



Office of the Washington State Auditor
Pat McCarthy

**Financial Statements and Federal Single Audit
Report**

**Kitsap County Consolidated Housing
Authority
(Housing Kitsap)**

For the period July 1, 2016 through June 30, 2017

Published March 29, 2018

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Office of the Washington State Auditor

Pat McCarthy

December 24, 2018

Board of Commissioners
Housing Kitsap
Silverdale, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on Housing Kitsap'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,

Pat McCarthy
State Auditor
Olympia, WA

TABLE OF CONTENTS

Schedule of Findings and Questioned Costs.....	4
Schedule of Federal Award Findings and Questioned Costs.....	6
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.....	11
Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance in Accordance With the Uniform Guidance	14
Independent Auditor's Report on Financial Statements.....	17
Financial Section.....	21
Corrective Action Plan for Findings Reported Under Uniform Guidance	134
About the State Auditor's Office.....	136

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Housing Kitsap Kitsap County July 1, 2016 through June 30, 2017

SECTION I – SUMMARY OF AUDITOR’S RESULTS

The results of our audit of Housing Kitsap are summarized below in accordance with Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Financial Statements

We issued an unmodified opinion on the fair presentation of the basic financial statements of the business-type activities and the aggregate discretely presented component units in accordance with accounting principles generally accepted in the United States of America (GAAP).

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 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 findings that are required to be disclosed in accordance with 2 CFR 200.516(a).

Identification of Major Federal Programs:

The following programs were selected as major programs in our audit of compliance in accordance with the Uniform Guidance.

<u>CFDA No.</u>	<u>Program or Cluster Title</u>
10.420	Rural Self-Help Housing Technical Assistance
14.247	Self-Help Homeownership Opportunity Program

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by the Uniform Guidance, was \$750,000.

The Housing Authority qualified as a low-risk auditee under the Uniform Guidance.

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

See finding 2017-001.

**SCHEDULE OF FEDERAL AWARD FINDINGS AND
QUESTIONED COSTS**

**Housing Kitsap
Kitsap County
July 1, 2016 through June 30, 2017**

2017-001 The Housing Authority did not have adequate internal controls to ensure it met allowable costs/cost principles requirements for its Rural Self-Help Technical Assistance Program.

CFDA Number and Title:	10.420 Rural Self-Help Housing Technical Assistance
Federal Grantor Name:	US Department of Agriculture – Rural Housing Service
Federal Award/Contract Number:	N/A
Pass-through Entity Name:	N/A
Pass-through Award/Contract Number:	N/A
Questioned Cost Amount:	\$34,714

Description of Condition

The Housing Authority spent \$1,204,013 in Rural Self-Help Technical Assistance funds in fiscal year 2017. The objective of this program is to help low- and very-low-income individuals and their families to build homes in rural areas by the self-help method.

The Housing Authority’s program expenditures consist of both direct and indirect costs. The program was reimbursed \$514,282 (43 percent of program expenses) for indirect costs. Indirect costs charged are based on an indirect cost allocation plan, including several different allocations of administrative payroll, building, vehicle, equipment and training costs.

The Housing Authority did not have adequate internal controls to ensure indirect cost allocations met federal grant requirements for allowable costs.

We consider this deficiency in internal controls to be a material weakness.

This issue was not reported as a finding in the prior audit.

Cause of Condition

Although current staff were not involved with the creation of the Authority's indirect cost allocation plan, staff did not update the plan in accordance with Uniform Guidance. Additionally, Authority management did not adequately monitor and review the plan to ensure it still fit the Housing Authority's changing circumstances.

Effect of Condition and Questioned Costs

The Housing Authority's lack of internal controls resulted in noncompliance with federal allowable cost requirements for indirect costs. We noted the following:

- The Housing Authority's Agency-Wide Indirect Overhead cost pool, the largest of the Authority's indirect cost allocation pools, did not allocate indirect costs equitably to all programs. We identified seven programs that did not have indirect costs from this pool allocated to them. However, indirect costs related to these programs were not removed from the pool, they were simply allocated to other programs.
- Executive Director salary and benefits were included in the amount allocated, which is unallowable. This resulted in known questioned costs of \$34,714.
- Indirect costs allocated from the Agency-Wide Indirect Overhead cost pool over allocated actual costs.
- Employee leave was charged directly to the grant rather than equitably allocated to all areas worked.
- An allocation was made that was not included in the indirect cost allocation plan which is therefore unallowable. This resulted in estimated questioned costs of \$33,497.

Based on the above control deficiencies and noncompliance, we identified total known questioned costs of \$34,714 and total estimated questioned costs of \$33,497. However, because of the complexity of the indirect cost allocation plan and the other deficiencies noted above, additional questioned costs likely exist that have not been identified.

Recommendation

We recommend the Housing Authority strengthen internal controls to ensure costs charged to its federal program meet allowable cost requirements. Specifically, the Housing Authority should:

- Provide training and other resources to its staff members to ensure they understand federal regulations

- Modify how employee payroll and benefits are charged to federal programs to meet federal requirements
- Improve documentation, methodology and support for allocation of indirect costs and re-evaluate these allocations annually

Additionally, the Housing Authority should contact the United States Department of Agriculture Rural Development to determine a reasonable basis for allocating indirect costs and identify and resolve any additional questioned costs.

Housing Authority's Response

Housing Kitsap recognizes the importance of correctly accounting for and distributing indirect overhead cost pool allocations and appreciates the hard work performed by the State Auditor's Office. Prior to the audit, our office had identified the indirect overhead cost pool and allocation process as problematic. Corrective action was taken which includes the following:

- *Worked with Rural Community Assistance Corporation (RCAC) as directed by the United State Department of Agriculture – Rural Development (RD), to identify and analyze solutions that meet USDA and 523 Technical Assistance (TA) grant requirements.*
- *Determined that the agency meets the conditions of 200.414 (f) for a 10% De Minimis indirect cost rate by:*
 - *Never having received a negotiated indirect cost rate;*
 - *State or local governmental department agency that receives less than \$35 million in direct federal funding;*
 - *A Cost Allocation Plan is not required by the Department of Housing and Urban Development (HUD);*
- *Documented the process and elected to use the 10% De Minimis indirect cost rate as allowed by 200.415 (f) to pay for overhead costs that are not directly charged to federal awards. Per 2 CFR Section 200.403 costs will be consistently charged as either direct or indirect costs.*
- *Eliminated the indirect overhead cost pool and cost allocation process.*

We do not concur that the Executive Director's salary and benefits are unallowable. Per RCAC, the RD's designated technical and compliance advisor, the salary and benefits of an Executive Directors are allowable and are used by most, if not all other 523 TA grant recipients, referencing Uniform Guidance of Parts 400, 415, 416, 418 and 422 to Title 2 of the CFR.

Auditor's Remarks

We thank the Authority for its cooperation and assistance throughout the audit, and the steps it is taking to address these issues. Federal law states that salaries and expenses of the chief executive of a local government are not allowed to be charged to the grant. The Executive Director is the chief executive of the Housing Authority. Therefore, under Uniform Guidance, his salary must not be charged. We confirmed this with the awarding agency, USDA.

The Housing Authority cited parts 400, 415, 416, 418 and 422 of Title 2 in their response. While these CFR parts may be applicable to Housing Kitsap's Rural Self-Help Technical Assistance Grant, they do not apply to our audit work and resulting finding, which is grounded in Title 2 part 200 section 444. We reaffirm our audit finding and will review the status of the Authority's corrective action during our next audit.

Applicable Laws and Regulations

Title 2 *U.S Code of Federal Regulation* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Findings* (Uniform Guidance), Section 303, Internal Controls, establishes internal control requirements for management of Federal awards to non-Federal entities.

Title 2 *U.S Code of Federal Regulation* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Findings* (Uniform Guidance), Section 516, Audit findings, establishes reporting requirements for audit findings.

Title 2 *U.S Code of Federal Regulation* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Findings* (Uniform Guidance), Section 444, General Costs of Government, establishes unallowable general costs of a government.

Title 2 *U.S Code of Federal Regulation* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Findings* (Uniform Guidance), Section 408, Limitation on Allowance of Costs, establishes guidance on conforming to any limitations or exclusions set forth in the terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items.

Title 2 *U.S Code of Federal Regulation* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Findings* (Uniform Guidance), Section 405, Allowable Costs, establishes guidance for which costs are allocable.

Title 2 *U.S Code of Federal Regulation* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Findings* (Uniform Guidance), Section 404, Reasonable Costs, establishes guidance on reasonableness of costs.

Title 2 *U.S Code of Federal Regulation* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Findings* (Uniform Guidance), Section 403, Factors Affecting Allowability of Costs, establishes guidance on cost principles that affect the allowability of costs.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its *Codification of Statements on Auditing Standards*, section 935, paragraph 11.

Rural Development Part 1944 - Housing, Subpart I – Self-Help Technical Assistance Grants, Section 1944.406 *Prohibited Use of Grant Funds*, provides guidance on prohibited uses of grant funds.

Rural Development Part 1944 –Housing, Subpart I – Self Help Technical Assistance Grants, Section 1944.405 *Authorized Use of Grant Funds*, provides guidance on authorized use of grant funds.

Rural Development Part 194 – Housing, Subpart I – Self-Help Technical Assistance Grants, Section 1944-410, *Processing pre-applications, applications, and competing grant dockets*, provides guidance on information required for grant pre-application, application and grant docket including an indirect or direct cost policy and proposed indirect cost rate developed in accordance with 7 CFR Part 3015 and Part 3016.

**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 Kitsap
Kitsap County
July 1, 2016 through June 30, 2017**

Board of Commissioners
Housing Kitsap
Silverdale, 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 Housing Kitsap, Kitsap County, Washington, as of and for the year ended June 30, 2017, 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 March 21, 2018.

Our report includes a reference to other auditors who audited the financial statements of the Kitsap Apartments 2006 Limited Partnership, Railroad Avenue Associates Limited Partnership, Red Barn Associates Limited Partnership, Liberty Bay Associates Limited Partnership, Heritage Apartments Limited Partnership, and Viewmont Apartments Limited Partnership Tax Credit Partnerships, as described in our report on the Housing Authority's financial statements. This report includes our consideration of the results of the other auditors' 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. The financial statements of Heritage Apartments Limited Partnership and Viewmont Apartments Limited Partnership were not audited in accordance with *Governmental Auditing Standards* and accordingly this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the Heritage Apartments Limited Partnership and Viewmont Apartments Limited Partnership.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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*. However, we noted certain matters that we have reported to the management of the Housing Authority in a separate letter dated March 21, 2018.

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.



Pat McCarthy
State Auditor
Olympia, WA

March 21, 2018

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE
UNIFORM GUIDANCE**

**Housing Kitsap
Kitsap County
July 1, 2016 through June 30, 2017**

Board of Commissioners
Housing Kitsap
Silverdale, Washington

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

We have audited the compliance of Housing Kitsap, Kitsap County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the Housing Authority's major federal programs for the year ended June 30, 2017. The Housing Authority's major federal programs are identified in the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 June 30, 2017.

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 the Uniform Guidance, 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

over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Federal Award Findings and Questioned Costs as Finding 2017-001 to be a material weakness.

Housing Authority's Response to Findings

The Housing Authority's response to the internal control over compliance findings identified in our audit is described in the accompanying Schedule of Federal Award Findings and Questioned Costs. The Housing Authority's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 the Uniform Guidance. 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.



Pat McCarthy
State Auditor
Olympia, WA

March 21, 2018

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Housing Kitsap Kitsap County July 1, 2016 through June 30, 2017

Board of Commissioners
Housing Kitsap
Silverdale, 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 Housing Kitsap, Kitsap County, Washington, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Housing Authority's basic financial statements as listed on page 21.

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 Kitsap Apartments 2006 Limited Partnership, Railroad Avenue Associates Limited Partnership, Red Barn Associates Limited Partnership, Liberty Bay Associates Limited Partnership, Heritage Apartments Limited Partnership, and Viewmont Apartments Limited Partnership Tax Credit Partnerships which represent 100 percent of the assets, net position and revenues of the aggregate discretely presented component units. Those statements were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Kitsap Apartments 2006 Limited Partnership, Railroad Avenue Associates Limited Partnership, Red Barn Associates Limited Partnership, Liberty Bay Associates Limited Partnership, Heritage Apartments Limited Partnership, and Viewmont Apartments Limited Partnership Tax Credit Partnership, is based solely on the reports 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 of material misstatement. The financial statements of Heritage Apartments Limited Partnership and Viewmont Apartments Limited Partnership were not audited in accordance with *Government Auditing Standards*.

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 Housing Kitsap, as of June 30, 2017, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

United States Department of Agriculture (USDA) Section 502 Borrower Loan Accounts

In connection with our audit, nothing came to our attention that caused us to believe the Housing Authority failed to comply with the terms, covenants, provisions, or conditions of USDA Rural

Development (RD) Instruction 1944-I regarding the Section 502 borrower loan accounts, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Housing Authority's noncompliance with the above-referenced terms, covenants, provisions, or conditions, insofar as they related to accounting matters.

Restricted Use Relating to the USDA Section 502 Borrower Loan Accounts

The purpose of the communication related to compliance with the aforementioned USDA RD Section 502 borrower loan accounts described in the Other Matters paragraph is solely to describe the scope of our testing of compliance and the results of that testing. This communication is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Housing Authority's compliance. Accordingly, this communication is not suitable for any other purpose.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed on page 21 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 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 Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The Financial Data Schedule and HUD form are supplementary information required by HUD. The Fjord Manor

Financial Statements (Forms RD 3560-10 and 3560-7) – 2017, Rhododendron Apartments Financial Statements (Forms RD 3560-10 and 3560-7) – 2017, Windsong Apartments Financial Statements (Forms RD 3560-10 and 3560-7) – 2017, and Finch Place Apartments Financial Statements (Forms RD 3560-10 and 3560-7) – 2017 are supplemental information required by the U.S. Department of Agriculture – Rural Development. 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. In our opinion, 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 March 21, 2018 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.



