial statements.



# HOUSING AUTHORITY OF GRAYS HARBOR COUNTY

## NOTES TO FINANCIAL STATEMENTS (CONT.)

December 31, 2013

### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.):**

1. Section 8 Housing Choice Vouchers Program

The Housing Authority began administering the Section 8 rental subsidy program in 1989. HUD enters into an Annual Contributions Contract (ACC) with the Housing Authority to provide funding for assisting eligible low-income families to obtain decent, safe and sanitary housing. The tenant pays a portion of the contract rent based on the tenant family's income. The balance of the rent is paid to the unit owner by the Housing Authority, as established in a housing assistance payments contract.

2. Low Rent Public Housing Program

The Low Rent Public Housing Program is also a rental subsidy program designed to provide decent, safe and sanitary housing for eligible low-income families and the elderly. HUD enters into an ACC with the Housing Authority to provide funding for the operation and maintenance of housing projects that are owned by the Housing Authority. The rent paid by the tenant to the Housing Authority is based on the income of the tenant family.

3. Public Housing Capital Fund Program

The Public Housing Capital Fund Program provides funding to improve the physical condition, and to upgrade the management and operation of existing public housing projects. An annual grant is awarded by HUD according to physical need, and management and modernization capability. The amount of the grant is determined based upon modernization budgets that are approved by HUD.

4. Section 8 Housing Assistance Payments Program

The Section 8 Housing Assistance Payments Program is a project-based rental subsidy program designed to provide decent, safe and sanitary housing for eligible low-income tenants of Emerson Manor, a 59-unit senior housing complex in Hoquiam, Washington that was acquired by the Housing Authority in 2000 (See Note 11) and Riverside III, a 20-unit housing complex in Aberdeen, Washington that was acquired by the Housing Authority in 2002 (See Note 7c). HUD enters into an annual housing assistance payments (HAP) contract with the Housing Authority (Riverside III) and the HAGH-Emerson Manor Limited Partnership (Emerson Manor), whereby all tenants of these complexes must meet the program's eligibility requirements. The tenant pays a portion of the contract rent, as stipulated in the HAP contract, based on the tenant's income. The balance of the rent is paid to the Limited Partnership or the Housing Authority, as applicable, by HUD based on a HAP report submitted monthly.

e. Accounts receivable--

The direct write-off method is used for bad debt write-offs rather than an allowance for doubtful accounts, as required by U.S. generally accepted accounting principles. Actual write-offs are generally less than one percent of rental income. Therefore, any difference in the method of recording bad debts is considered to be immaterial.

f. Inventory--

Inventory consisting of maintenance supplies is recorded at cost on a first-in, first-out basis.

# HOUSING AUTHORITY OF GRAYS HARBOR COUNTY

## NOTES TO FINANCIAL STATEMENTS (CONT.)

December 31, 2013

### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.):**

g. Property and equipment--

Purchased property and equipment is stated at cost. Donated property and equipment is recorded at fair market value as of the date of the donation. The Housing Authority's policy is to capitalize property and equipment greater than \$5,000. Major expenditures that substantially increase useful lives of existing property are capitalized. Repairs, maintenance and minor renewals are expensed when incurred. When assets are retired or disposed of, their costs and related accumulated depreciation are removed from the books, and the resulting gain or loss is included in income.

Property and equipment are being depreciated on a straight-line basis over their estimated useful lives, which are as follows:

Land improvements	5 to 20 years
Buildings and improvements	7 to 40 years
Equipment	5 to 10 years
Vehicles	5 years

h. Federal income taxes--

The Housing Authority is a municipal corporation and is, therefore, exempt from federal income taxes. The component unit is a limited partnership. Accordingly, all tax effects of the Partnership's income or loss are passed through to its partners individually.

i. Cash and cash equivalents--

For purposes of the statement of cash flows, the Housing Authority considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. At December 31, 2013, there are no cash equivalents.

j. Use of estimates--

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

k. Accrued compensated absences--

All regular full-time and part-time employees are eligible to accrue annual leave based upon length of employment. All regular full-time employees also receive sick leave at a rate of 8 hours per month. Regular part-time employees receive sick leave at a prorated rate. All of the accumulated annual leave up to 240 hours plus one-half of the accumulated sick leave up to a maximum of 240 hours payable is paid to employees upon termination of employment. The total compensated absences payable upon termination as of December 31, 2013 has been accrued in the financial statements.

l. Public support and revenues--

The Housing Authority receives a substantial amount of its funding from HUD. In the event that HUD would discontinue its support because of budget cuts, the Housing Authority could experience a significant loss of support.

# HOUSING AUTHORITY OF GRAYS HARBOR COUNTY

## NOTES TO FINANCIAL STATEMENTS (CONT.)

December 31, 2013

### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.):**

m. Operating revenues and expenses--

The Housing Authority reports operating revenues as defined in GASB Statement No. 9. Operating revenues generally result from fees and charges from providing services in connection with the ongoing operations of providing low-income housing. Operating subsidies and grants are reported as non-operating revenues and are presented as cash flows from non-capital financing activities in the statement of cash flows. Capital grants are reported as capital contributions and are presented as cash flows from capital and related financing activities in the statement of cash flows. Operating expenses are those expenses that are directly incurred in the operation of providing low-income housing.

### **NOTE 2 - RESTRICTED CASH AND INVESTMENTS:**

Restricted cash and investments includes the following--

a. Tenant security deposits

Tenants are required to pay a security deposit at the time they move into one of the Housing Authority's developments. The security deposits are refundable, provided that the unit's physical condition is satisfactory at the time the tenant moves out. One of the Housing Authority's certificates of deposits is reserved to cover the total security deposits payable to tenants of the Public Housing developments. Separate security deposit checking accounts have been established for Sunset Villa, for Emerson Manor and for Riverside III.

b. Housing assistance payments

Under the Section 8 Housing Choice Vouchers Program, HUD provides funding for housing assistance payments (HAP) based on the prior year's utilization, with monthly adjustments for actual utilization during the current year. Unspent HAP funds are restricted for future HAP expenses only.

c. Replacement and operating reserves

Under the HAGH-Emerson Manor Limited Partnership's partnership agreement, the Partnership is required to maintain a replacement reserve with minimum monthly deposits of \$21 per apartment unit beginning in the first month after the completion of the rehabilitation of Emerson Manor, which occurred in March 2001. In accordance with the partnership agreement, disbursements from the replacement reserve in excess of \$25,000 that are not included in the approved annual budget must be preapproved by the Partnership's Special Limited Partner. At December 31, 2013, the replacement reserve had a balance of \$200,525.