Pat McCarthy

State Auditor

Olympia, WA

March 21, 2018, except for our report on the Financial Data Schedule, for which the date is December 10, 2018

FINANCIAL SECTION

Housing Kitsap Kitsap County July 1, 2016 through June 30, 2017

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2017

BASIC FINANCIAL STATEMENTS

Statements of Net Position – 2017

Statements of Revenues, Expenses and Changes in Net Position – 2017

Statement of Cash Flows – 2017

Notes to the Financial Statements – 2017

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Proportionate Share of the Net Pension Liability – PERS 1 and PERS 2/3 – 2017

Schedule of Employer Contributions – PERS 1 and PERS 2/3 – 2017

Notes to Required Supplementary Information

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2017

Notes to the Schedule of Expenditures of Federal Awards – 2017

Financial Data Schedule – 2017

Actual Modernization Cost Certificate – WA19P036501-15

Fjord Manor Financial Statements – Form RD 3560-10 – 2017

Fjord Manor Financial Statements – Form RD 3560-7 – 2017

Rhododendron Financial Statements – Form RD 3560-10 – 2017

Rhododendron Financial Statements – Form RD 3560-7 – 2017

Windsong Financial Statements – Form RD 3560-10 – 2017

Windsong Financial Statements – Form RD 3560-7 – 2017

Finch Place Financial Statements – Form RD 3560-10 – 2017

Finch Place Financial Statements – Form RD 3560-7 – 2017

HOUSING KITSAP MANAGEMENT'S DISCUSSION AND ANALYSIS June 30, 2017

Overview of the Financial Statements

The management of Housing Kitsap ("HK" or the "Agency") presents this narrative overview and analysis of its basic financial statements for its fiscal year end June 30, 2017 and its component units' calendar year end December 31, 2016. Housing Kitsap's basic financial statements are presented in accordance with generally accepted accounting principles (GAAP), and are prepared on the accrual basis. Under this basis of accounting, revenues are recognized in the period in which they are earned and expenses, including depreciation, are recognized in the period in which they are incurred. As required by GAAP, the basic financial statements included are: the statements of net position; the statements of revenues, expenses, and changes in net position; and the statement of cash flows. In conformance with the Governmental Accounting Standard Board's (GASB) financial reporting model as set forth in GASB Statement No. 34 *Basic Financial Statements – and Management's Discussion and Analysis for State and Local Governments*, as amended by GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*, and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, Housing Kitsap's financial statements are presented under the single-enterprise proprietary fund reporting requirements for all activities, including component units, to provide a comprehensive overview of financial activities and a measurement of economic resources (assets) and obligations (liabilities). This focus is profit-based and is similar to basic accounting principles used by private sector commercial entities.

Required under GASB, management's discussion and analysis is intended to provide an analysis of the Agency's financial performance as a whole, including component units, during the year ended June 30, 2017 and December 31, 2016, with comparative data for the year ended June 30, 2016 and December 31, 2015. We encourage readers to consider the information presented here in conjunction with the Agency's basic financial statements and the notes to the basic financial statements.

Financial Highlights

- Housing Kitsap's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources at June 30, 2017 by \$12.8 million (net position), a decrease of (\$576) thousand or (4.3%) from June 30, 2016. Total assets decreased by (\$2.6) million or (3.3%) and total liabilities decreased by (\$1.56) million or (2.43%) from the prior year.
- Housing Kitsap component units' assets exceeded liabilities at December 31, 2016 by \$1.9 million, a decrease of \$321 thousand. Total assets declined by \$603 thousand or (1.84%) mostly related to normal asset depreciation. Total liabilities decreased by (\$282) thousand or (.92%), due to decreases in amounts due to Housing Kitsap, a general partner.
- To reduce operating expenses, Housing Kitsap sold its 1st and 5th floor spaces in the Norm Dicks Government Center, which housed its central office staff, for \$2.025 million and purchased an office building in Silverdale for \$1.875 million. A loss of (\$935) thousand was realized on the sale of the Norm Dicks Government Center office spaces.
- Self Help Opportunity Program (SHOP) loans in the amount of \$405 thousand were forgiven in the current year resulting in recognition of \$135 thousand in unrestricted program revenue and \$270 thousand in grant-restricted revenue.

Financial Analysis

Statements of Net Position

Similar to a balance sheet, the Statements of Net Position reports all financial and capital resource (assets) and obligations (liabilities), both current (held 1-year or less) and long-term (held more than 1-year), in the order of liquidity for the specific date reported. The statements' format derives net position by subtracting total liabilities and deferred inflows of resources from total assets and deferred outflows of resources.

The following table summarizes net position at June 30, 2017 and 2016 for Housing Kitsap's activities and December 31, 2016 and 2015 for the Agency's discretely presented component units:

**HOUSING KITSAP
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2017**

COMPARATIVE CONDENSED STATEMENTS OF NET POSITION

	Housing Kitsap		Component Units	
	2017	2016	2016	2015
Assets				
Current Assets	\$ 10,985,909	\$ 10,584,665	\$3,584,526	\$3,401,936
Capital Assets	24,863,915	26,462,255	28,560,396	29,346,059
Other Assets	38,504,201	39,897,992	-	-
Total Assets	74,354,025	76,944,912	32,144,922	32,747,995
Deferred Outflows of Resources	1,308,399	1,152,254	-	-
Liabilities				
Current Liabilities	5,215,051	4,917,705	965,695	1,131,593
Noncurrent Liabilities	57,496,256	59,357,200	29,257,706	29,373,804
Total Liabilities	62,711,307	64,274,905	30,223,401	30,505,397
Deferred Inflows of Resources	137,470	432,190	-	-
Net Position				
Net Investment in Capital Assets	9,024,940	10,112,671	4,625,491	4,951,796
Restricted	7,798,393	7,865,935	2,372,816	2,235,764
Unrestricted	(4,009,686)	(4,588,535)	(5,076,786)	(4,944,962)
Total Net Position	\$ 12,813,647	\$ 13,390,071	\$1,921,521	\$2,242,598

The Agency's total assets at June 30, 2017 and 2016 were \$74.3 million and \$76.9 million, respectively. Major components of current assets include cash and cash equivalents, pooled investments in qualified public depositories, current portion of capital lease and note receivables from component units, current portion of mortgage receivables, and assets currently held for sale. Assets currently held for sale are those anticipated to sell within one year. Capital assets include land, land improvements, leasehold improvements, buildings, equipment, and construction in progress. Significant components of other assets are long term portions of the capital leases and notes receivable with component units and mortgage receivables. Component unit payments on capital lease and other receivables due to Housing Kitsap, payoffs on real estate contracts, and the sale of the office space in the Norm Dick Government Center contributed to the reduction of total assets.

Total Agency liabilities are \$62.7 million and \$64.3 million at June 30, 2017 and 2016, respectively. Current liabilities include accounts payable, salaries and benefits, current portion of long term debt, debt related to assets currently held for sale, and unearned revenue from capital leases and unearned gain on sale of assets. Noncurrent liabilities include long term debt from notes and bond, unearned revenue on capital leases with component units and unearned gain on sale of assets. Cash payments received from component units and other operating activities were used to pay \$1.6 million in debt service, which reduced principal debt outstanding by \$1.1 million. Outstanding debt was further reduced by a \$405 thousand SHOP loan conversion where two-thirds (2/3) or \$270 thousand of the outstanding loan balance converted to a restricted grant used for sweat equity homeownership program activities approved by the lender and one-third (1/3) was forgiven and all restrictions removed.

The component units' total assets at December 31, 2016 and 2015 were \$32.1 million and \$32.8 million, respectively. Major components of current assets are cash and cash equivalents as well as debt service reserves invested in U.S. treasuries and repurchase agreements. The majority of other assets include premiums, net of amortization, associated with bond proceeds loaned by Housing Kitsap, the bonding authority. Due primarily to normal depreciation, total assets for the component units decreased by (\$603) thousand.

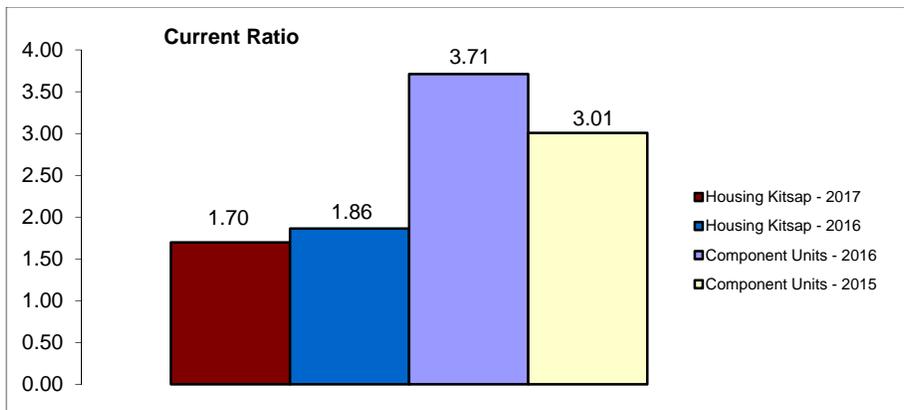
The component units' total liabilities as of December 31, 2016 and 2015 were \$30.2 million and \$30.5 million, respectively. The decrease in total liabilities is attributable to continued debt service payments on outstanding external loans and obligations due to the Housing Authority.

The Agency's current ratio, a financial indicator used to assess the ability to meet short-term obligations, decreased from 1.86 in 2016 to 1.70 in 2017. The Agency's current ratio indicates for every \$1 of current liabilities, the Agency has \$1.70 of easily convertible assets to cover those costs. While a current ratio exceeding 1.0 indicates the ability to meet current expenditures, a ratio only slightly above 1.0 also indicates a decreased capacity for assets to cover any unanticipated operational expenses that

**HOUSING KITSAP
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2017**

could be significant. For purposes of the current ratio calculation, assets held for sale of \$2.1 million in 2017 and \$1.4 million in 2016 were excluded as these figures are merely budgetary estimates of expected sales in the subsequent year. Any debt related to the assets held for sale are Self-help Homeownership Opportunity Program (SHOP) loans, which do not have short-term debt obligations and they normally go through a loan conversion and forgiveness process in future years. Current assets, excluding Assets Held for Sale, decreased by (\$309) thousand mostly due to decreases in accounts receivable. Current liabilities increased by \$297 thousand. The current ratio decrease is directly correlated to the \$284 thousand increase in interest payable on the County Loan Agreement – Loan B. In the prior year, Housing Kitsap received payoffs from Harborside seller-financed loans, which were applied toward the outstanding County Loan Agreement – Loan B. No payoffs were received in the current year and no other one-time funding sources were available for additional payment per the terms of the loan agreement. As of June 30, 2017, Housing Kitsap has made \$3.79 million in payments toward the outstanding debt on the County Loan Agreement, approximately \$640 thousand over the first milestone payment due on December 1, 2019. For further details regarding the CLA, please see Note 9 in the Notes to Financial Statements.

The component units' current ratio increased from 3.01 in 2015 to 3.71 as of December 31, 2016. Current assets increased by \$183 thousand due to increases in cash and investment balances and current liabilities decreased by (\$166) thousand.



Net position represents the Agency's equity and is reported in three major categories:

- Net Investment in Capital Assets. This consists of all capital assets, reduced by the outstanding balances of any bonds, mortgages, notes or other related borrowings attributable to acquisition, construction, or improvement of the capital asset.
- Restricted Net Position. This consists of assets which have been "restricted" by external legal constraints imposed by creditors, grantors, laws or regulations. Restricted net position includes set-aside or "reserved" assets for debt service and housing assistance programs.
- Unrestricted Net Position. This consists of all other assets available to use for any lawful and prudent purpose.

Housing Kitsap's net position decreased by (\$576) thousand or (4.3%) primarily from the (\$935) thousand net loss realized on the sale of the Norm Dicks Government Center spaces.

Component units' net position decreased by (\$321) thousand or (14.32%). Changes in total assets and liabilities were less than two percent in both categories. While strides to improve operating efficiencies resulted in an increase in operating income of 4.2%, interest expense continues to erode any operational gains.

**HOUSING KITSAP
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2017**

Statements of Revenues, Expenses, and Changes in Net Position

Similar to an income statement, the Statements of Revenues, Expenses, and Changes in Net Position reports the measure of earnings (revenues) and expenditures (expenses) for a period of time, typically a year. The statement format derives the Change in Net Position by subtracting total expenses from total revenues. The Agency's statements of revenues, expenses, and changes in net position distinguish between operating and nonoperating revenues and expenses. Operating revenue results from exchange transactions associated with providing housing and related services directly concerning the Agency's mission. Operating revenues and expenses also include federal operating subsidies and housing assistance payments provided by U.S. Department of Housing and Urban Development. Operating expenses are those expenses that are directly incurred in the operation of providing housing and development, consulting or other management activities, including administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses, including but not limited to capital and noncapital federal grants, interest revenue and expense. Capital grants and contributions represent funding from the Department of Housing and Urban Development for public housing capital repairs and rehabilitation; housing rehabilitation loans from the Community Development Block Grant Program; and other capital activities.

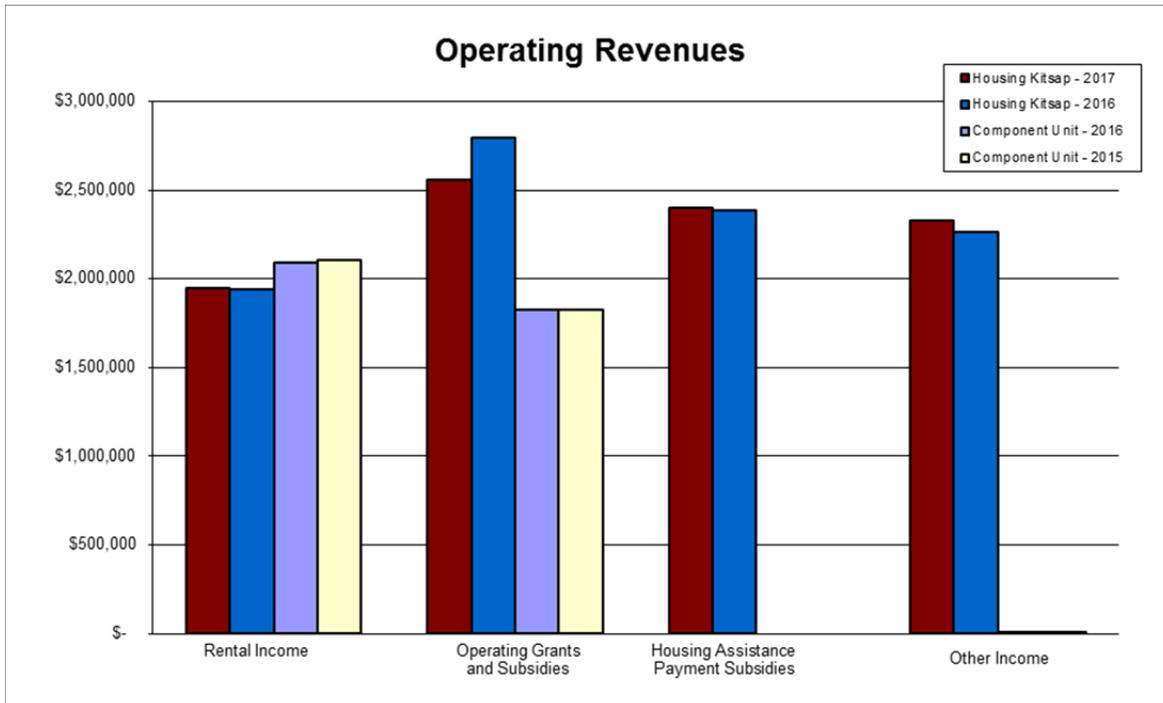
The following table summarizes the revenues, expenses and changes in net position for the years ended June 30, 2017 and 2016 for Housing Kitsap's activities and December 31, 2016 and 2015 for the Agency's component units:

**HOUSING KITSAP
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2017**

COMPARATIVE CONDENSED STATEMENTS OF REVENUE, EXPENSE, AND CHANGES IN NET POSITION

	Housing Kitsap		Component Units	
	2017	2016	2016	2015
Revenues				
Operating Revenue				
Rental Income	\$ 1,948,096	\$ 1,939,637	\$2,087,787	\$2,108,920
Operating Grants and Subsidies	2,558,086	2,791,628	1,824,637	1,822,035
HAP Subsidies	2,400,543	2,382,450	-	-
Other Income	2,330,450	2,262,050	7,780	10,643
Total Operating Revenue	<u>9,237,175</u>	<u>9,375,765</u>	<u>3,920,204</u>	<u>3,941,598</u>
Non-Operating Revenue				
Investment Income	1,177,299	1,195,944	60,247	60,332
Gain (Loss) on Disposal of Assets	(365,791)	570,919	-	-
Total Non-Operating Revenue	<u>811,508</u>	<u>1,766,863</u>	<u>60,247</u>	<u>60,332</u>
Total Revenues	<u>10,048,683</u>	<u>11,142,628</u>	<u>3,980,451</u>	<u>4,001,930</u>
Expenses				
Operating Expenses				
Administrative Salaries and Benefits	2,709,768	2,338,184	270,377	288,044
Repairs & Maintenance	1,653,858	1,700,962	504,085	528,756
Grants Made	291,910	374,940	-	-
Housing Assistance Payments	2,368,709	2,344,995	-	-
Depreciation and Amortization	846,758	891,297	852,316	842,805
Other Operating Expenses	1,938,333	1,525,125	1,386,243	1,411,367
Total Operating Expenses	<u>9,809,336</u>	<u>9,175,503</u>	<u>3,013,021</u>	<u>3,070,972</u>
Non-Operating Expenses				
Interest Expense and Fiscal Charges	1,498,749	1,553,111	1,288,505	1,306,032
Total Non-Operating Expenses	<u>1,498,749</u>	<u>1,553,111</u>	<u>1,288,505</u>	<u>1,306,032</u>
Total Expenses	<u>11,308,085</u>	<u>10,728,614</u>	<u>4,301,526</u>	<u>4,377,004</u>
Excess (Deficiency) of Revenues over Expenses	(1,259,402)	414,014	(321,075)	(375,074)
Capital Grants and Contributions Received	682,978	699,585	-	-
Change in Net Position	(576,424)	1,113,599	(321,075)	(375,074)
Net Position, Beginning of Year (Restated)	13,390,071	12,276,472	2,242,598	2,617,672
Net Position, End of Year	<u>\$ 12,813,647</u>	<u>\$ 13,390,071</u>	<u>\$1,921,523</u>	<u>\$2,242,598</u>

**HOUSING KITSAP
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2017**

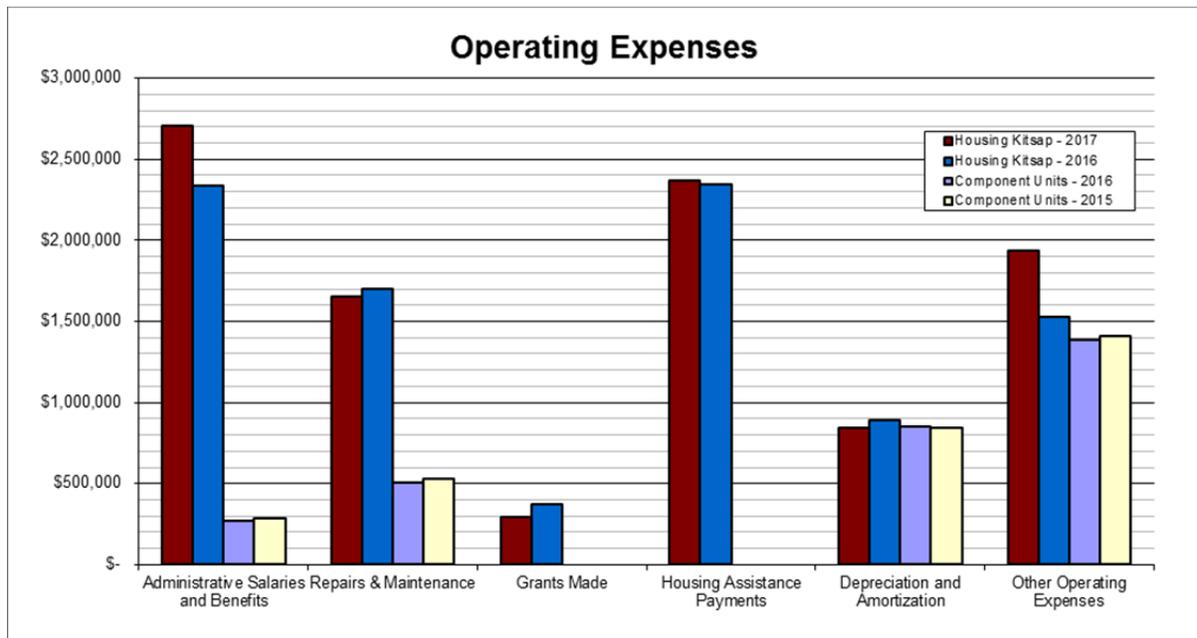


The Agency realized an overall decrease of total operating revenues by (\$139) thousand or (1.48%) from the prior year. Significant changes in operating revenues are attributable to decreases in housing assistance subsidies and non-renewal of the Lead Hazard Control Grant in the current year. While rental income was slightly higher in the current year at \$8 thousand or .44%, rental subsidies from Rural Development (RD), Housing & Urban Development (HUD), project-based Section 8, and local sources were (\$68) thousand or (4.79%) less than the prior year. The Washington State Department of Commerce, who administers the Lead Hazard Control Program in Washington State, was not awarded the federal funds from U.S. Department of Housing and Urban Development (HUD). As a result, funding for Housing Kitsap's lead program was not renewed in the current year, which accounts for a (\$69) thousand or (2.65%) reduction in total operating grant revenue from the prior year.

In 2017, Housing Kitsap non-operating revenue experienced a (\$955) thousand decrease from the prior year due to the (\$935) thousand net loss realized from the sale of the Norm Dicks Government Center space.

Component unit operating and non-operating revenue remained static with a (\$22) thousand or (.54%) decrease in operating income and a decrease of (\$85) or (.14%) in non-operating revenue.

**HOUSING KITSAP
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2017**



Housing Kitsap's total operating expenses experienced a \$634 thousand or 6.91% increase from the previous year with the most significant increase recognized in Other Operating Expenses – Bad Mortgage Debt and Salaries and Benefits. During the current year, all down payment assistance and rehab mortgages were examined for collectability. It was determined that approximately \$448 thousand or 9% of mortgages were uncollectible and were recognized as bad debt expense with board approval. Total Salaries and Benefits increased by \$372 thousand or 15.89% due to the increase in employee benefits, increased hiring of temporary employees, and GASB 68 adjustment to pension expense.

Overall, consolidated component unit operating expenses decreased in total by (\$58) thousand or (1.89%) most notably with the reduction of (\$67) thousand or (1.15%) reduction in Salaries & Benefits.

Statement of Cash Flows

The Statement of Cash Flows explains the sources and uses of cash provided for by operating activities, noncapital financing, capital and related financing, and investing activities during the periods reported. The net of these activities is added to the beginning year cash balance to reconcile to the cash balances at June 30, 2017. The Agency uses the direct method of presentation, however, a reconciliation of operating cash flows to operating income is also provided. The statement of cash flows is limited to actual inflows and outflows of cash and cash equivalents. Therefore, noncash transactions that affect recognized assets or liabilities and transactions that would not have been properly classified as cash flows from operating activities are presented in tabular format accompanying the statement of cash flows.

Capital Assets and Debt Administration

Housing Kitsap classifies capital assets as those assets supporting operating functions for the Agency. Assets expected to sell within the current year, have been reclassified at their net realizable value as Assets Held for Sale on the face of the financial statements and depreciation, if applicable, suspended. Pledged assets not expected to sell within the year or are still continuing to support the Agency's operations are included as capital assets.

The Agency's total capital assets experienced a net decrease of (6.04%) due to normal depreciation and notably to the sale of the 1st and 5th floor suites at the Norm Dicks Government Center in late May 2017. Increases in capital assets were the result of remodel and paving projects at Rural Development properties and the purchase of a new central office building in Silverdale. To better accommodate the consolidation of central office staff, moderate remodeling of the new office building began in June 2017 and the building went into service at the end of August 2017.

Component unit capital assets decreased (\$785) thousand or (2.68%) due primarily to normal depreciation of assets.

The table below depicts the Agency's and its component units' capital assets, net of accumulated depreciation, at June 30, 2017, and 2016 and December 31, 2016, and 2015.

**HOUSING KITSAP
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2017**

	Housing Kitsap			Component Units		
	2017	2016	Variance %	2016	2015	Variance %
Land	\$ 10,196,079	\$ 10,411,629	-2.07%	\$ 5,593,480	\$ 5,593,480	0.00%
Buildings	12,075,392	15,386,892	-21.52%	22,600,975	23,287,117	-2.95%
Improvements	436,404	266,234	63.92%	349,010	397,466	-12.19%
Equipment	262,955	301,515	-12.79%	11,912	14,876	-19.92%
Construction in Progress	1,893,085	95,985	1872.27%	5,019	53,120	0.00%
Total Capital Assets, Net	\$ 24,863,915	\$ 26,462,255	-6.04%	\$ 28,560,396	\$ 29,346,059	-2.68%

For further detail on capital assets, please see Note 5 of the Notes to Financial Statements.

Total debt outstanding for Housing Kitsap decreased from the prior year by (\$860) thousand or (1.92%). New debt issuance included \$645 thousand in new Self Help SHOP loans. Housing Kitsap paid \$1.1 million in required annual repayments for all debt outstanding. In addition, \$405 thousand in Self Help SHOP loans converted to a \$270 thousand restricted grant and \$135 thousand in debt forgiveness.

Total consolidated component unit debt decreased slightly by (\$97) thousand or (.33%). Although, the component units collectively made principal payments in the amount of \$516 thousand towards outstanding debt and capital leases to Housing Kitsap, the component unit's continue to accrue administrative fees and interest on notes due to Housing Kitsap in the amount of \$498 thousand, resulting in a less than 1% decrease in total outstanding debt.

	Housing Kitsap			Component Units		
	2017	2016	Variance %	2016	2015	Variance %
Short-Term Borrowing	\$ 981,830	\$ 1,125,829	-12.79%	\$ -	\$ -	0.00%
Notes Payable	28,563,671	28,791,963	-0.79%	4,107,336	4,185,632	-1.87%
Bonds Payable	14,397,980	14,885,915	-3.28%	-	-	0.00%
Capital Leases	-	-	0.00%	13,332,262	13,716,075	-2.80%
Notes Payable to Housing Kitsap	-	-	0.00%	12,222,878	11,857,748	3.08%
Total Debt Outstanding	\$ 43,943,480	\$ 44,803,707	-1.92%	\$ 29,662,476	\$ 29,759,455	-0.33%

For further detail on short- and long-term debt obligations, please see Note 9 of the Notes to Financial Statements.

To gain a comprehensive understanding of the information presented in this discussion and analysis, please see the basic financial statements and notes to financial statements.

**HOUSING KITSAP
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2017**

Economic Factors Affecting Housing Kitsap's Future

Some of the greatest uncertainty facing this country, and housing authorities in particular, has been the anticipation of the long awaited results of the national election for a new president and any potential changes in the leadership of the Congress. The conservative nature of the new administration will likely have far reaching impacts on the Federal government as a whole, and on the Department of Housing and Urban Development (HUD) and the Department of Agriculture – Rural Development (RD) in particular. While these programs won't disappear, it is probable that changes in program scope and reductions in funding will occur during the coming years.

Housing Kitsap (HK)'s HUD based portfolio is relatively small. HK has an allocation of Housing Choice Section 8 vouchers and some Public Housing. HK directly administers the Public Housing and relies on administrative fees, operating support and capital funding from HUD. Further, while HK does not directly administer the vouchers, HK does rely on a small part of the fee to support its administrative burden and staff. Changes in federal support for these programs will have a modest but direct, negative impact on HK's operations.

HK owns and provides affordable multi-family and single family housing throughout Kitsap County not including the City of Bremerton. The bulk of the portfolio, approximately 84%, is much more subject to the local economy and the local real estate market. Conditions have been strong with continued lower unemployment rates, retail sales growth, higher home prices, low vacancies and increasing rents. Interest rates stayed low. Positive economic growth continued throughout the year. HK anticipates, at least in the short term, that these conditions will continue. If a conservative administration and Congress enact measures consistent with their campaign rhetoric, infrastructure and military spending are likely to increase which should result in direct benefits for Kitsap County. Also, the passage of the local fast ferry measure may have direct positive economic benefits for Kitsap County resulting from improved transportation access to and from Seattle.

Unfortunately, there are very few new affordable units under construction in Kitsap County. New construction of multi-family housing is anticipated throughout the County but only a very few affordable units are included where property tax advantages have been enacted by the local jurisdiction. The demand for affordable housing is enormous with as much as 40% of the County's households, home owners or rental, paying more than 30% of their gross income for housing. The need for affordable housing for veterans, homeless and special and vulnerable populations is acute.

HK submitted a 2017-2019 grant application to Rural Development (RD) to continue building new homes under the Self Help homeownership program which will likely be approved. HK anticipates this program will continue for at least two more years. Further, HK will continue to acquire foreclosed units, rehab them and reposition them with new owners under RD's modified financing. HK will continue to actively plan and develop new housing projects in private sector partnerships and independently. Further, HK anticipates continued improvement in all of its operations during the coming years.

Contacting the Housing Kitsap's Financial Management

The financial report is designed to provide readers with a general overview of the Housing Authority's agency-wide finances. Questions concerning any of the information should be addressed to the Executive Director or Chief Financial Officer of Housing Kitsap, located at 2244 NW Bucklin Hill Road, Silverdale, WA 98383, telephone number is (360) 535-6100.

**HOUSING KITSAP
STATEMENTS OF NET POSITION
JUNE 30, 2017 AND DECEMBER 31, 2016**

	Housing Kitsap	Component Units
ASSETS		
Current Assets		
Cash & Cash Equivalents	\$ 2,099,324	\$ 962,690
Investments	85,005	-
Receivables		
Tenants - Net of Allowance for Uncollectible Accounts	72,388	64,276
Due from Other Agencies	60,620	-
Prepaid & Other Current Assets	65,174	37,421
Current Portion of Lease Receivable	34,482	-
Current Portion of Notes Receivable	5,955	-
Current Portion Due from Component Units	1,315,204	-
Restricted Assets		
Cash & Cash Equivalents	4,664,107	1,325,117
Investments	128,769	1,195,022
Current Portion of Notes Receivable	1,410	-
Current Portion of Real Estate Contracts	20,543	-
Assets Held for Sale	2,132,144	-
Due from Other Governments	300,784	-
Total Current Assets	10,985,909	3,584,526
Noncurrent Assets		
Capital Assets - Net of Accumulated Depreciation	24,863,915	28,560,396
Capital Lease Receivable - Net of Current Portion	609,178	-
Notes Receivable - Net of Current Portion	1,422,068	-
Investment in Tax Credit Partnerships	673,067	-
Due from Component Units - Net of Current Portion	32,504,146	-
Restricted Assets		
Real Estate Contracts - Net of Current Portion	275,980	-
Note Receivable - Net of Current Portion and Allowance	3,019,762	-
Total Noncurrent Assets	63,368,116	28,560,396
TOTAL ASSETS	\$ 74,354,025	\$ 32,144,922
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Loss on Refunding	\$ 712,350	\$ -
Pension Related Deferred Outflows of Resources	596,049	-
TOTAL DEFERRED OUTFLOWS OF RESOURCES	\$ 1,308,399	\$ -

(Continued)

The Accompanying Notes are an Integral Part of These Statements.