The Washington State Department of Commerce also requires that the Housing Authority maintain a replacement reserve of \$22,500 and an operating reserve of \$25,000 for the Riverside III apartment complex.

d. Cash collateral account

The Housing Authority is also required, under an agreement with the HAGH-Emerson Manor Limited Partnership's Investment Limited Partner, to maintain a cash collateral account as an operating reserve to pay operating deficits of the Emerson Manor project as needed. The Investment Limited Partner has a security interest in this account.

# HOUSING AUTHORITY OF GRAYS HARBOR COUNTY

## NOTES TO FINANCIAL STATEMENTS (CONT.)

December 31, 2013

**NOTE 2 - RESTRICTED CASH AND INVESTMENTS (CONT.):**

At December 31, 2013, restricted cash and investments consist of the following--

	<b>PRIMARY GOVERNMENT</b>	<b>COMPONENT UNIT</b>
Tenant security deposits	\$ 76,658	\$ 13,044
Housing assistance payments	70,434	-
Replacement reserves	22,500	200,525
Operating reserve	25,000	-
Cash collateral account	108,500	-
Total restricted cash and investments	303,092	213,569
Restricted cash and investments--current (security deposits & housing assistance payments)	(147,092)	(13,044)
Restricted cash and investments--noncurrent	\$ 156,000	\$ 200,525

**NOTE 3 - CASH AND INVESTMENTS:**

The Housing Authority's and the Limited Partnership's deposits and investments are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission. As a result, there is no custodial credit risk for any of the Housing Authority's or the Limited Partnership's cash and investments.

As required by Washington State law, the Housing Authority's and the HAGH-Emerson Manor Limited Partnership's investments are limited to obligations of the U.S. Government, U.S. agency issues, obligations of the State of Washington, general obligations of Washington State municipalities, or certificates of deposit with Washington State banks and savings and loan institutions. As of December 31, 2013, all of the Housing Authority's and Limited Partnership's investments are in certificates of deposit with Washington State banks. The investments are recorded at cost plus accrued interest earnings, which approximates fair value. Management intends to hold the time deposits until maturity.

Because Washington State law limits the Housing Authority's and the Limited Partnership's deposits and investments to those with no risk of loss, the Housing Authority and the Limited Partnership have no policies addressing custodial credit risk for deposits and investments.

At December 31, 2013, unrestricted cash consists of the following--

	<b>PRIMARY GOVERNMENT</b>	<b>COMPONENT UNIT</b>
Savings and checking accounts	\$ 1,949,477	\$ 217,527
Petty cash	125	-
Total cash	\$ 1,949,602	\$ 217,527

At December 31, 2013, investments consists of the following--

	<b>PRIMARY GOVERNMENT</b>	<b>COMPONENT UNIT</b>
Certificates of deposit	\$ 399,102	\$ -
Less restricted investments--tenant security deposits & reserves	(114,880)	-
Net investments	\$ 284,222	\$ -

# HOUSING AUTHORITY OF GRAYS HARBOR COUNTY

## NOTES TO FINANCIAL STATEMENTS (CONT.)

December 31, 2013

**NOTE 4 - ACCOUNTS RECEIVABLE:**

At December 31, 2013, accounts receivable consists of the following--

	PRIMARY GOVERNMENT	COMPONENT UNIT
Tenant accounts receivable	\$ 6,740	\$ 2,606
Accounts receivable--HUD	387,569	365
Accounts receivable--fraud recovery	456	-
Accounts receivable--other	4,576	157
Total accounts receivable	\$ 399,341	\$ 3,128

**NOTE 5 - RECEIVABLES AND PAYABLES WITHIN THE REPORTING ENTITY:**

Outstanding balances between the primary government and the component unit reported as “due from component unit” and “due to primary government” include outstanding charges by the Housing Authority to the Limited Partnership for services or goods outstanding at year-end, and other miscellaneous receivables/payables between the entities. All of these charges are expected to be paid in less than one year.

**NOTE 6 - PROPERTY AND EQUIPMENT:**

The following is a summary of the changes in property and equipment for the year ended December 31, 2013--

**PRIMARY GOVERNMENT:**

	Balance, Beginning of year	Additions	Dispositions	Balance, End of year
<b>Nondepreciable property and equipment--</b>				
Land	\$ 796,412	\$ -	\$ -	\$ 796,412
<b>Depreciable property and equipment--</b>				
Land improvements	1,262,750	16,171	-	1,278,921
Buildings and improvements	20,737,141	569,249	-	21,306,390
Equipment	381,021	20,851	(9,395)	392,477
Vehicles	162,021	86,511	(58,641)	189,891
Total depreciable property and equipment	22,542,933	692,782	(68,036)	23,167,679
<b>Less accumulated depreciation for--</b>				
Land improvements	(1,246,275)	(3,766)	-	(1,250,041)
Buildings and improvements	(13,608,273)	(559,162)	-	(14,167,435)
Equipment	(360,874)	(14,644)	9,395	(366,123)
Vehicles	(136,164)	(16,679)	58,641	(94,202)
Total accumulated depreciation	(15,351,586)	(594,251)	68,036	(15,877,801)
Total depreciable property and equipment--net	7,191,347	98,531	-	7,289,878
Total property and equipment--net	\$ 7,987,759	\$ 98,531	\$ -	\$ 8,086,290

**HOUSING AUTHORITY OF GRAYS HARBOR COUNTY**

NOTES TO FINANCIAL STATEMENTS (CONT.)

December 31, 2013

**NOTE 6 - PROPERTY AND EQUIPMENT (CONT.):**

**COMPONENT UNIT:**

	Balance, Beginning of year	Additions	Dispositions	Balance, End of year
<b>Nondepreciable property and equipment--</b>				
Land	\$ 45,495	\$ -	\$ -	\$ 45,495
<b>Depreciable property and equipment--</b>				
Land improvements	244,419	-	-	244,419
Buildings and improvements	3,640,109	-	-	3,640,109
Equipment	148,459	-	-	148,459
Total depreciable property and equipment	4,032,987	-	-	4,032,987
<b>Less accumulated depreciation for--</b>				
Land improvements	(134,465)	(12,221)	-	(146,686)
Buildings and improvements	(1,013,559)	(91,003)	-	(1,104,562)
Equipment	(139,399)	(1,453)	-	(140,852)
Total accumulated depreciation	(1,287,423)	(104,677)	-	(1,392,100)
Total depreciable property and equipment--net	2,745,564	(104,677)	-	2,640,887
Total property and equipment--net	\$ 2,791,059	\$ (104,677)	\$ -	\$ 2,686,382

**NOTE 7 - LONG-TERM DEBT AND PROPERTY ACQUISITIONS:**

Long-term debt at December 31, 2013 consists of the following--

a. Bond payable--Sunset Villa project

In December 2000, the Housing Authority acquired the Sunset Villa apartment complex through the issuance of a \$640,000 revenue bond with a local bank. Sunset Villa consists of one 12-unit building and one 6-unit building in Ocean Shores, Washington. All of the units have two bedrooms, and the Housing Authority rents the units to low-income working families for \$500 per month.

Terms of the bond, which matures on December 1, 2030, require monthly payments of \$4,025, including interest at a rate of 6.5% per annum. The bond is secured by a deed of trust and security agreement encumbering the real property and an assignment of leases and rents from the property.

There are several covenants included in the bond requirements, including minimum insurance requirements, repair and maintenance of the property, maintenance of security deposits and membership in the local community club. At December 31, 2013, the Housing Authority was in compliance with all applicable covenants.

b. Notes and mortgages payable--Emerson Manor project

During 2000, the Housing Authority began working on the acquisition of Emerson Manor, a 59-unit complex in Hoquiam, Washington, through the federal low-income tax credit program. On December 28, 2000, title to the property was conveyed to the Housing Authority in order to meet the requirements of the tax credit program.

# HOUSING AUTHORITY OF GRAYS HARBOR COUNTY

## NOTES TO FINANCIAL STATEMENTS (CONT.)

December 31, 2013

### **NOTE 7 - LONG-TERM DEBT AND PROPERTY ACQUISITIONS (CONT.):**

b. Notes and mortgages payable--Emerson Manor project (cont.)

At that time, the Housing Authority agreed to assume two existing mortgages on the property as full payment for the complex as soon as the financing for the acquisition and rehabilitation of the project was obtained and the requirements of the tax credit program were met. In March 2001, the Housing Authority received funding for the acquisition and rehabilitation of Emerson Manor. At December 31, 2013, the outstanding long-term debt associated with the Emerson Manor project consists of the following:

1. An \$825,000 Housing Finance Unit promissory note through the Washington State Department of Commerce. Terms of the note, which matures on August 31, 2051, require 15 annual interest only payments of \$8,250, at a rate of 1% per annum, beginning September 1, 2002. Beginning September 1, 2017, 35 annual payments of \$28,054, including principal and interest at a rate of 1% per annum, are required. The note is secured by a deed of trust covering the Emerson Manor property.
2. A promissory note with a local bank in the amount of \$575,741. The bank loan was refinanced on April 18, 2013. The refinanced terms of this note, which matures on October 5, 2020, require monthly payments of \$4,799, including interest at a rate of 4.50% for the first 60 months and a variable interest rate per month for the final 30 months. The note is secured by a deed of trust on the property.

c. Notes and mortgages payable--Riverside III project

In October 2002, the Housing Authority acquired the Riverside III apartment complex, a 20-unit complex in Aberdeen, Washington. The property was acquired by assuming the previous owner's existing mortgage from HUD. This mortgage was forgiven by HUD on October 31, 2002. The Housing Authority was also awarded two loans and a grant for the acquisition and rehabilitation of Riverside III.

The loans awarded to the Housing Authority for the acquisition and rehabilitation of Riverside III are summarized as follows:

1. An \$887,000 Housing Finance Unit promissory note through the Washington State Department of Commerce (DOC). The note is secured by a deed of trust covering the Riverside III property. This note is provided as two separate loans as follows:
  - a. The first loan is a \$285,000 amortized loan. Terms of this loan, which matures on June 30, 2043, require quarterly payments of \$2,164, including interest at 1% per annum beginning June 30, 2003.
  - b. The second loan of \$460,500 is deferred for 40 years at zero percent interest. On June 30, 2043, provided the Housing Authority has met the terms and conditions of the Housing Finance Unit contract, the deferred loan will convert to a full grant, and no repayment will be required.

There are several covenants included in the note requirements, including using the property strictly for low-income housing, minimum insurance requirements, and repair and maintenance of the property. At December 31, 2013, the Housing Authority was in compliance with all applicable covenants.

# HOUSING AUTHORITY OF GRAYS HARBOR COUNTY

## NOTES TO FINANCIAL STATEMENTS (CONT.)

December 31, 2013

### **NOTE 7 - LONG-TERM DEBT AND PROPERTY ACQUISITIONS (CONT.):**

Long-term debt activity for the year ended December 31, 2013 is summarized as follows--

#### **PRIMARY GOVERNMENT:**

	Balance, Beginning of Year	Additions	Retirements	Balance, End of Year	Amounts Due Within One Year
Bond payable--Sunset Villa	\$ 514,293	\$ -	\$ (15,573)	\$ 498,720	\$ 16,616
DOC amortized note payable--Riverside III	225,617	-	(6,423)	219,194	6,488
DOC deferred note payable--Riverside III	460,500	-	-	460,500	-
Total long-term debt--primary government	<u>\$ 1,200,410</u>	<u>\$ -</u>	<u>\$ (21,996)</u>	<u>\$ 1,178,414</u>	<u>\$ 23,104</u>

#### **COMPONENT UNIT:**

	Balance, Beginning of Year	Additions	Retirements	Balance, End of Year	Amounts Due Within One Year
DOC note payable--Emerson Manor	\$ 825,000	\$ -	\$ -	\$ 825,000	\$ -
Bank note payable--Emerson Manor	377,610	-	(43,236)	334,374	43,272
Total long-term debt--component unit	1,202,610	-	(43,236)	1,159,374	43,272
Less discount on long-term debt	(170,345)	-	4,468	(165,877)	-
Net long-term debt--component unit	<u>\$ 1,032,265</u>	<u>\$ -</u>	<u>\$ (38,768)</u>	<u>\$ 993,497</u>	<u>\$ 43,272</u>

The annual debt service requirements to maturity for long-term debt as of December 31, 2013 are as follows--

	<b><u>PRIMARY GOVERNMENT</u></b>		<b><u>COMPONENT UNIT</u></b>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 23,104	\$ 34,095	\$ 43,272	\$ 22,564
2015	24,281	32,918	45,245	20,592
2016	25,534	31,664	47,322	18,514
2017	26,868	30,331	69,361	16,279
2018	28,287	28,912	71,868	13,772
2019 - 2023	166,127	119,868	200,162	41,352
2024 - 2028	218,184	67,810	108,307	31,963
2029 - 2033	129,254	11,106	113,832	26,438
2034 - 2038	40,418	2,862	119,639	20,631
2039 - 2043	35,857	810	125,742	14,529
2044 - 2048	-	-	132,156	8,114
2049 - 2053	-	-	82,468	1,654
Totals	<u>\$ 717,914</u> *	<u>\$ 360,376</u>	<u>\$ 1,159,374</u>	<u>\$ 236,402</u>