**HOUSING KITSAP
STATEMENTS OF NET POSITION
JUNE 30, 2017 AND DECEMBER 31, 2016**

	Housing Kitsap	Component Units
LIABILITIES		
Current Liabilities		
Salaries, Taxes & Employee Benefits Payable	\$ 214,006	\$ -
Accounts Payable	203,706	130,667
Current Portion of Long-Term Debt	2,117,142	80,088
Current Portion Due to Housing Kitsap	-	565,077
Current Portion of Unearned Revenue		
Component Unit Capital Lease Receivable	739,435	-
Port of Bremerton Capital Lease Receivable	21,003	-
Unearned Gain on Sale of Assets	570,919	-
Accrued PILOT	5,462	-
Interest Payable	645,348	3,343
Payable from Restricted Assets		
Security Deposits	163,122	147,322
Accounts Payable	178,135	-
Trust Funds	333,306	-
Debt Reserve	5,866	-
Prepaid Rent	17,601	18,700
Other Liabilities	-	20,498
Total Current Liabilities	5,215,051	965,695
Noncurrent Liabilities		
Long Term Debt - Net of Current Portion	41,826,338	4,027,248
Due to Housing Kitsap - Net of Current Portion	-	25,135,128
Unearned Revenue - Net of Current Portion		
Component Unit Capital Lease Receivable	7,606,069	-
Port of Bremerton Capital Lease Receivable	202,600	-
Unearned Gain on Sale of Assets - Net of Current Portion	5,171,499	-
Payable from Restricted Assets		
Escrow	14,677	-
Net Pension Liability	2,593,961	-
Other Long-Term Liabilities	81,112	95,330
Total Noncurrent Liabilities	57,496,256	29,257,706
TOTAL LIABILITIES	\$ 62,711,307	\$ 30,223,401
DEFERRED INFLOWS OF RESOURCES		
Pension Related Deferred Inflows of Resources	\$ 137,470	\$ -
TOTAL DEFERRED INFLOWS OF RESOURCES	\$ 137,470	\$ -
NET POSITION		
Net Investment in Capital Assets	\$ 9,024,940	\$ 4,625,491
Restricted for:		
Capital Replacements	1,120,919	950,644
Project Debt Service and Construction	675,533	1,422,172
Housing Programs	6,001,941	-
Unrestricted (deficit)	(4,009,686)	(5,076,786)
TOTAL NET POSITION	\$ 12,813,647	\$ 1,921,521

The Accompanying Notes are an Integral Part of These Statements.

HOUSING KITSAP
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2017 AND DECEMBER 31, 2016

	Housing Kitsap	Component Units
Operating Revenues		
Rental Income, Net	\$ 1,948,096	\$ 2,087,787
Operating Grants and Subsidies	2,558,086	1,824,637
Housing Assistance Payment Subsidies	2,400,543	-
Management Fees	1,019,290	-
Developer Fees	10,642	-
Program Income	701,848	-
External Fee Income	568,011	-
Miscellaneous Income	30,659	7,780
Total Operating Revenues	9,237,175	3,920,204
Operating Expenses		
Administrative Salaries & Benefits	2,709,768	270,377
Professional Services	550,494	501,349
General & Administrative Expenses	155,195	67,495
Development Costs	1,076	-
Repairs & Maintenance	1,653,858	504,085
Maintenance - Replacements	71,958	155,753
Utilities	583,445	575,373
Rents	2,400	84
Bad Mortgage Debt	447,513	-
Payments in Lieu of Taxes	22,698	-
Insurance	103,554	86,189
Operating Grants and Loans Made	291,910	-
Housing Assistance Payments	2,368,709	-
Depreciation	801,532	847,661
Amortization	45,226	4,655
Total Operating Expenses	9,809,336	3,013,021
Operating Income	(572,161)	907,183
Non Operating Revenues (Expenses)		
Investment Income	1,177,299	60,247
Loss on Sale of Assets	(365,791)	-
Interest Expenses and Fiscal Charges	(1,498,749)	(1,288,505)
Total Non Operating Revenues (Expenses)	(687,241)	(1,228,258)
Income (Loss) Before Capital Grants and Contributions	(1,259,402)	(321,075)
Capital Grants Received	682,978	-
Change in Net Position	(576,424)	(321,075)
Net Position, Beginning of Year	13,390,071	2,242,598
Net Position, End of Year	\$ 12,813,647	\$ 1,921,523

The Accompanying Notes are an Integral Part of These Statements.

**HOUSING KITSAP
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2017**

	<u>Housing Kitsap</u>
Cash Flows From Operating Activities:	
Cash Received From Customers and Users	\$ 2,750,981
Cash Received From Operating Grants	4,958,629
Cash Received in Program Loan Repayments	214,105
Cash Received From Other Operating Activities	879,362
Cash Payments Made to Suppliers and Employees	(5,777,038)
Cash Payments in Lieu of Property Taxes	(22,698)
Program Loans and Grants Made	(531,219)
Housing Assistance Payments Made	(2,368,709)
Acquisition of Self Help Lots and Land Development	(3,288,304)
Proceeds from the Sale of Self Help Lots and Rehab Homes	2,839,772
Net Cash Used in Operating Activities	<u>(345,119)</u>
Cash Flows From Noncapital Financing Activities:	
Advances Made to Component Units	(575,940)
Supplemental Loan Made to Community Frameworks	(599,742)
Loan Receivable Payoff from Community Frameworks	1,711,975
Payments Received from Component Units	1,287,792
Payments Made on Non-Capital Debt	(410,000)
Payments Made on Line of Credit	(142,114)
Proceeds from Issuance of New Self Help Loans	645,000
Payments Made on County Loan Agreement (Loan B)	(103,296)
Net Cash Provided by Noncapital Financing Activities	<u>1,813,675</u>
Cash Flows From Capital and Related Financing Activities:	
Acquisition and Construction of Capital Assets	(2,163,997)
Proceeds from Sale of Capital Assets	2,024,096
Capital Grants Received	682,978
Payments Received on Capital Leases	33,165
Payments Made on Capital Debt	(636,066)
Payments Made on CLA - Loan A	(290,188)
Net Cash Used by Capital and Related Financing Activities	<u>(350,012)</u>
Cash Flows From Investing Activities:	
Investment Income Received	16,611
Purchase of Investment Securities	(25,757)
Sale or Maturities of Investment Securities	20,963
Proceeds from Harborside Condominium Sales	34,901
Net Cash Provided by Investing Activities	<u>46,718</u>
Net Increase in Cash and Cash Equivalents	1,165,262
Cash and Cash Equivalents at Beginning of Year	<u>5,598,169</u>
Cash and Cash Equivalents at End of Year	<u>\$ 6,763,431</u>
Balance Sheet Classification of Cash and Cash Equivalents	
Cash and Cash Equivalents	\$ 2,099,324
Restricted Cash and Cash Equivalents	4,664,107
	<u>\$ 6,763,431</u>

(Continued)

The Accompanying Notes are an Integral Part of These Statements.

**HOUSING KITSAP
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2017**

	<u>Housing Kitsap</u>
Reconciliation of Operating Income to Net	
Operating Income	\$ (572,162)
Adjustments to Reconcile Operating Income to Net Cash	
Used in Operating Activities	
Depreciation and Amortization	846,758
Forgiveness of SHOP Program Loans	(405,000)
Write off of Uncollectible Program Mortgages and Tenant Accounts Receivable	580,265
Accrual of Administration Fees from Component Units	(146,464)
GASB 68 Adjustments	(105,431)
Cash Provided by (Used in) Changes in	
Assets and Liabilities:	
(Increase) Decrease in Receivables	62,510
(Increase) Decrease in Program Notes Receivable	(59,925)
(Increase) Decrease in Assets Held for Sale	(709,982)
(Increase) Decrease in Prepaid Expenses	140,691
Increase (Decrease) in Payables	18,232
Increase (Decrease) in Security Deposits Payable and Prepaid Rent	5,389
Total Adjustments	<u>227,043</u>
Net Cash Used in Operating Activities	<u>\$ (345,119)</u>
 Noncash Investing, Capital and Financing Activities:	
Amortization of Gain on Sale of Assets	\$ 570,917
Accrued Interest Receivable from Component Units	351,625
Amortization of Premium/Discount	52,735
Loss on Investment in Partnership	23

The Accompanying Notes are an Integral Part of These Statements.

HOUSING KITSAP
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

NOTE 3 – DEPOSITS AND INVESTMENTS

NOTE 4 – FINANCING LEASE, MORTGAGE RECEIVABLES AND REAL ESTATE CONTRACTS

NOTE 5 – CAPITAL ASSETS

NOTE 6 – COMPENSATED ABSENCES

NOTE 7 – DEFERRED COMPENSATION PLAN

NOTE 8 – PENSION PLAN

NOTE 9 – LONG TERM AND SHORT TERM OBLIGATIONS

NOTE 10 – OPERATING LEASES

NOTE 11 – PAYMENTS IN LIEU OF TAXES

NOTE 12 – RECONCILIATION OF NET POSITION

NOTE 13 – CONDUIT FINANCING

NOTE 14 – SEGMENT INFORMATION

NOTE 15 – DISCRETELY-PRESENTED COMPONENT UNITS

NOTE 16 – BLENDED COMPONENT UNITS

NOTE 17 – RELATED PARTY TRANSACTIONS

NOTE 18 – RISK MANAGEMENT

NOTE 19 – CONTINGENCIES

NOTE 20 – SUBSEQUENT EVENTS

HOUSING KITSAP NOTES TO FINANCIAL STATEMENTS June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Program Descriptions

The Kitsap County Consolidated Housing Authority, DBA (doing business as) Housing Kitsap (“the Agency”), was created in 1982 as a municipal corporation, pursuant to the Revised Code of Washington (RCW) 35.82. The Agency’s mission is to manage, preserve, and build safe affordable housing serving individuals, families and communities through Kitsap County. Housing Kitsap operates its housing programs throughout Kitsap County, excluding the City of Bremerton. In accordance with federal and state laws and regulations, Housing Kitsap administers programs through the U.S. Department of Housing and Urban Development (HUD) under provisions of the U.S. Housing Act of 1937, as amended, and U.S. Department of Agriculture – Rural Development (USDA-RD). Housing Kitsap’s activities consists of owning and operating 475 units of affordable housing, administering 374 housing choice vouchers, as well as administering a multiplicity of rental subsidy programs to eligible low-income persons. The Agency’s component units include six low income housing tax credit partnerships consisting of an additional 424 units of affordable housing which the Agency operates as general partner. Housing programs are explained in detail in the Programs section below.

- Public Housing—Operated under HUD’s Annual Contributions Contract (ACC), the Public Housing Program provides operating subsidies to the Agency in support of providing decent and affordable housing to residents qualifying at or under 30% of the area’s median household income. The properties are owned, maintained, and managed by Housing Kitsap. Public Housing also includes a Capital Fund program, which is the primary funding source to modernize the Agency’s 136 public housing units, of which 15 are specifically set-aside for disabled seniors.
- Senior & Disabled Affordable Housing – Housing Kitsap rents low-income units that it owns to seniors and qualified disabled persons. Operated under various program’s funding sources, the Agency is able to provide housing at a rent that is based between 30% and 45% of the area’s median household income. Some units are set aside for extremely low income seniors and disabled persons who are at or below 25% of the area’s median household income.
- The Section 8 Housing Choice Voucher (HCV) Program – Housing Kitsap subcontracts the administration of its 374 Housing Choice Vouchers to Bremerton Housing Authority (BHA) through an inter-local agreement. Under the program, BHA contracts with independent landlords owning rental housing property. The Agency subsidizes the tenant family’s monthly rental obligation through a Housing Assistance Payment made to the landlord. HUD provides annual contributions funding to enable the Agency to subsidize rents based on 30% of the area’s median household income.
- Housing Stabilization Program – In 2005, as part of a strategic vision to reduce homelessness in each county by 50%, the Washington State legislature enacted HB 2163. The bill creates funding and resources in the effort to provide all homeless individuals and families with permanent housing.
- Mutual Self Help Housing Program –The Section 502 Mutual Self-Help Housing Loan Program, offered through U.S. Department of Agriculture – Rural Housing Service, provides homeownership opportunities to first time homebuyers with limited but stable income, good credit, and ability and willingness to meet future debt payments that are unable to buy clean, safe housing through conventional methods. Eligible participants provide their own “sweat equity” resulting in substantial savings which is then applied toward the goal of homeownership. Through funds provided by USDA-RD and other funding sources, Housing Kitsap provides down-payment assistance, low-interest mortgages (principal and interest based on income, not current market interest rate), building site and plans, and homeownership training to eligible applicants at or below 80% of median household income. Participants in a mutual self-help project operate within a Building Group of 8 – 14 households and perform approximately 65 percent of the construction labor on each other’s homes under qualified supervision provided by Housing Kitsap.
- Down Payment Assistance (DPA) Program – Those low and very low-income households that do not qualify for conventional lending programs may participate in the Down Payment Assistance Program. With grant funding, Housing Kitsap provides loans in the form of second mortgages to the individuals. The second mortgages are repaid once the properties are sold or refinanced.
- Modernization Program – This unique program allows home owners the opportunity to repair roof leaks, wiring issues, and any health and safety concerns, as well as weatherization and lead-based paint remediation. Through Washington State funded Home Repair and Rehabilitation Program (HRRP) and Kitsap County’s Community Development Block Program (CDBG), Housing Kitsap offers interest free deferred payment loans that are due upon sale of the home or 20 years, whichever comes first. The program is available to households at or below 50% of median household income.
- Low-Income Housing Tax Credits (LIHTC) – This program was created by the Tax Reform Act of 1986 as an alternate method of funding housing for low- and moderate- income households. The LIHTC program provides federal tax credits to investors, unrelated to the Agency, which hold limited interests in real estate partnerships with the Agency. The tax credits generally equal a large percentage of the cost invested and financed for development of low-income units in a

HOUSING KITSAP NOTES TO FINANCIAL STATEMENTS June 30, 2017

rental housing project. Through the program, Housing Kitsap provides funding for the development, maintenance and operating costs of 409 low-income housing units of which at least 40% or more of the residential units are both rent restricted and occupied by individuals whose income is 50% of the area's median household income. Properties are required to remain eligible during a 15-year compliance period, which has since increased to 30-years for newly formed partnerships.