\* The primary government's total principal consists of the following--

Total long-term debt at December 31, 2013 from above	\$ 1,178,414
Less Riverside III's DOC deferred note payable--	
No debt service requirements	(460,500)
Total principal debt service requirements--primary government	<u>\$ 717,914</u>



# HOUSING AUTHORITY OF GRAYS HARBOR COUNTY

## NOTES TO FINANCIAL STATEMENTS (CONT.)

December 31, 2013

### **NOTE 8 - PENSION PLANS:**

All full-time Housing Authority employees and those employees in applicable mandated positions are covered under the Public Employees' Retirement Systems (PERS). PERS is a cost-sharing multi-employer retirement system administered by the Washington State Department of Retirement Systems (DRS), which is a department of the primary government of the State of Washington. DRS issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan of the DRS. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380.

The PERS system includes a defined benefit pension plan (Plan 2) and a combined defined benefit (employer's contribution) and defined contribution (employee's contribution) plan (Plan 3). Participants who joined the system prior to September 1, 2002 are enrolled in Plan 2. Employees as of September 1, 2002 had the option of transferring to Plan 3. Employees hired after September 1, 2002 are given 90 days to select Plan 2 or Plan 3. If they do not select the plan on their own, they will automatically be enrolled in Plan 3 permanently. Retirement benefits are financed from employee and employer contributions and investment earnings. Retirement benefits in both Plan 2 and Plan 3 are vested after completion of five years of eligible service. Retirement benefit provisions are established in state statute and may be amended only by the state legislature.

Plan 2 members may retire at the age of 65 with 5 years of service, or at 55 with 20 years of service, with an allowance of two percent per year of service of the average final compensation. Plan Two retirements prior to 65 receive reduced benefits. If retirement is at age 55 with 30 years of service, a three percent per year reduction applies; otherwise, an actuarial reduction will apply. There is no cap on years of service credit and a cost-of-living allowance is granted, capped at three percent annually.

In order to be eligible for full retirement benefits, Plan 3 members may retire at the age of 65 with 10 years of service, or with 5 years of service including 12 months of service after reaching age 54. Plan 3 members may also retire with reduced benefits at age 55 with 10 years of service.

Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 employer contribution rates. Employees choosing Plan 3 may contribute between 5% and 15% of their gross pay. The employer contribution rate for Plan 3 is the same as for Plan 2. The employer and employee rates for Plan 2 and the employer rates for Plan 3 are set by the director of DRS based on recommendations by the Office of the State Actuary to continue to fully fund the plan. All employers are required to contribute at the level established by state law. The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.40 and 41.45 RCW.

Contributions to the system by both employee and employer are based on gross wages. The required contribution rates expressed as a percentage of covered payroll as of December 31, 2013 were as follows--

	<u>Employee</u>	<u>Employer</u>
Plan Two	4.92%	9.21%*
Plan Three	5.00%-15.00%	9.21%*

\* Employer contribution rate includes an administrative expense rate of 0.16%.

# HOUSING AUTHORITY OF GRAYS HARBOR COUNTY

## NOTES TO FINANCIAL STATEMENTS (CONT.)

December 31, 2013

### **NOTE 8 - PENSION PLANS (CONT.):**

Both the Housing Authority and the employees made the required contributions. The Housing Authority's required contributions, which represent its full liability under the system, for the years ended December 31 were as follows--

	<u>Plan Two</u>	<u>Plan Three</u>	<u>Total</u>
2013	\$ 68,017	\$ 22,354	\$ 90,371
2012	54,819	\$ 19,301	\$ 74,120
2011	43,588	14,719	58,307

### **NOTE 9 - RISK RETENTION POOLS:**

The Housing Authority of Grays Harbor County is a member of the Housing Authorities' Risk Retention Pool (HARRP). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provision for Chapter 39.34 RCW, the Interlocal Cooperation Act. HARRP was formed on February 1, 1987 when housing authorities in states now including Washington, Oregon, California, and Nevada joined together by signing an Intergovernmental Cooperation Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. At December 31, 2013, there were 87 member public housing authorities in the Pool, which is governed by a Board of Directors comprised of nine members--three from Washington, three from Oregon, two from California and one from Nevada. The directors are elected at the annual members' meeting to three classes in staggered terms of three years.

The Pool allows members to jointly purchase insurance coverage, establish a plan of self-insurance, and provide related services for its members. The Pool provides property, general liability, employment practices, public officers' errors and omissions coverage, and automobile liability coverage on an "occurrence" basis.

On April 1, 2011, HARRP launched the Affordable Housing Risk Pool (AHRP), under the authority of the ORWACA Agency Insurance Services, Inc, designed to accommodate Low Income Housing Tax Credit partnerships and affordable housing non-profits, which HARRP is unable to insure. The terms of coverage and coverage limits are similar to HARRP.

Members make an annual contribution to fund HARRP/AHRP. HARRP/AHRP acquires insurance from unrelated underwriters that are subject to a per occurrence deductible of \$250-\$500 for automobile claims, \$2,500 to 10% of the claim for employment practices claims and from \$1,000 to \$25,000 for property claims. The deductible for the public officers' liability coverage is 10%, with a minimum of \$2,500. The majority of general liability policies do not have deductibles, however, for those that do, the deductibles range from \$2,500 to 10% of a claim with no maximum. Members are responsible for the first \$1,000 of the deductible for property claims only, while HARRP/AHRP is responsible for the remaining \$24,000 for property claims and the total deductible for all others.

Insurance carriers cover all losses over the deductible to the maximum limits of each policy. Since HARRP and AHRP are cooperative programs, there is a joint liability among the participating members. Each new member pays HARRP/AHRP a non-refundable membership fee. HARRP/AHRP is fully funded by its members, and claims are filed directly with each Pool's administrator.

# HOUSING AUTHORITY OF GRAYS HARBOR COUNTY

## NOTES TO FINANCIAL STATEMENTS (CONT.)

December 31, 2013

**NOTE 9 - RISK RETENTION POOLS (CONT.):**

HARRP/AHRP establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses. There have been no insurance settlements in any of the past three years that exceeded insurance coverage.