Financial Reporting Entity

Housing Kitsap is governed by a board consisting of six elected officials – Kitsap County Commissioners, Mayors of the Cities of Poulsbo and Port Orchard, Councilmember of the City of Bainbridge Island and one Public Housing resident that is appointed by the elected officials. Housing Kitsap is not financially dependent on Kitsap County and is not considered a component unit of the County.

As defined by generally accepted accounting principles (GAAP), Housing Kitsap's basic financial statements include all the accounts of Housing Kitsap's operations as the primary government, as well as its component units. The criteria for including organizations as component units with the Housing Kitsap's reporting entity, as set forth in GASB's *Codification of Government Accounting and Financial Reporting Standards*, include whether:

- The organization is legally separate (can be sued in its own name)
- Housing Kitsap holds the corporate powers of the organization
- Housing Kitsap appoints a voting majority of the organization's board
- Housing Kitsap is able to impose its will on the organization
- The organization has the potential to impose a financial burden/benefit on Housing Kitsap
- There is a fiscal dependency by the organization on Housing Kitsap

Component units are reported as part of the reporting entity under either the blended or discrete method of presentation. If it is determined the component unit's governing body is substantively the same as that of the primary government, and one of (a) there is a financial benefit or burden relationship between the primary government and the component unit or (b) management of the primary government has operational responsibility for the component unit then the component unit's financial information is "blended" and presented in the aggregate with the primary government.

Based on the aforementioned criteria, Housing Kitsap is considered financially accountable for seven component units, and as general partner, the Agency has certain rights and responsibilities, which enable it to impose its will on the limited partnerships. However, six of the seven limited partnerships do not serve the Agency exclusively, or almost exclusively, and therefore, are shown as discretely presented component units. The six limited partnerships operate under the Low Income Tax Credit Program administered by the Washington State Housing Finance Commission (WSHFC). Housing provided by the partnerships is subject to monitoring of tenant eligibility by WSHFC.

The six discretely presented component units are: Heritage Apartments Limited Partnership, Kitsap Apartments 2006 Limited Partnership, Liberty Bay Associates Limited Partnership, Railroad Avenue Associates Limited Partnership (Fjord Vista II), Red Barn Associates Limited Partnership (Port Orchard Vista), and Viewmont Apartment Limited Partnership.

Heritage Apartments Limited Partnership is a legally separate entity formed in 2000 to acquire, construct, own, finance, lease and operate a 57- unit apartment project (Heritage Apartments) located in Port Orchard, Washington. Underlying financing for the acquisition and rehabilitation of the apartment project primarily consists of proceeds from single-purpose, tax-exempt revenue bonds issued by the 0.1% general partner, Housing Kitsap. Heritage Apartments receives a Section 8 Special Allocation rental subsidy provided by the U.S. Department of Housing and Urban Development on 56 of 57 units. The rental subsidy contract with HUD expires in October 2020. The partnership agreement provides for the termination of the Partnership in 2099.

Kitsap Apartments 2006 Limited Partnership is a legally separate entity formed in 2006 to rehabilitate, own and operate 201 units, 91 market rate and 110 low income units, in 24 buildings located on three sites in Kingston, Port Orchard, and Bremerton (unincorporated), Washington. The Partnership has agreed to maintain all apartment units as both rent restricted and occupied by low-income tenants for a minimum period of 50 years beginning in 2008. Housing Kitsap is a 0.01% general partner and served as developer during rehabilitation of the project.

Liberty Bay Associates Limited Partnership is a legally separate entity formed in 2001 to construct, own and operate 16-units of affordable housing located on two sites in unincorporated Bremerton and Port Orchard, Washington. Construction was completed and rental operations began in December 2001. The Partnership has agreed to maintain all apartment units as both rent restricted and occupied by low-income elderly tenants for a minimum period of 50 years beginning in 2001. In addition, Kitsap Mental Health Services has entered into an agreement with the Partnership to provide affirmative marketing and referral

**HOUSING KITSAP
NOTES TO FINANCIAL STATEMENTS
June 30, 2017**

services, tenant selection, tenant management and case management services for 10 years at no charge to the Partnership. Housing Kitsap is a .01% general partner.

Railroad Avenue Associates Limited Partnership is a legally separate entity formed in 2000 to construct, own and operate 16 units of affordable housing located in Poulsbo, Washington. Construction was completed and rental operations began July 2004. The Partnership has agreed to maintain all apartment units as both rent restricted and occupied by low-income elderly tenants for a minimum period of 50 years beginning in 2004. The Project was financed and constructed under the Section 515 of the National Housing Act. Under this program, the Partnership provides affordable housing to tenants subject to regulation by Rural Housing Service (RHS). The Partnership receives a rent subsidy and a mortgage interest subsidy from RHS, which expires October 2019. Housing Kitsap is .01% general partner.

Red Barn Associates Limited Partnership is a legally separate entity formed in 1998 to construct, own and operate 42 multi-family rental units including 41 units for low-income tenants and 1 common area unit for on-site management. Of the 41 units, 21 units are occupied by senior households that at the time of initial occupancy have gross annual household incomes at or below 30% of the area's median income; 10 units are occupied by senior households that at the time of occupancy have gross annual household incomes at or below 40% of the area's median income; and the remaining 10 units to be occupied by senior households that at the time of initial occupancy have gross annual household income at or below 60% of the area's median income. Construction was completed and rental operations began in 2004. The Partnership has agreed to maintain all apartment units as both rent restricted and occupied by low-income elderly tenants for a minimum period of 50 years beginning in 2001. Housing Kitsap is a .01% general partner.

Viewmont Apartments Limited Partnership is a legally separate entity formed in 2000 to acquire, rehabilitate, own and operate a 77-unit apartment project located in Port Orchard, Washington. Underlying financing for the acquisition and rehabilitation of the apartment project primarily consists of proceeds from single-purpose, tax-exempt revenue bonds issued by the 0.1% general partner, Housing Kitsap. Viewmont Apartments receives a Section 8 Special Allocation rental subsidy provided by the U.S. Department of Housing and Urban Development on 76 of 77 units. The rental subsidy contract with HUD expires in October 2020. The partnership agreement provides for the termination of the Partnership in 2099.

The discretely presented component units maintain financial records on a December 31 calendar year and their financial information is presented as of December 31, 2016.

Dye's Inlet Associates Limited Partnership (Dye's Inlet) is a legally separate entity formed in 1997 to construct, own and operate an 18-unit apartment project located in Silverdale, Washington. The Partnership has agreed to maintain all apartment units as both rent restricted and occupied by low-income elderly tenants for a minimum period of 50 years beginning in 1999. Housing Kitsap is a 0.1% general partner and also served as developer and property manager of the project. The project was completed and rental operations began in July 1999. The partnership agreement provides for the termination of the Partnership in 2063. On May 15, 2015, the limited partner, Key Bank, assigned its share to HK Communities, LLC, a single member limited liability company whose sole member is HK. Prior to the exit of the limited partner, Dye's Inlet was reported as a discretely presented component unit. Since the governing board is substantively the same as Housing Kitsap and Housing Kitsap's management has operational responsibility for the component unit, Dye's Inlet financial activity is reported as a blended component unit with the primary government in the accompanying financial statements.

HK Communities, LLC, a single member limited liability company, was created on April 8, 2015, primarily to acquire and own limited partnership interests in limited partnerships of which HK is a partner. HK is the single member and manager of the company. The governing board is substantively the same as Housing Kitsap and serves Housing Kitsap exclusively, HK Communities, LLC, financial activity is reported as a blended component unit with the primary government in the accompanying financial statements.

In addition, Housing Kitsap has established a non-profit 501(c)(3) corporation known as Building Affordable Strategic Innovative Communities (BASIC) to assist in its mission of providing safe, decent, affordable housing for low- and moderate-income persons or families. Housing Kitsap does not include the organization within its reporting entity as BASIC's net assets are not significant to the Agency and contributions from BASIC to Housing Kitsap occur infrequently.

Requests for additional financial information should be addressed to the Executive Director of Housing Kitsap at 2244 NW Bucklin Hill Road, Silverdale 98383.

HOUSING KITSAP

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

Basis of Accounting and Presentation

Housing Kitsap has elected to report as a single-enterprise proprietary fund. The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, whereby all revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

All assets and liabilities associated with the operations of Housing Kitsap are included on the Statements of Net Position, and the accompanying financial statements of the Agency have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") as applicable to proprietary funds of government. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the most significant policies:

Accounting Methods

Cash and Cash Equivalents

For purposes of cash flows and classification in the financial statements, Housing Kitsap considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. The exception would be instruments residing within the Washington State Investment Pool, which are highly liquid, but also which are treated as short or long-term investments because of investment policy, intent, and actual use. Cash equivalents are instruments readily convertible to known amounts of cash.

Housing Kitsap pools the cash resources of its various projects and programs to facilitate the management of cash. Cash applicable to a particular project or program is readily identifiable. The balance in the pooled cash accounts is available to meet current operating requirements. It is Housing Kitsap's policy to invest all temporary cash surpluses, which are classified on the balance sheet as cash and cash equivalents. The interest on these investments is prorated to the various projects and programs. The amounts reported as cash and cash equivalents also include compensating balances maintained with certain banks in lieu of payments for services rendered. See Note 3 – Deposits and Investments.

Investments

The Agency accounts for its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools as amended by GASB Statement 40 and 72*, which requires the investments be reported at fair value. Fair value is determined based on quoted market prices for the investments. All of the Agency's investments are reported at fair value with the exception of investments held in the Local Government Investment Pool (LGIP) and Kitsap County Investment Pool (KCIP), which are carried at amortized cost. Investment portfolios in the LGIP and KCIP are stated at amortized cost, which approximates fair value.

The Agency is authorized by HUD and its Board to invest in time deposits, certificates of deposits, and obligations of the U.S. Government or its agencies, and to enter into repurchase agreements. Repurchase agreements are secured by U.S. Treasury securities with a market value equal to or greater than the amount of the repurchase agreements. See Note 3 – Deposits and Investments.

Tenant and Other Receivables

Receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts receivable are based on historical trends and periodic aging of accounts receivable. Major receivable balances include tenant rents and charges.

Amounts Due From Other Governmental Units and Other Agencies

These accounts include amounts due from other governments and non-governmental agencies for grants, entitlements, temporary loans, and charges for services.

Notes Receivables

Notes receivables consist of second mortgage loans made under the down payment assistance or rehabilitation loan programs. Loans may be interest free, bear a stated interest rate, or other rate of return based on the change in fair market value of the real estate that secures the loan. Loans are made for periods of twenty years, contain renewal provisions, and typically do not require any payments until maturity. A significant number of loans are repaid prior to maturity and the rate of return cannot be reliably ascertained. Because the ultimate timing of loan repayments is uncertain, the reported balances have not been discounted to reflect the time value of money in these financial statements. An allowance for doubtful repayments has been established based on outstanding loans exceeding the twenty-year term. The notes receivables are shown on the financial statements net of the allowance.

HOUSING KITSAP
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Real Estate Contracts

Real estate contracts consist of sales transactions for the Harborside Condominium units developed and owned by Housing Kitsap. Housing Kitsap has entered into real estate contracts with private individuals for balances outstanding after buyer's investment. The real estate contracts bear a stated interest rate and a fixed monthly payment amount for a fixed duration, typically not to exceed five years. Using the full accrual method, recognition of the gain is made in full when the real estate is sold because (a) the gain is determinable, and (b) the earnings process is virtually complete.

Due from Component Units

Housing Kitsap has entered into capital financing leases with four of its component units (See Note 4 and 17). Through the lease agreements and related loan agreements, the partnerships have assumed the burdens and benefits of ownership classifying the arrangement as a capital financing lease for financial statement purposes.

During the course of operations, numerous transactions occur between Housing Kitsap activities and its component units that may result in amounts owed between them. Those related to goods and service type transactions are classified as "Accounts Receivable" or "Accounts Payable," and are short-term in nature. Long-term transactions that occur are classified as notes and long term accrued interest that result from developer fees or capital asset transactions. See Note 17 – Related Party Transactions.

Prepaid and Other Current Assets

Prepaid expenses are payments made during the current year for services or product received in the subsequent year. Inventory is also included in this caption that is stated at the lower of cost or market value and is valued using the first-in-first-out (FIFO) method (which approximates market value) and consists of expendable maintenance materials and supplies.

Restricted Assets and Liabilities

The Restricted Asset accounts contain resources for tenant security deposits, tenant escrows, capital replacement reserves, construction, and bond debt service. Related liabilities are shown as "Payable from Restricted Assets" in the Statement of Net Position. Lenders and government agencies may require that Housing Kitsap establish and maintain capital replacement or operating reserves as a condition to obtaining a loan, investment, or grant. For a detailed listing of restricted asset balances as of June 30, 2017 and December 31, 2016 see Note 3 – Deposits and Investments.

Assets Held for Sale

Assets held for sale represent assets sold or transferred subsequent to year end or expected to sell or be transferred within the year. Assets anticipated to sell beyond one year or have not currently been listed, but are intended for sale, are reported with capital assets and disclosed separately in Note 5 as Capital Assets not being depreciated. Self Help Program land purchases and Self Help Acquisition/Rehab Program homes are also considered assets held for sale as these parcels and properties are purchased and subsequently sold to qualifying applicants and not used for Agency purposes.

Capital Assets

Housing Kitsap has acquired certain assets with funding provided by federal financial assistance programs. Depending on the terms of the agreements involved, the federal government could retain an equity interest in these assets. However, Housing Kitsap has sufficient legal interest to accomplish the purposes for which the assets were acquired, and has included such assets within the applicable program.

Capital Assets are stated at historical cost. Where historical costs cannot be determined from the available records, estimated historical cost is used to record the estimated value of the asset. Assets acquired by gift or bequests are recorded at their acquisition value at the date of transfer. Maintenance and repairs are charged to current period operating expenses while improvements are capitalized. Upon retirement or other disposition of property and equipment, the cost and related accumulated depreciation are removed from the respective accounts and any gains or losses are included in nonoperating revenues and expenses.

Housing Kitsap's policy is to capitalize all assets with a value greater than \$750 and a useful life over one year. Capital assets are depreciated on the straight-line depreciation method with no salvage value. Depreciation of exhaustible capital assets is charged as an expense in the Statement of Revenues, Expenses and Changes in Net Position, and capital assets are reported net of accumulated depreciation in the Statement of Net Position.

The estimated useful lives for depreciable capital assets range from 30 to 50 years for buildings; 3 to 12 years for equipment, furniture and fixtures; and 20 years for improvements other than buildings. For a detailed schedule of Capital Assets at June 30, 2017 see Note 5 – Capital Assets.

HOUSING KITSAP NOTES TO FINANCIAL STATEMENTS June 30, 2017

Investment in Tax Credit Partnerships

Investments in Low-Income Housing Tax Credit Partnerships are recorded at the cost of contributions adjusted for the General Partner's share of annual income and losses. See Note 16 – Component Units.

Deferred Outflows/Inflows of Resources

A deferred outflow of resources is not an asset and is defined as a consumption of net position that is applicable to a future reporting period. A deferred inflow of resources is not a liability and is defined as an acquisition of net position that is applicable to a future reporting period.

Compensated Absences

Housing Kitsap records liabilities for compensated absences as required by GASB Statement No. 16, *Accounting for Compensated Absences*. Vacation leave and other compensated absences with similar characteristics are accrued as a liability as the benefits are earned by the employees, if the leave is attributable to past service and it is probable that the employer will compensate the employees for the benefits, through paid time off or some other means, such as cash payments at termination or retirement. Compensated Absences considered current are included within "Salaries, Taxes & Employee Benefits Payable". Those balances estimated to be long term in nature are included in "Other Long-Term Liabilities" on the face of the financial statements. See Note 6 for more details.

Permanent employees of Housing Kitsap earn vacation time in accordance with length of service. A maximum of 360 hours may be accumulated and, upon termination, employees are entitled to compensation for unused vacation. Sick leave may be accumulated up to 1200 hours, but is lost if the employee leaves or is terminated from Housing Kitsap. At retirement, employees receive compensation equivalent to 50 percent of their accumulated sick leave. Housing Kitsap recorded all accumulated costs associated with compensated absences, including payroll taxes that were accrued by and owed to employees as of June 30, 2017.

The compensated absences liability was calculated based on the pay rates in effect at June 30, 2017. Also included is the additional liability for salary-related payments associated with the payment of compensated absences, using the rates in effect at the June 30, 2017. These salary-related payments include the employer's share of Medicare taxes and contributions to the retirement plans.

Other Long-Term Liabilities

Other Long-Term Liabilities consist primarily of the long-term portion of compensated absences and accrued interest.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of all state sponsored pension plans and additions to/deductions from those plans' fiduciary net position have been determined on the same basis as they are reported by the Washington State Department of Retirement Systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Unearned Revenue

Unearned revenue consists of unearned income from financing lease receivables between Housing Kitsap and its component units. As Housing Kitsap has legal claim and revenue recognition has occurred, the liability associated with these unearned revenues is relieved and revenue is recognized in the period it is earned.

Unearned Gain on Sale of Assets

As part of the sale and subsequent capital financing lease of the three properties to the Kitsap Apartments 2006 Limited Partnership, Housing Kitsap realized \$11.3 million of gain on the sale of the three properties to the limited partnership. The gain is recognized over the life of the 20-year financing lease. In addition, when Housing Kitsap and the Port of Bremerton amended their original 2005 lease in 2009, a \$110 thousand gain was realized and amortized over the remaining 26-year financing lease.

Operating Revenue and Expenses

The Agency's statements of revenues, expenses, and changes in net position distinguish between operating and nonoperating revenues and expenses. Operating revenue results from exchange transactions associated with providing housing and related services directly related to the Agency's mission. Operating revenues and expenses also include federal operating subsidies and housing assistance payments provided by U.S. Department of Housing and Urban Development. The use of this classification is based on guidance from HUD, the primary user of these financial statements. Operating expenses are those expenses that are directly incurred in the operation of providing housing and development, consulting or other management activities, including administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported

HOUSING KITSAP
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

as non-operating revenues and expenses, including but not limited to capital and noncapital federal grants, interest income and expense.

This presentation results in operating revenues that are higher than if subsidies and/or grants were presented as non-operating revenues. Overall it does not affect the presentation of the change in net position in the statement of revenues, expenses, and changes in net position, or the presentation of cash and cash equivalents in the statement of cash flows.

External Fee Income

External fee income represents reimbursement income received from component units for administrative, management, and maintenance services provided by Housing Kitsap.

Income Taxes

Income received or generated by the Agency is not subject to federal income tax, pursuant to Internal Revenue Code Section 115. The Agency is also exempt from State and local property taxes. Interest paid on tax-exempt debt obligations issued by the Agency is excludable from the gross income of the recipients, pursuant to Section 103(a) of the Internal Revenue Code of 1986, as amended. Contributions to the Agency are tax deductible contributions, pursuant to Sections 170(b)(1)(A)(v) and 170(c)(1) of the Internal Revenue Code of 1986, as amended.

Arbitrage

Housing Kitsap periodically monitors arbitrage interest associated with its tax-exempt debt for the existence of any rebates. The rebate is based on the differential between the interest earnings from the investment of bond proceeds as compared to the interest expense associated with the respective bonds. As of June 30, 2017, no cumulative rebate liability exists.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Impairment of Capital Assets

GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, establishes accounting and financial reporting standards for impairment of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. Housing Kitsap is required to evaluate prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Compliance with Bond and Loan Covenants

State laws and certain bond covenants require that Housing Kitsap maintain occupancy in housing projects at specified numbers of low income families. Housing Kitsap must also generate net operating income from each project at a level that meets the debt service requirements established by its respective bond covenant. During the fiscal year, Housing Kitsap satisfied all compliance requirements specified in its bond and loan covenants.

NOTE 3 – DEPOSITS AND INVESTMENTS

Policy, Laws, and Regulations

In accordance with state law, Housing Kitsap deposits all funds with banking institutions in accordance with the terms of the State of Washington Public Deposit Protection Act or insured by FDIC, a federal agency, and therefore, is protected from any loss that might result from the failure or default of a qualified public depository. As such, Housing Kitsap is not exposed to custodial credit risk for its deposits with banking institutions.

Housing Kitsap's investment policy is to invest its funds in a manner which will provide the highest investment return with the maximum security while meeting the daily and long term cash flow demands of the entity and conforming to all the federal, state, and local statutes governing the investment funds. The Agency makes all investments permitted under Chapter 39.29.020 of the Revised Code of Washington, policies established by the U.S. Department of Housing and Urban Development and the U.S. Department of Agriculture – Rural Development, and any Bond Trust Indentures. In general, permitted investments include: bonds or other obligations issued or guaranteed by the United States; bonds or other obligations issued by any state, county, city,

**HOUSING KITSAP
NOTES TO FINANCIAL STATEMENTS
June 30, 2017**

town, special district, or other municipal corporation; time, money market, or savings deposits in qualified public depositories; or loans secured by real property.

Cash and Cash Equivalents

As of June 30, 2017, the Agency's carrying amount of deposits and cash equivalents was \$6,763,431 and the bank and escrow balances were \$6,880,016. The bank deposits are held with financial institutions and are entirely insured or collateralized and are classified as cash and cash equivalents in the statements of net position. All deposits in excess of the Federal Deposit Insurance Corporation (FDIC) insurance limit of \$250,000, raised to \$250,000 from the previous limit of \$100,000, are covered by the Public Deposit Protection Commission of the State of Washington, which is a multiple financial institution collateral pool, established under Chapter 39.58 of the Revised Code of Washington.

As of December 31, 2016, the Agency's component units carrying amounts of all deposits and cash equivalents were \$2,287,807 and the bank balances were \$2,304,289 in the aggregate. Cash held in bank deposit accounts, at times, may exceed federally insured limits. The component unit partnerships have not experienced any losses in such accounts. Management believes there is no exposure to any significant custodial credit risk on cash in these depository accounts.

Cash and cash equivalents included in the financial statements of Housing Kitsap and Component Units as of June 30, 2017, and December 31, 2016, respectively, consist of the following:

Asset Classification Per Financial Statements	Housing Kitsap June 30, 2017	Discretely-Presented Component Units December 31, 2016	Total
Unrestricted	\$ 2,099,324	\$ 962,690	\$ 3,062,014
Restricted			
Tenant Escrows	178,116	-	178,116
Tenant Security Deposits	163,122	147,322	310,444
Capital Replacements	941,608	950,646	1,892,254
Operating	1,159,035	227,149	1,386,184
Program Income	1,017,591	-	1,017,591
Program Escrows	948,527	-	948,527
Debt Reserve	256,108	-	256,108
Total Restricted	<u>4,664,107</u>	<u>1,325,117</u>	<u>5,989,224</u>
Totals	<u>\$ 6,763,431</u>	<u>\$ 2,287,807</u>	<u>\$ 9,051,238</u>

Tenant Escrows – Deposits held for the Section 8 Housing Choice Voucher Program.

Tenant Security Deposits – Tenants are required to pay a refundable security deposit when moving into their unit. Upon vacating the unit, the tenant will receive their security deposit so long as the condition of the unit is satisfactory.

Capital Replacements – In accordance with loan resolutions between the U.S. Department of Agriculture – Rural Development (Rural Housing Service) and the Agency, replacement reserves have been established and maintained at required levels for the following properties: Fjord Manor Apartments, Rhododendron Apartments, Windsong Apartments, and Finch Place Apartments. Withdrawals and uses of funds in these accounts are in accordance with 7 CFR Part 3560, subpart G and Part 1902, subpart A and are subject to approval and countersignature by USDA-RD. As of June 30, 2017, all deposits to the reserve accounts have been on schedule with minimum funding requirements, and there are no encumbrances on the reserve funds.

Replacement reserves were established for all component units pursuant to each individual partnership agreement. The partnerships may use deposits in the reserve accounts to fund major repairs, capital expenditures and replacement of capital items in the projects. The reserve accounts are interest-bearing and the interest earned is added to the balance of the reserve account. The limited partner has co-signatory authority and requires approval of any disbursements on the accounts.

**HOUSING KITSAP
NOTES TO FINANCIAL STATEMENTS
June 30, 2017**

Operating Reserves – In accordance with limited partnership agreements, the following component units are required to establish and maintain reserves for use by the partnership with the consent of the limited partner: Kitsap Apartments 2006 Limited Partnership, Liberty Bay Associates Limited Partnership, Railroad Avenue Associates Limited Partnership, and Red Barn Associates Limited Partnership. In addition, the Self Help Opportunity Program and Rural Development Project maintain operating reserves and accounts that are restricted solely for use within those programs.

Program Income – Cash classified as Program Income is related to Housing Kitsap’s down payment assistance program.

Program Escrows – Program Escrows are construction funds held on behalf of the families participating in the Mutual Self Help Program as well as cash held in escrow for purchase of pending real estate commitments.

As part of the duties of administering the Section 523, Mutual Self-Help Program, Housing Kitsap manages a custodial bank account for all participants from which each individual participant’s construction costs are paid and into which loan proceeds are deposited. Each individual participant’s construction costs and loan balances are maintained outside of Housing Kitsap’s books. However, the total of the custodial account is included in the balance sheet of Housing Kitsap as restricted cash offset by the trust fund liability. Housing Kitsap personnel prepare the checks, which can be written only for construction-related costs and require the signatures of two authorized representatives of the organization. All invoices are reviewed and approved by the construction supervisor and program manager, who also assign the expense to the applicable house. At monthly meetings between the construction supervisor, the program manager, the 523 bookkeeper and the participating borrowers, each participant’s construction expenses and loan draws are reviewed with them individually. The balance in the custodial account at June 30, 2017, was \$407,615.

Housing Kitsap also had \$540,000 as of June 30, 2017, placed in an escrow account for pending real estate transactions (See Note 5 –Purchase Commitments).

Debt Reserve–The Kitsap County Loan and Repayment Agreement also established a reserve fund of \$250,000 to advance funds necessary for operating and unbudgeted maintenance and repair costs associated with the unsold Harborside condo units and any other assets collateralized under the Agreement. Please see Note 9 for a detailed description of this refunding.

Investments

Housing Kitsap’s investment policy is to invest its funds in a manner which will provide the highest investment return with the maximum security while meeting the daily and long term cash flow demands of the entity and conforming to all the federal, state and local statutes governing the investment of funds. Investments are to be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, nor for speculations, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

Investments substantially represent equity in pooled investments and consist of deposits with qualified public depositories, obligations of the US Treasury and agencies, banker’s acceptances, commercial paper, and certain collateralized repurchase agreements. All transactions are executed with authorized security dealers and financial institutions on a delivery-versus-payment basis. Certain investments may meet the criteria of cash and cash equivalents, but are treated as investments by Housing Kitsap because of their intended long-term use or requirement of bond covenants.

Investments included in the financial statements of Housing Kitsap and its Component Units as of June 30, 2017 and December 31, 2016 respectively consist of the following:

Investment Type	S&P Credit Rating	Housing Kitsap	Discretely-Presented Component Units	Investment Maturities in Years				% of Portfolio
				Less than 1	1-5	6-10	More than 10	
Collateralized Repurchase Agreements	A-/A-2	\$ -	\$ 821,537	\$ -	\$ -	\$ -	\$ 821,537	58.31%
Government Money Market Funds	AAAm	118,627	373,485	492,112	-	-	-	34.93%
Kitsap County Investment Pool	Not Rated	10,142	-	10,142	-	-	-	0.72%
Washington State (LGIP)	Not Rated	85,005	-	85,005	-	-	-	6.03%
Totals		\$ 213,774	\$ 1,195,022	\$ 587,259	\$ -	\$ -	\$ 821,537	100.00%

According to GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and For External Investments Pools*, US Treasury and agency securities with maturities exceeding three months at time of purchase, are reported at fair value on the balance sheets and the net increase or decrease in fair value of those investments is reported as part of investment

**HOUSING KITSAP
NOTES TO FINANCIAL STATEMENTS
June 30, 2017**

income. The Washington State Local Government Investment Pool (LGIP) and the Kitsap County Investment Pool (KCIP) are comparable to a Rule 2a-7 money market fund recognized by the Securities and Exchange Commission. Rule 2a-7 funds are limited to high quality obligations with limited maximum and average maturities, the effect of which is to minimize both market and credit risk. Investments held in these unrated external pools are reported at cost as the average days-to maturity do not exceed the 90-day threshold.

The Authority measures and reports investments at fair value using the valuation input hierarchy established in GASB Statement No. 72, "Fair Value Measurement and Application", as follows:

- Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets or liabilities that a government can access at the measurement date
- Level 2 inputs – inputs other than quoted priced included within Level 1 that are observable for an asset or liability either directly or indirectly
- Level 3 inputs – unobservable inputs for an asset or liability

Housing Kitsap's investments by fair level value are shown in the table below:

Investments	Housing Kitsap	Component Unit	Amortized Cost	Level 1 Quoted Prices	Level 2 Observable Inputs	Level 3 Unobservable Inputs
Collateralized Repurchase Agreements	\$ -	\$ 821,537	\$ -	\$ 821,537	\$ -	\$ -
Government Money Market Funds	118,627	373,485	-	492,112	-	-
Kitsap County Investment Pool	10,142	-	10,142	-	-	-
Investment Pool	85,005	-	85,005	-	-	-
Totals	\$ 213,774	\$ 1,195,022	\$ 95,147	\$ 1,313,649	\$ -	\$ -

Per GASB 40, *Deposit and Investment Risk Disclosures* (as amended), guidelines the balances are also not subject to custodial credit risk. The credit risk of the LGIP and KCIP is limited as most investments are either obligations of the US government, government sponsored enterprises, or insured demand deposit accounts and certificates of deposits. Investments or deposits held by the LGIP and KCIP are either insured or held by a third-party custody provider in the LGIP and KCIP's name. The fair value of the Agency's pool investments is determined by the pool's share price. The Agency has no regulatory oversight responsibility for the LGIP which is governed by the Washington State Finance Committee and is administered by the State Treasurer. The Agency has no regulatory oversight responsibility for the KCIP which is governed by Kitsap County and is administered by the County Treasurer. The LGIP and KCIP are audited annually by the Office of the State Auditor.