The following represents changes in liabilities for HARRP during the years ended December 31, 2013 and 2012--

	<u>2013</u>	<u>2012</u>
Losses and loss adjustment expense reserves, beginning of year	\$ 5,506,045	\$ 3,183,856
Incurring losses and loss adjustment expenses--		
Provision for covered events of the current year	7,359,264	5,386,896
Increase in provision for covered events of the prior year	<u>776,488</u>	<u>806,423</u>
Total incurred losses and loss adjustment expenses	<u>8,135,752</u>	<u>6,193,319</u>
Payments--		
Losses and loss adjustment expenses attributable to covered events of the current year	3,759,633	1,380,908
Losses and loss adjustment expenses attributable to covered events of the prior year	<u>4,234,068</u>	<u>2,490,222</u>
Total payments	<u>7,993,701</u>	<u>3,871,130</u>
Loss and loss adjustment expense reserves, end of year	<u>\$ 5,648,096</u>	<u>\$ 5,506,045</u>

The following represents changes in liabilities for AHRP during the years ended December 31, 2013 and 2012--

	<u>2013</u>	<u>2012</u>
Losses and loss adjustment expense reserves, beginning of year	\$ 600,218	\$ 170,586
Incurring losses and loss adjustment expenses--		
Provision for covered events of the current year	2,914,141	608,575
Increase in provision for covered events of the prior year	<u>314,914</u>	<u>81,094</u>
Total incurred losses and loss adjustment expenses	<u>3,229,055</u>	<u>689,669</u>
Payments--		
Losses and loss adjustment expenses attributable to covered events of the current year	1,923,912	177,357
Losses and loss adjustment expenses attributable to covered events of prior year	<u>407,507</u>	<u>82,680</u>
Total payments	<u>2,331,419</u>	<u>260,037</u>
Loss and loss adjustment expense reserves, end of year	<u>\$ 1,497,854</u>	<u>\$ 600,218</u>

In 2013 and 2012, the HARRP and AHRP unpaid losses and loss adjustment expenses were estimated based upon a consulting actuary's study. A contingency margin has not been included in the estimation of unpaid losses at December 31, 2013 and 2012.

# HOUSING AUTHORITY OF GRAYS HARBOR COUNTY

## NOTES TO FINANCIAL STATEMENTS (CONT.)

December 31, 2013

### **NOTE 10 - CONTRACTS AND AGREEMENTS:**

a. Property management agreement

In November 2007, the Housing Authority renewed its contract with a property management company to provide property management services for the Emerson Manor apartment complex. Under the terms of this contract, the property management company is responsible for leasing and managing the property, including tenant selection, collection of rents and other receipts, payment of operating expenses, and accounting for the property's operations. Maintenance of the property is performed by Housing Authority employees. In exchange for these services, the Housing Authority pays the property management company 7 percent of the monthly gross collections from the project and reimburses the company for the payroll costs of the resident manager.

### **NOTE 11 – HAGH-EMERSON MANOR LIMITED PARTNERSHIP:**

a. Limited partnership agreement

In December 2000, the Housing Authority and a local nonprofit organization formed the HAGH-Emerson Manor Limited Partnership in order to acquire Emerson Manor in accordance with the federal low-income tax credit program requirements (see Note 7b). Under the terms of the limited partnership agreement, the Housing Authority owns 0.01 percent of the Partnership and is the general partner with sole control and management of the Partnership. The nonprofit organization paid a nominal fee to own 99.99 percent of the partnership and became the limited partner.

In early 2001, 9% and 4% tax credits were awarded to the project. The Housing Authority then began negotiating with potential investors to help fund the rehabilitation of the property. In August 2001, an amended and restated limited partnership agreement was entered into with Columbia Housing/PNC Institutional Fund IV Limited Partnership becoming the "Investment Limited Partner," and Columbia Housing SLP Corporation becoming the "Special Limited Partner." The Investment Limited Partner acquired 99.99% of the partnership. When the amended agreement took effect, the nonprofit organization withdrew from the limited partnership and was refunded its capital contribution. The Special Limited Partner paid a nominal fee and was admitted to the Partnership in order to provide advice and assistance relating to the administration, management and direction of the Partnership's business.

Profits and losses of the partnership are allocated to the General Partner and the Investment Limited Partner in accordance with their respective ownership percentages.

b. Financing lease

In December 2000, the Partnership entered into a financing lease agreement with the Housing Authority for the use of the land, building and improvements, and personal property of Emerson Manor. Under the terms of the lease agreement, which expires on December 31, 2075, the Partnership is required to pay rent in the amount of \$12 per year beginning in January 2001. Pursuant to the financing lease and a loan and regulatory agreement between the Housing Authority and the Partnership, the Partnership is required to pay in full all obligations of the Housing Authority associated with the financing for the acquisition and rehabilitation of the property, as described in Note 7b. Furthermore, the Partnership has an

option to purchase the property at any time, and the stated intent of the lease is for the Partnership to be treated as the owner of the property for income tax purposes. As such, the lease is a capital lease, and the assets and liabilities associated with the acquisition and rehabilitation of the property have been reported on the Partnership's audited financial statements.

**NOTE 11 – HAGH-EMERSON MANOR LIMITED PARTNERSHIP (CONT.):**

c. Partnership management fees

Beginning in 2002, the Partnership is required to pay an annual non-cumulative partnership management fee to the Housing Authority in the amount of \$17,400, which will increase by 3% each year thereafter, provided there is sufficient cash flow after payment of other required payments specified in the limited partnership agreement.

The Partnership is also required to pay a non-cumulative incentive management fee to the Housing Authority in an amount determined based on the Partnership's net cash flows for the year, as specified in the terms of the limited partnership agreement.

At December 31, 2013, management fees payable by the Partnership to the Housing Authority totaled \$105,112, which is included in due to primary government on the component unit's statement of net position.

d. Distributions to owners

The Partnership is required to pay distributions to the owners based on the net cash flows for the year, as specified in the terms of the limited partnership agreement.

At December 31, 2013, the Component Unit's distributions payable to owners totaled \$4,163. Three dollars of this amount is payable to HAGH and is included in due to primary government on the statement of net position. \$4,160 is payable to the investment limited partner and is reported as distributions payable on the statement of net position.

e. Low-income housing tax credits

The Partnership expects to generate an aggregate of approximately \$3,480,000 of federal low-income housing tax credits from the Emerson Manor project. These credits are available for use by the Investment Limited Partner pro rata over a ten-year period beginning in 2001. In order to qualify for these credits, the project must comply with various federal and state requirements. These requirements include, but are not limited to, renting to low-income tenants at rental rates which do not exceed specified percentages of area median gross income for the first 15 years of operation. The Partnership has also agreed to maintain and operate the project as low-income housing for another 22 years after that period ends.