**HOUSING KITSAP
NOTES TO FINANCIAL STATEMENTS
June 30, 2017**

Restricted Investments

As of June 30, 2017 and December 31, 2016, the following funds were held in trust for debt service and housing program pursuant to the respective trust indentures, grant agreements, and other applicable agreements.

Restricted Investments	Housing Kitsap June 30, 2017	Discretely-Presented Component Units December 31, 2016	Total
Debt Service			
<i>Revenue Bonds 2003 & 2005 (Bremerton Government Center)</i>			
<i>Principal and Interest Escrow</i>			
Investments are held in trust and are restricted for the payment of principal and interest. The investments consist of treasury obligations and bears interest at approximately 0.0%.	\$ 20,382	\$ -	\$ 20,382
<i>Revenue Bonds 2003 & 2005 (Bremerton Government Center)</i>			
<i>Debt Service Reserve</i>			
Investments are held in trust and are restricted for the payment of principal and interest. The investments consist of shares in			
the Kitsap County Investment Pool and bear interest at	10,142	-	10,142
<i>Housing Revenue Bonds, 1996 (Rhododendron Apartments Project)</i>			
Investments are held in trust and are restricted for the payment of principal and interest. The investments consist of treasury obligations and bears interest at approximately 0.0%.	98,245	-	98,245
<i>Housing Revenue Bonds, 2007 (Pooled Tax Credit Projects)</i>			
<i>Debt Service Reserve</i>			
Investments are held in trust and are restricted for the payment of principal and interest. The investments consist of repurchase agreements maturing 6/1/2037 and bear interest at approximately 4.940%	-	821,538	821,538
<i>Housing Revenue Bonds, 2001, Series A (Heritage Project)</i>			
<i>Debt Service Reserve</i>			
Investments are held in trust and are restricted for the payment of principal and interest. The investments consist of treasury obligations and bears interest at approximately 0.0%.	-	166,847	166,847
<i>Housing Revenue Bonds, 2001, Series B (Viewmont Project)</i>			
<i>Debt Service Reserve</i>			
Investments are held in trust and are restricted for the payment of principal and interest. The investments consist of treasury obligations and bears interest at approximately 0.0%.	-	206,637	206,637
Total Restricted Investments	\$ 128,769	\$ 1,195,022	\$ 1,323,791

Interest Rate Risk

Housing Kitsap's Investment Policy limits investment maturities to five years or less, unless matched to a specific cash flow requirement, as a means of managing its exposure to fair value losses arising from varying interest rates. Investments that are matched to a specific cash flow requirement will be held until maturity. The trustee has valued the investments at fair value, but are not considered marketable, thus the likelihood the investments would be sold for less than cost is nonexistent.

Funds in the State Local Government Investment Pool and Kitsap County Investment Pool are not subject to interest rate risk, as the weighted average maturity of the portfolio will not exceed 90 days. Investments in these pools can also be liquidated upon demand and therefore are included in the less than 1 year category.

HOUSING KITSAP

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. It is Housing Kitsap's investment policy to limit its' investment types to the following authorized investments: investments legally permitted for housing authorities in the State of Washington; the Kitsap County Investment Pool; the State of Washington's Treasurer's Local Government Investment Pool; and any federally insured account with a Public Depository as defined by the State of Washington Public Deposit Protection Commission. To further limit risk, state law does not allow governments such as Housing Kitsap to invest in corporate debt and limits investments in commercial paper to the highest short-term rating issued by nationally recognized statistical rating organizations. Furthermore, commercial paper holdings may not have maturities exceeding 180 days. State law does allow funds to be invested in collateralized repurchase agreements if the repurchase agreement is limited to and fully collateralized by obligations of the United States. Housing Kitsap is party to a collateralized repurchase agreement with DEPFA Bank. The collateralized repurchase agreement require the securities purchased as collateral be obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government. Additionally, the agreement requires that the investment trust take delivery of the collateral either directly or through an authorized custodian per state law.

Custodial Risk

Custodial risk for investments is the risk that in the event of the failure of the counterparty to a transaction, the Agency will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All investments with the exception of the collateralized repurchase agreement are insured, registered, or are securities held by Housing Kitsap or by Housing Kitsap's agent in Housing Kitsap's name. Investments held in the LGIP or KCIP are not exposed to custodial risk as they are not evidenced by securities that exist in physical or book entry form. Of Housing Kitsap and its component units \$1.41 million in investments, \$762 thousand are not exposed to custodial credit risk. The remaining \$821 thousand is a fully collateralized repurchase agreement and held in the trustee's name, U.S. Bank Trust National Association, not directly in Housing Kitsap's name. Housing Kitsap's investments are not exposed to custodial credit risk.

Concentration Risk

Concentration risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. Housing Kitsap has a policy that limits the amount that may be invested in any one financial institution or single security type to 50% of its investment portfolio. To limit risk, State law further prohibits commercial paper holdings exceeding 25% of the total assets of the portfolio. It also limits commercial paper purchases from any single issuer to 5% or less of the total assets of the portfolio.

The collateralized repurchase agreement with DEPFA Bank is 58.31% of Housing Kitsap's total investment portfolio market value. The contract requires the banking groups invest funds for collateral as if they were Housing Kitsap, therefore by extension may not invest more than 25% in commercial paper or more than 5% in any single issuer.

NOTE 4 – FINANCING LEASE, MORTGAGE RECEIVABLES AND REAL ESTATE CONTRACTS

Capital Finance Lease Receivables

Housing Kitsap purchased two parcels of land, which it has in turn leased under a long-term ground lease to the Liberty Bay, LP, a Component Unit, for \$12 per year. The lease is categorized as a capital financing lease for financial reporting purposes.

Housing Kitsap issued single-purpose, tax-exempt revenue bonds totaling \$5,005,000 in October 2001 to finance the purchase and rehabilitation of the Heritage Apartments and the Viewmont East Apartments. Housing Kitsap, as sole general partner, has in turn leased the property and loaned additional funds to the two limited partnerships. Through the lease agreements and related loan agreements, the partnerships have assumed the burdens and benefits of ownership. The lease and loan payments are made semi-annually in amounts sufficient to redeem the bonds over 30 years as scheduled, beginning in 2002. Substantially all of the rental property and equipment is pledged as collateral on the bonds. Housing Kitsap has assigned its rights to receive lease and loan payments to the bond trustee as security for payment of the principal and interest on the bonds.

In June 2007, Housing Kitsap issued single-purpose, tax-exempt revenue bonds known as the Pooled Tax Credit Projects Housing Revenue Bonds totaling \$11,845,000 for the purpose of loaning funds to Kitsap Apartments 2006 Limited Partnership, of which Housing Kitsap is the sole general partner. These bond funds along with a note of \$7,225,765 representing the seller's equity interest in the properties were used to finance the acquisition and rehabilitation of three apartment complexes owned by Housing Kitsap. Housing Kitsap has in turn leased these three properties, Conifer Woods, formerly named Port Orchard Valley Apartments, Park Place Apartments, and Kingston Ridge Apartments, to the Partnership to provide low-income housing within Kitsap County and to pay costs of the Pooled Tax Credit Projects bond issuance. Through the lease agreement and related loan agreement, the Partnership has assumed the burdens and

HOUSING KITSAP
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

benefits of ownership. The lease and loan payments are made semi-annually in amounts sufficient to redeem the bonds over 30 years as scheduled, beginning December 1, 2007. Substantially all of the rental property and equipment is pledged as collateral on the bonds. Housing Kitsap has assigned its rights to receive lease and loan payments to the bond trustee as security for payment of the principal and interest on the bonds.

The related receivable and payables are included in the amounts reported under the captions "Due from Component Units" and "Due to Housing Kitsap" in the Statements of Net Position. See Note 17 – Related Party Transactions.

The minimum lease payments receivable and net investment in financing leases with component units as of June 30, 2017 are as follows:

Year Ending June 30	Housing Kitsap Activities				
	Liberty Bay	Heritage	Viewmont East	Kitsap Apts	Total
2018	12	152,468	193,516	821,438	1,167,433
2019	12	153,074	193,286	820,969	1,167,341
2020	12	148,938	192,770	819,675	1,161,396
2021	12	149,269	191,968	822,534	1,163,782
2022	12	149,324	190,879	819,315	1,159,529
2023-2027	60	747,840	946,314	4,098,253	5,792,467
2028-2032	60	738,295	944,820	4,095,583	5,778,758
2033-2037	60	-	-	4,087,590	4,087,650
2038-2042	60	-	-	180	240
2043-2047	60	-	-	180	240
2048-2052	60	-	-	180	240
2053-2057	60	-	-	180	240
2058-2062	60	-	-	180	240
2063-2067	60	-	-	180	240
2068-2072	60	-	-	180	240
2073-2077	60	-	-	180	240
2078-2082	60	-	-	180	240
2083-2087	60	-	-	180	240
2088-2092	60	-	-	180	240
2093-2097	60	-	-	180	240
2098-2102	12	-	-	180	192
2103-2107	-	-	-	180	180
Minimum Lease Payments Receivable	972	2,239,208	2,853,552	16,387,876	21,481,608
Less Amounts Representing Interest	-	(753,061)	(959,566)	(6,632,876)	(8,345,503)
Net Investment in Financing Leases	\$ 972	\$ 1,486,148	\$ 1,893,986	\$ 9,755,000	\$ 13,136,106
Total Minimum Lease Payments Receivable	\$ 972	\$ 2,239,208	\$ 2,853,552	\$ 16,387,876	\$ 21,481,608
Less: Amounts Due Within One Year	(12)	(152,468)	(193,516)	(821,438)	(1,167,433)
Totals	\$ 960	\$ 2,086,740	\$ 2,660,036	\$ 15,566,439	\$ 20,314,174

**HOUSING KITSAP
NOTES TO FINANCIAL STATEMENTS
June 30, 2017**

On October 5, 2009, Housing Kitsap and the Port of Bremerton entered into an agreement to amend an existing operating lease of office space within the Bremerton Government Center. Amendments to the lease provided for a bargain purchase option, therefore, re-categorizing the lease as a capital lease for accounting purposes.

The minimum lease payments receivable and net investment in the capital lease as of June 30, 2017 are as follows:

Housing Kitsap Activities	
Year Ending June 30	Port of Bremerton
2018	34,482
2019	35,711
2020	36,527
2021	36,630
2022	36,686
2023-2027	183,223
2030-2034	182,993
2035-2039	97,408
Minimum Lease Payments Receivable	\$ 643,660
Less: Unearned Income	(223,604)
Net Investment in Financing Leases	\$ 420,056
Total Minimum Lease Payments Receivable	\$ 643,660
Less: Amounts Due Within One Year	(34,482)
Totals	\$ 609,178

Real Estate Contracts

In conjunction with exercising its powers as a community renewal agency, Housing Kitsap developed the project known as the Harborside Condominiums. Sales of the condominium units stalled because commercial banks were unwilling to make loans secured by mortgages due to pending litigation for latent construction defects involving the Harborside Home Owner's Association. Based on the statutory authority to sell property and the Washington Attorney General Opinions set forth in AGO 1978 No. 13, Housing Kitsap sold four condominium units by means of installment purchase contracts, commonly referred to as real estate contracts. The original value of the real estate contracts totaled \$850,472 and payments are made in monthly installments over the later of five years or within in six months after the construction defect litigation is resolved. The following details expected receipts on Harborside Real Estate Contracts as of June 30, 2017.

Year Ending June 30	Total
2018	34,902
2019	277,129
Total Real Estate Contracts	\$ 312,032
Less: Amount Representing Interest	(15,510)
Net Investment in Real Estate Contracts	\$ 296,522
Current (Principal Only)	\$ 20,543
Long-Term	275,980
Totals	\$ 296,522

HOUSING KITSAP
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 5 – CAPITAL ASSETS

The following is a summary of changes in capital assets of the Agency for the year ended June 30, 2017.

Housing Kitsap						
	Beginning Balance				Ending Balance	
	July 1, 2016	Increases	Transfers	Decreases	June 30, 2017	
Capital Assets not being depreciated:						
Land	\$ 10,411,629	\$ -	\$ -	\$ (215,550)	\$ 10,196,079	
Construction in Progress	95,985	1,882,527	(85,427)	-	1,893,085	
Total Capital Assets not being Depreciated	<u>10,507,614</u>	<u>1,882,527</u>	<u>(85,427)</u>	<u>(215,550)</u>	<u>12,089,164</u>	
Capital Assets being depreciated:						
Buildings	25,821,261	247,197	40,574	(3,918,416)	22,190,616	
Improvements other than Buildings	3,290,915	22,500	44,853	-	3,358,268	
Machinery and Equipment	2,104,532	11,770	-	(147,580)	1,968,722	
Total Capital Assets being Depreciated	<u>31,216,708</u>	<u>281,467</u>	<u>85,427</u>	<u>(4,065,996)</u>	<u>27,517,606</u>	
Less Accumulated Depreciation for:						
Buildings	(10,434,369)	(628,498)	-	1,175,811	(9,887,056)	
Improvements other than Buildings	(3,024,681)	(125,351)	-	-	(3,150,032)	
Machinery and Equipment	(1,803,017)	(47,683)	-	144,933	(1,705,767)	
Total Accumulated Depreciation	<u>(15,262,067)</u>	<u>(801,532)</u>	<u>-</u>	<u>1,320,744</u>	<u>(14,742,855)</u>	
Total Capital Assets, being Depreciated, Net	<u>15,954,641</u>	<u>(520,065)</u>	<u>85,427</u>	<u>(2,745,252)</u>	<u>12,774,751</u>	
Capital Assets, Net of Depreciation	<u>\$ 26,462,255</u>	<u>\$ 1,362,462</u>	<u>\$ -</u>	<u>\$ (2,960,802)</u>	<u>\$ 24,863,915</u>	

Substantial restrictions are imposed by HUD, as well as by state and local governments, on the use and collateralization of the Agency's capital assets.

**HOUSING KITSAP
NOTES TO FINANCIAL STATEMENTS
June 30, 2017**

The following is a summary of changes in capital assets of the Agency's component units for the year ended December 31, 2016.