**NOTE 12 – CONTINGENCIES AND LITIGATION:**

The Housing Authority is party to various legal proceedings during the year which normally occur in housing authority operations. These legal proceedings have historically been resolved in the Housing Authority's favor, and future legal proceedings are not likely to have a material adverse impact on the affected funds of the Housing Authority. Also, the Housing Authority is covered against litigation through the Housing Authorities' Risk Retention Pool, and the Limited Partnership is covered against litigation through the Affordable Housing Risk Pool, as discussed in Note 9.

At December 31, 2013, the Housing Authority was not aware of any pending or threatened litigation or other contingent liabilities that are required to be accrued or disclosed in the financial statements.

# HOUSING AUTHORITY OF GRAYS HARBOR COUNTY

## NOTES TO FINANCIAL STATEMENTS (CONT.)

December 31, 2013

### **NOTE 13 – SUBSEQUENT EVENTS:**

a. Acquisition of Harbor Manor

Subsequent to December 31, 2013, the Housing Authority received funding to acquire and rehabilitate an apartment complex in Hoquiam, Washington. Harbor Manor is a 24-unit complex with project-based Section 8 Housing Assistance Payments program funding. Funding for the acquisition and rehabilitation of the complex has been provided by a loan from a local bank and a loan/recoverable grant from the State of Washington, Department of Commerce, Housing Trust Fund.

The total bank loan available to the Housing Authority is \$854,271. As of the date of issuance of these financial statements, the Housing Authority had drawn down approximately \$232,000 on this loan. The loan is a 30-year bond with an interest rate of 4.0%. The interest rate is scheduled to be adjusted every five years based upon the 5-year Treasury Constant Maturity interest rate, with a floor of 3.75% and a ceiling of 8.0%.

The Housing Trust Fund loan of \$656,000 is a recoverable grant, with a 40-year period and a zero percent interest rate. If the Housing Authority meets the specific requirements of the contract for the commitment period ending on February 28, 2054, the loan will be forgiven. If the terms of the contract are not met during the commitment period, the loan plus a proportional share of the appreciated value of the property will be due and payable to the Department of Commerce within 30 days.

b. Emerson Manor Fire

On February 20, 2014, one of the units at the Emerson Manor complex caught on fire. Fire and smoke damage was mostly confined to that unit. However, significant water damage from the sprinkler system occurred throughout the building, resulting in the evacuation of all tenants from the date of the fire until March 18, 2014. All common area repairs have been completed; however, six units needing repairs have been off line since February 20, 2014, with an anticipated repair completion date of June 30, 2014. The costs of the repairs will be covered by insurance after the deductible. As of the date of issuance of these financial statements, the amount of the component unit's loss from this fire has not been determined.

Housing Authority of Grays Harbor County  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**For the Year Ended December 31, 2013**

Federal Agency Name/Pass-Through Agency Name	Federal Program Name	CFDA Number	Other Award Number	Expenditures		
				From Pass-Through Awards	From Direct Awards	Total Amount
Office Of Housing-federal Housing Commissioner, Department Of Housing And Urban Development/	Section 8 Housing Assistance Payments Program	14.195	WA19M000074		234,498	234,498
Office Of Housing-federal Housing Commissioner, Department Of Housing And Urban Development/	Section 8 Housing Assistance Payments Program	14.195	WA190019002		121,853	121,853
<b>Total CFDA 14.195</b>				<b>0</b>	<b>356,351</b>	<b>356,351</b>
Office Of Public And Indian Housing, Department Of Housing And Urban Development/	Public and Indian Housing	14.850	SF219		732,138	732,138
Office Of Public And Indian Housing, Department Of Housing And Urban Development/	Section 8 Housing Choice Vouchers	14.871	WA018-VO		1,348,888	1,348,888
Office Of Public And Indian Housing, Department Of Housing And Urban Development/	Public Housing Capital Fund	14.872	Capital Fund - 2010		9,231	9,231
Office Of Public And Indian Housing, Department Of Housing And Urban Development/	Public Housing Capital Fund	14.872	Capital Fund - 2011		346,762	346,762
Office Of Public And Indian Housing, Department Of Housing And Urban Development/	Public Housing Capital Fund	14.872	Capital Fund - 2012		271,618	271,618
Office Of Public And Indian Housing, Department Of Housing And Urban Development/	Public Housing Capital Fund	14.872	Capital Fund - 2013		12,713	12,713
<b>Total CFDA 14.872</b>				<b>0</b>	<b>640,324</b>	<b>640,324</b>
<b>Total Federal Awards Expended:</b>				<b>0</b>	<b>3,077,701</b>	<b>3,077,701</b>

**HOUSING AUTHORITY OF GRAYS HARBOR COUNTY**

Notes to the Schedule of Expenditures of Federal Awards

December 31, 2013

See accountants' compilation report

**NOTE 1-BASIS OF ACCOUNTING AND PRESENTATION**

The accompanying schedule of expenditures of federal awards includes the federal award activity of the Housing Authority of Grays Harbor County and is presented on the accrual basis of accounting, which is the same basis of accounting the Housing Authority uses for the financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in these schedules may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**NOTE 2-PROGRAM COSTS**

The amounts shown as current year expenditures represent only the federal grant portion of the program costs. Costs expended from other sources are not included on the schedule.

**NOTE 3-LOANS OUTSTANDING**

The Housing Authority and its component unit had the following state program loan balances outstanding at December 31, 2013. These loan balances were fully expended prior to 2013, so there is no schedule of state and local expenditures for the year ended December 31, 2013.

<b>Program Title</b>	<b>Amount Outstanding</b>	
	<b>Primary Government</b>	<b>Component Unit</b>
Housing Trust Fund Program— Amortized Loan	\$219,194	\$825,000
Housing Trust Fund Program— Deferred Loan	<u>460,500</u>	<u>-</u>
Total loan balances outstanding	<u>\$679,694</u>	<u>\$825,000</u>



HOUSING AUTHORITY OF GRAYS HARBOR  
Aberdeen WA

FINANCIAL DATA SCHEDULES  
For the Year Ended December 31, 2013

Line #	LOW RENT & CFP		COCC (Prop Mgt Ctr)	HSG CHOICE VOUCHERS	SEC 8 HAP PROGRAM	BUSINESS ACTIVITIES	COMPONENT UNIT	ELIMINATION	TOTAL
	AMP 1000	AMP 2000							
111	300,955	275,728	100,814	243,689	-	529,830	217,527		2,173,244
112						22,500	200,525		223,025
113				70,434		133,500			203,934
114	26,104	22,915	18,361			9,278	13,044		89,702
100	327,059	298,643	523,062	314,123	-	695,108	431,096		2,689,905
121				4,575					4,575
122-010	25,008	25,744	22,802				365		73,919
122-020	217,271	96,744							314,015
125-050							158		158
125									-
126	987	252	2,343			3,159	2,606		9,347
126.1									-
126.2									-
128				456					456
128.1									-
120	243,266	122,740	25,145	5,031	-	3,159	3,129		402,470
131	71,946	65,916	120,657	19,587					278,106
142				2,104	29	1,782	15,613		19,528
143	3,369	3,468	3,071						9,908
143.1									-
144				407,966		105,115		(387,569)	125,512
150	645,640	490,767	671,935	530,471	-	805,164	449,838	(387,569)	3,525,429
161	308,714	200,061	86,624	34,672		166,341	45,495		841,907
162	7,602,382	7,099,911	3,955,679	439,318		2,183,558	3,640,109		24,920,957
163	88,492	83,716	43,774			15,360	148,459		379,801
164		26,295		280,037		44,694			351,026
165	735,676	247,235	268,916	27,094		(1,005,991)	244,419		1,523,340
166	(6,683,993)	(4,422,824)	(3,190,553)	(569,125)			(1,392,100)		(17,269,901)
160	2,051,271	3,234,394	1,164,440	211,996	-	1,359,268	2,686,382		10,747,150
174						25,542	9,591		35,133
180	2,051,271	3,234,394	1,164,440	211,996	-	1,384,810	2,695,973		10,782,263
190	2,696,911	3,725,161	1,836,375	742,467	-	2,189,974	3,145,811	(387,569)	14,307,692

HOUSING AUTHORITY OF GRAYS HARBOR  
Aberdeen WA

FINANCIAL DATA SCHEDULES  
For the Year Ended December 31, 2013

	LOW RENT & CFP		COCC (Prop Mgt Ctr)	HSG CHOICE VOUCHERS	SEC 8 HAP PROGRAM	BUSINESS ACTIVITIES	COMPONENT UNIT	ELIMINATION	TOTAL
	AMP 1000	AMP 2000							
312	13,836	15,254	63,119	9,113		6,676	17,620		138,015
321	13,276	26,387	16,216	4,887		5,390			74,208
322	13,075	28,365	22,314	5,129		3,591			81,212
325						2,701	4,004		6,705
331									-
341	26,104	22,915	18,361			9,278	13,044		89,702
342									-
342-030									-
343	3,132	2,586	1,995			1,282	2,379		11,374
345						23,104	43,272		66,376
346	4,207	9,651	10,888				4,160		4,160
347	242,279	122,488	22,802						24,746
310	315,909	227,646	83,233	19,129	-	52,022	209,991	(387,569)	622,010
351						1,155,310	950,225		2,105,535
350						1,155,310	950,225		2,105,535
300	315,909	227,646	83,233	19,129	-	1,207,332	1,160,216	(387,569)	2,727,545
508.4	2,051,271	3,234,394	1,164,440	211,996		180,854	1,692,885		8,575,219
511.4				70,434		156,000	200,525		426,959
512.4	329,731	263,121	588,702	229,620		645,788	92,185		2,577,969
513	2,381,002	3,497,515	1,753,142	339,433	-	982,642	1,985,595		11,580,147
600	2,696,911	3,725,161	1,836,375	742,467	-	2,189,974	3,145,811	(387,569)	14,307,692

HOUSING AUTHORITY OF GRAYS HARBOR  
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For the Year Ended December 31, 2013

	LOW RENT & CFP		COCC (Prop Mgt Ctr)	HSG CHOICE VOUCHERS	SEC 8 HAP PROGRAM	BUSINESS ACTIVITIES	COMPONENT UNIT	ELIMINATION	TOTAL
	AMP 1000	AMP 2000							
70300	392,115	343,921	369,340			140,536	166,216		1,412,128
70400	25,288	25,758	12,320			12,600	4,968		80,934
70500	417,403	369,679	381,660			153,136	171,184		1,493,062
70600	256,568	305,682	250,334			121,853	234,498		1,168,935
70600-010				1,079,467					1,079,467
70600-020				125,118					125,118
70600	256,568	305,682	250,334	1,204,585		121,853	234,498		2,373,520
70610	217,271	342,607							559,878
70710			282,322					(282,322)	-
70720			49,800					(49,800)	-
70730			36,420					(36,420)	-
70700			368,542					(368,542)	-
71100	1,448	1,440	1,901			373	141		6,434
71100-020				81					81
71400-010				1,428					1,428
71400-020				1,428					1,428
71500		15,456				26,960	77,406		119,859
71600			4,730						4,730
72000-010									-
70000	892,690	1,019,408	649,351	1,207,522		302,322	483,229	(368,542)	4,560,420
91100	42,273	42,329	42,600	149,741	72,005	46,853			395,801
91200	7,104	6,694	5,726	3,429	1,658	547	16,701		41,859
91300	95,220	97,187	89,915					(282,322)	-
91310	12,263	12,570	11,587					(36,420)	-
91400	1,082	1,117	999	20	17	1,330	498		5,063
91500	23,093	23,092	23,280	59,250	34,744	21,472			184,931
91600	18,730	16,665	15,378	7,792	5,812		11,195		75,572
91700	3,034	2,472	415	534			1,220		7,675
91800	10			1,084			245		1,339
91810							25,903		25,903
91900	5,692	7,483	5,809	51,513	12,236	2,112	100,226		185,071
91000	208,501	209,609	195,709	273,363	126,472	72,314	155,988	(318,742)	923,214
92000	16,800	17,400	15,600					(49,800)	-

HOUSING AUTHORITY OF GRAYS HARBOR  
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FINANCIAL DATA SCHEDULES  
For the Year Ended December 31, 2013

	LOW RENT & CFP		COCC (Prop Mgt Ctr)	HSG CHOICE VOUCHERS	SEC 8 HAP PROGRAM	BUSINESS ACTIVITIES	COMPONENT UNIT	ELI MINATION	TOTAL
	AMP 1000	AMP 2000							
92400 Tenant Services - Other	205	52	44	22	-	1,220	4,135		5,678
92500 Total Tenant Services	205	52	44	22	-	1,220	4,135		5,678

HOUSING AUTHORITY OF GRAYS HARBOR  
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FINANCIAL DATA SCHEDULES  
For the Year Ended December 31, 2013

	LOW RENT & CFP		COCC (Prop Mgt Ctr)	HSG CHOICE VOUCHERS	SEC 8 HAP PROGRAM	BUSINESS ACTIVITIES	COMPONENT UNIT	ELIMINATION	TOTAL
	AMP 1000	AMP 2000							
93100 Water	19,702	18,110	431			7,731	4,994		59,085
93200 Electricity	19,322	39,335	695	563		3,150	30,582		162,977
93300 Gas	2,265	6,015					3,964		21,545
93600 Sewer	29,166	31,901	455			12,714	11,389		100,878
93800 Other Utilities Expense	16,537	18,938	262			4,154	3,173		59,583
93000 Total Utilities	86,992	114,299	1,843	563	-	27,749	54,102		404,068
94100 Ordinary Maintenance & Operations - Labor	105,152	120,966	4,262			33,314	70,661		398,238
94200 Ordinary Maintenance & Operations - Materials	44,708	49,526	5,153	1,049		15,922	15,140		164,019
94300-010 Ordinary Maintenance & Operations - Garbage	33,896	29,108	478	73		16,114	7,985		106,136
94300-020 Ordinary Maint & Operations - Heating/Cooling Contracts							118		118
94300-040 Ordinary Maint & Operations - Elevator Maint Contracts	6,317	7,545					5,111		29,076
94300-050 Ord Maint & Operations - Landscape/Grounds Contracts									-
94300-080 Ordinary Maint & Operations - Plumbing Contracts	105								105
94300-090 Ordinary Maint & Operations - Extermination Contracts			966			1,900			2,866
94300-100 Ordinary Maint & Operations - Janitorial Contracts									-
94300-110 Ordinary Maint & Operations - Routine Maint Contracts							2,631		2,631
94300-120 Ordinary Maint & Operations - Misc Contracts									-
94300 Ordinary Maintenance & Operations Contracts	40,318	36,653	478	73	-	18,014	15,845		140,932
94500 Employee Benefit Contributions - Ord Maint & Operations	60,924	71,571	2,402			15,349			185,227
94000 Total Maintenance	251,102	278,716	12,295	1,122	-	82,599	101,646		888,416
95100 Protective Services - Labor	7,833	7,833	7,373						23,039
95200 Protective Services - Other Contract Costs	2,255	1,989	5,768				9,787		19,799
95300 Protective Services - Other	352	465	645	6		70			1,546
95500 Employee Benefit Contributions - Protective Services	1,018	1,018	958						2,994
95000 Total Protective Services	11,458	11,305	14,744	6	-	70	9,787		47,378
96110 Property Insurance							41,031		41,031
96120 Liability Insurance	12,848	10,482	4,202	635		4,950			42,717
96140 All Other Insurance	761	638	1,203	713					3,688
96100 Total Insurance Premiums	13,609	11,120	9,973	1,348	-	4,950	41,031		87,436
96200 Other General Expenses							31,310		31,310
96210 Compensated Absences	36,514	27,746	20,888	16,838		12,395			152,449
96400 Bad Debt - Tenant Rents	15,176	12,759	210			6,038	338		34,521
96000 Total Other General Expenses	51,690	40,505	21,098	16,838	-	18,433	31,648		218,280
96710 Interest of Mortgage (or Bonds) Payable						35,118	31,468		66,586

HOUSING AUTHORITY OF GRAYS HARBOR  
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FINANCIAL DATA SCHEDULES  
For the Year Ended December 31, 2013

	LOW RENT & CFP AMP 1000	AMP 2000	AMP 3000	COCC (Prop Mgt Ctr)	HSG CHOICE VOUCHERS	SEC 8 HAP PROGRAM	BUSINESS ACTIVITIES	COMPONENT UNIT	ELI MINATION	TOTAL
96730							2,700	1,502		4,202
96700							37,818	32,970		70,788
96900	640,357	683,006	536,624	330,982	146,371	-	245,153	431,307	(368,542)	2,645,258
97000	252,333	336,402	112,727	43,458	1,061,151	-	57,169	51,922		1,915,162
97300-050										
97400	186,608	194,086	89,039	32,862	1,157,822		87,341	104,677		1,157,822
90000	826,965	877,092	624,663	363,844	1,309,508		332,494	535,984	(368,542)	4,502,008
10010										
10020	8,852	8,852	8,331							26,035
10100	(8,852)	(8,852)	(8,331)							(26,035)
10000	65,725	142,316	24,688	10,596	(101,986)		(30,172)	(52,755)		58,412
11020							15,572	43,235		58,807
11030	2,315,277	3,355,199	1,728,454	630,222	441,419		1,012,814	2,039,069		11,522,454
11040-070								(719)		(719)
11170-001										294,009
11170-010										125,118
11170-040										81
11170-045										1,428
1117-050										49
11170-060										126,676
11170-080										146,371
11170-090										5,315
11170-110										151,686
11170-002										(25,010)
11170-003										268,999
11180-001										147,410
11180-010										1,079,467
11180-015										1,428
1118-020										(49)

HOUSING AUTHORITY OF GRAYS HARBOR  
Aberdeen WA

FINANCIAL DATA SCHEDULES  
For the Year Ended December 31, 2013

	LOW RENT & CFP		COCC (Prop Mgt Ctr)	HSG CHOICE VOUCHERS	SEC 8 HAP PROGRAM	BUSINESS ACTIVITIES	COMPONENT UNIT	ELI MINATION	TOTAL
	AMP 1000	AMP 2000							
11180-025 Investment Income									-
11180-030 Total HAP Revenues				1,080,846					1,080,846
11180-080 Housing Assistance Payments				1,157,822					1,157,822
11180-100 Total Housing Assistance Payments Expense				1,157,822					1,157,822
11180+002 Net Housing Assistance Payments				(76,976)					(76,976)
11180-003 Housing Assistance Payments Equity - Ending Balance				70,434					70,434
11190 Unit Months Available	1,680	1,740	1,560	2,676		456	708		8,820
11210 Number of Months Leased	1,635	1,676	1,545	2,610		432	692		8,590
11270 Excess Cash	274,400	204,552	542,231						1,021,183
11620 Building Purchases	217,271	326,436							543,707
11640 Furniture & Equipment - Admisitrative Purchases	19,609	19,609	23,450						62,668
11650 Leasehold Improvements Purchases		16,171							16,171

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## ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

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<b>Website</b>	<a href="http://www.sao.wa.gov">www.sao.wa.gov</a>