	Beginning Balance January 1, 2016	Increases	Transfers	Decreases	Ending Balance December 31, 2016
Capital Assets not being depreciated					
Land	\$ 5,593,480	\$ -	\$ -	\$ -	\$ 5,593,480
Construction In Progress	53,120	58,790	(106,890)	-	5,019
Total Capital Assets not being Depreciated	5,646,600	58,790	(106,890)	-	5,598,499
Capital Assets being Depreciated					
Buildings	31,339,737	-	106,890	-	31,446,627
Improvements other than Buildings	957,696	3,209	-	-	960,905
Machinery and Equipment	671,648	-	-	-	671,648
Total Capital Assets being Depreciated	32,969,081	3,209	106,890	-	33,079,180
Less Accumulated Depreciation					
Buildings	\$ (8,052,620)	(793,032)	-	-	(8,845,652)
Improvements other than Buildings	(560,230)	(51,665)	-	-	(611,895)
Machinery and Equipment	(656,772)	(2,964)	-	-	(659,736)
Total Accumulated Depreciation	(9,269,622)	(847,661)	-	-	(10,117,283)
Total Capital Assets, being Depreciated, Net	23,699,459	(844,452)	106,890	-	22,961,897
Component Units Capital Assets, Net	\$ 29,346,059	\$ (785,663)	-	\$ -	\$ 28,560,396

Purchase Commitments

Housing Kitsap has purchase and sale agreements pending to acquire 30 lots of real property in fiscal year 2018. The following schedule details the pending lot purchases at June 30, 2017:

Description of Property	Location	Expected Closing Date	Amount
Land-30 Lots	Prosperity - South Kitsap, WA	December 2017	1,822,511
			<u>\$ 1,822,511</u>

**HOUSING KITSAP
NOTES TO FINANCIAL STATEMENTS
June 30, 2017**

NOTE 6 - COMPENSATED ABSENCES

The compensated absence balance as of June 30, 2017 is as follows:

Compensated absences at June 30, 2016	\$	183,010
Increase during fiscal year end 2017		8,870
Compensated absences at June 30, 2017	\$	191,880
Current portion of compensated absences at June 30, 2017	\$	143,910
Noncurrent portion of compensated absences at June 30, 2017		47,970
	\$	191,880

NOTE 7 – DEFERRED COMPENSATION PLAN

Housing Kitsap offers its employees a deferred compensation plan created in accordance with Internal Revenue Service Code Section 457. The Plan is managed by VOYA (formerly ING). Pursuant to GASB Statement 2, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, since Housing Kitsap is not the owner of these assets, the plan assets and liabilities are not reported as part of Housing Kitsap.

In a resolution adopted by the Housing Kitsap Board on December 3, 2013, Housing Kitsap elected to contribute the agency-matched refunds into the 457 deferred compensation plans of current, PERS-eligible employees. Housing Kitsap equally matches PERS-eligible employees' voluntary pre-tax 457 contributions up to a maximum of 3.1% of gross wages, not to exceed the Social Security wage base limit.

NOTE 8 - PENSION PLAN

The following table represents the aggregate pension amounts for all plans subject to the requirements of GASB 68 for the year 2017:

Aggregate Pension Amounts – All Plans	
Pension liabilities	\$ 2,593,961
Deferred outflows of resources	\$ 596,049
Deferred inflows of resources	\$ 137,470
Pension expense/expenditures	\$ 198,483

State Sponsored Pension Plans

Substantially all Housing Kitsap full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans. The state Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to:

HOUSING KITSAP NOTES TO FINANCIAL STATEMENTS June 30, 2017

Department of Retirement Systems
Communications Unit
P.O. Box 48380
Olympia, WA 98540-8380

Or the DRS CAFR may be downloaded from the DRS website at www.drs.wa.gov.

Public Employees' Retirement System (PERS)

PERS members include elected officials; state employees; employees of the Supreme, Appeals and Superior Courts; employees of the legislature; employees of district and municipal courts; employees of local governments; and higher education employees not participating in higher education retirement programs. PERS is comprised of three separate pension plans for membership purposes. PERS plans 1 and 2 are defined benefit plans, and PERS plan 3 is a defined benefit plan with a defined contribution component.

PERS Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions - The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2017 were as follows:

PERS Plan 1		
Actual Contribution Rates:	Employer	Employee*
July 2016 through June 2017	11.18%	6.00%

* For employees participating in JBM, the contribution rate was 12.26%

The Housing Kitsap's actual contributions to the plan were \$0 for the year ended June 30, 2017.

PERS Plan 2/3 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service for Plan 2 and 1 percent of AFC for Plan 3. The AFC is the average of the member's 60 highest-paid consecutive service months. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

- With a benefit that is reduced by three percent for each year before age 65; or
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing five years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service are earned after age 44.

**HOUSING KITSAP
NOTES TO FINANCIAL STATEMENTS
June 30, 2017**

PERS Plan 3 defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions. PERS Plan 3 members choose their contribution rate upon joining membership and have a chance to change rates upon changing employers. As established by statute, Plan 3 required defined contribution rates are set at a minimum of 5 percent and escalate to 15 percent with a choice of six options. Employers do not contribute to the defined contribution benefits. PERS Plan 3 members are immediately vested in the defined contribution portion of their plan.

Contributions - The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2016 were as follows:

PERS Plan 2/3		
Actual Contribution Rates:	Employer 2/3	Employee 2*
July 2016 through June 2017	11.18%	6.12%
Employee PERS Plan 3	11.18%	Varies

* For employees participating in JBM, the contribution rate was 15.30%

The Housing Kitsap's actual contributions to the plan were \$303,914 for the year ended June 30, 2017.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2016 with a valuation date of June 30, 2015. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2015 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2016. Plan liabilities were rolled forward from June 30, 2015, to June 30, 2016, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 3% total economic inflation; 3.75% salary inflation
- **Salary increases:** In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.5%

Mortality rates were based on the RP-2000 report's Combined Healthy Table and Combined Disabled Table, published by the Society of Actuaries. OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100% Scale BB. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.5%.

To determine that rate, an asset sufficiency test included an assumed 7.7% long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.7% except LEOFF 2, which has assumed 7.5%). Consistent with the long-term expected rate of return, a 7.5% future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3, PSERS 2, SERS 2/3, and TRS 2/3 employers, whose rates include a component for the PERS 1, and TRS 1 plan liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5% was used to determine the total liability.

Long-Term Expected Rate of Return

**HOUSING KITSAP
NOTES TO FINANCIAL STATEMENTS
June 30, 2017**

The long-term expected rate of return on DRS pension plan investments of 7.5% was determined using a building-block-method. The *Washington State Investment Board (WSIB)* used a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, including inflation) to develop each major asset class. Those expected returns make up one component of WSIB's capital market assumptions. WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various future times. The long-term expected rate of return of 7.5% approximately equals the median of the simulated investment returns over a 50-year time horizon.

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2016, are summarized in the table below. The inflation component used to create the table is 2.2% and represents WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-term Expected Real Rate of Return Arithmetic
Fixed Income	20%	1.70%
Tangible Assets	5%	4.40%
Real Estate	15%	5.80%
Global Equity	37%	6.60%
Private Equity	23%	9.60%
	100%	

Sensitivity of NPL

The table below presents the Housing Kitsap's proportionate share* of the net pension liability calculated using the discount rate of 7.5%, as well as what the Housing Kitsap's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.5%) or 1-percentage point higher (8.5%) than the current rate.

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	\$ 1,442,455	\$ 1,196,165	\$ 984,218
PERS 2/3	2,573,592	1,397,795	(727,633)

Pension Plan Fiduciary Net Position

Detailed information about the State's pension plans' fiduciary net position is available in the separately issued DRS financial report.

**HOUSING KITSAP
NOTES TO FINANCIAL STATEMENTS
June 30, 2017**

Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions.

At June 30, 2017, the Housing Kitsap reported a total pension liability of \$2,593,961 for its proportionate share of the net pension liabilities as follows:

	Liability
PERS 1	\$ 1,196,166
PERS 2/3	\$ 1,397,795

At June 30, the Housing Kitsap's proportionate share of the collective net pension liabilities was as follows:

	Proportionate Share 6/30/15	Proportionate Share 6/30/16	Change in Proportion
PERS 1	.022704%	.022273%	(.000431%)
PERS 2/3	.028473%	.027762%	(.000711%)

Employer contribution transmittals received and processed by DRS for the fiscal year ended June 30 are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by DRS in the *Schedules of Employer and Nonemployer Allocations* for all plans except LEOFF 1.

The collective net pension liability (asset) was measured as of June 30, 2016, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2015, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended June 30, 2017, the Housing Kitsap's recognized pension expense as follows:

	Pension Expense
PERS 1	\$46,184
PERS 2/3	\$152,299
TOTAL	\$198,483

Deferred Outflows of Resources and Deferred Inflows of Resources

At June 30, 2017, Housing Kitsap reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS Plan 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Net difference between projected and actual investment earnings on pension plan investments	\$ 30,118	\$ -
Changes of assumptions	\$ -	\$ -
Changes in proportion and differences between contributions and proportionate share of contributions	\$ -	\$ -
Contributions subsequent to the measurement date	\$ -	\$ -
TOTAL	\$ 30,118	\$ -

HOUSING KITSAP
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

PERS Plan 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 74,432	\$ 46,143
Net difference between projected and actual investment earnings on pension plan investments	\$ 171,050	\$ -
Changes of assumptions	\$ 14,447	\$ -
Changes in proportion and differences between contributions and proportionate share of contributions	\$ 2,089	\$ 91,327
Contributions subsequent to the measurement date	\$ 303,913	\$ -
TOTAL	\$ 565,931	\$ 137,470

Deferred outflows of resources related to pensions resulting from Housing Kitsap's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	PERS Plan 1	PERS Plan 2/3
2018	\$ (7,416)	\$ (6,045)
2019	\$ (7,416)	\$ (34,869)
2020	\$ 27,660	\$ 96,271
2021	\$ 17,290	\$ 69,190

**HOUSING KITSAP
NOTES TO FINANCIAL STATEMENTS
June 30, 2017**

NOTE 9 - LONG TERM AND SHORT TERM OBLIGATIONS

The following is a schedule of outstanding revenue bonds as of June 30, 2017:

Revenue Bonds-Name of Issue	Issuance Date	Maturity Date	Effective Interest Rate	Bond Issuance	Bonds Outstanding June 30, 2017
Housing Revenue Bond, 1995 Golden Tides II Project	26-Jul-1995	1-Jul-2025	3.13%	\$ 225,000	\$ 115,762
Housing Revenue Bonds, 1996 Rhododendron Apartments	15-May-1996	1-Jun-2026	6.65 - 6.75%	1,265,000	645,000
Housing Revenue Bonds, 1997 Madrona Manor Apartments	18-Nov-1997	1-Dec-2017	8.25%	190,000	112,292
Housing Revenue Bonds, 2001 Series A (Heritage Project)	1-Oct-2001	1-Oct-2031	3.8 - 6.1%	2,220,000	1,590,000
Series B (Vewmont Project)	1-Oct-2001	1-Oct-2031	3.8 - 6.1%	2,785,000	1,950,000
Bremerton Government Center 2005	30-Jun-2005	1-Jul-2034	3.0 - 4.5 %	2,325,000	245,000
Housing Revenue Bonds, 2007 Pooled Tax Credit Projects	29-Jun-2007	1-Jun-2037	5.5 - 5.6%	11,845,000	9,755,000
Total Bonds Payable					\$ 14,413,054
Less: Bond Premium/Discount					(15,074)
Less: Revenue Bonds Due Within One Year					(630,081)
Total Long Term Bonds Payable					<u>\$ 13,767,899</u>

Housing Revenue Bonds, 1995 (Golden Tides II Project)

In July 1995, Housing Kitsap issued Housing Revenue Bonds, 1995 (Golden Tides II Project) in the principal amount of \$225,000. The funding provided a portion of the permanent financing for the acquisition and construction of the Golden Tides II Apartments. The bonds bear interest at 7.5% and the monthly loan payments of \$1,352.04 are made in amounts sufficient to redeem the bonds over 30 years as scheduled. Assignments of a deed of trust on the Project are pledged as security for repayment of the Bonds.

Housing Revenue Bonds, 1996 (Rhododendron Apartments Project)

On May 15, 1996, Housing Kitsap issued \$1,265,000 in tax-exempt revenue bonds to finance the acquisition of a 50 unit (38 one- and 12 two- bedrooms) multi-family apartment complex known as Rhododendron Apartments located in the City of Bainbridge Island, Washington. Principal and interest on the bonds will be payable from, and secured by a pledge of, certain revenues and receipts from the project. The bonds are further secured by a deed of trust and general revenue pledge of the Agency.

The bonds have a 6.75% interest rate and are payable semi-annually on June 1 and December 1 of each year until maturity. The bonds are fully registered and issued in integrals of \$5,000. Bonds maturing in 2026 are term bonds and are subject to mandatory redemption at par plus accrued interest to the date of redemption based on the following schedule:

Housing Revenue Bonds, 1996 Rhododendron Apartments					
Due June 1	Principal Due	Coupon Rate	Due June 1	Principal Due	Coupon Rate
2018	\$ 55,000	6.75%	2023	\$ 75,000	6.75%
2019	60,000	6.75%	2024	80,000	6.75%
2020	65,000	6.75%	2025	85,000	6.75%
2021	65,000	6.75%	2026 (1)	90,000	6.75%
2022	70,000	6.75%			

(1) Term Bond Maturity

SOURCE: Official Statement

**HOUSING KITSAP
NOTES TO FINANCIAL STATEMENTS
June 30, 2017**

Housing Revenue Bonds, 1997 (Madrona Manor Project)

In November 1997, Housing Kitsap issued Housing Revenue Bonds, 1997 (Madrona Manor Project) in the principal amount of \$190,000 to provide a portion of the permanent financing for the acquisition and construction of the Project. The bonds bear interest at 6.08% and the monthly loan payments of \$1,208 are made in amounts sufficient to redeem the bonds over 30 years as scheduled. Assignments of a deed of trust on the Project are pledged as security for repayment of the Bonds.

Housing Revenue Bonds, 2001 Series A & B (Heritage and Viewmont Apartments Project)

On October 1, 2001, Housing Kitsap issued Housing Revenue Bonds, 2001 Series A (Heritage Project) and Series B (Viewmont Project) in the aggregate principal amount of \$5,005,000, of which \$2,220,000 are Series A and \$2,785,000 are Series B. These tax-exempt revenue bonds were issued to finance the acquisition and rehabilitation of an existing 57-unit apartment complex known as Heritage Apartments and an existing 77-unit apartment complex known as Viewmont Apartments, both located in Port Orchard, Washington. Under capital lease and loan provisions (Note 4), the Agency leases both complexes to Heritage Apartments Limited Partnership and the Viewmont Apartments Limited Partnership, of which the Agency is the sole general partner. At least 50% of the units are rent restricted to low-income households. Principal and interest on the bonds will be payable from, and secured by a pledge of, lease and loan payments of the projects. The bonds are further secured by deeds of trust and a general revenue pledge of the Agency.

The bonds have interest rates ranging from 5.9% to 6.10% and are payable semi-annually on October 1 and April 1 of each year until maturity. The interest rates and maturity schedules are as follows:

Housing Revenue Bonds, 2001 Series A Heritage Project

Due Oct 1	Principal Due	Coupon Rate	Due Oct 1	Principal Due	Coupon Rate	Due Oct 1	Principal Due	Coupon Rate
2017	\$ 70,000	5.90%	2023	\$ 95,000	6.10%	2029	\$ 140,000	6.10%
2018	75,000	5.90%	2024	105,000	6.10%	2030	145,000	6.10%
2019	75,000	5.90%	2025	110,000	6.10%	2031	155,000	6.10%
2020	80,000	5.90%	2026	115,000	6.10%			
2021	85,000	5.90%	2027	120,000	6.10%			
2022	90,000	6.10%	2028	130,000	6.10%			

SOURCE: Bond Purchase Contract

Housing Revenue Bonds, 2001 Series B Viewmont Project

Due Oct 1	Principal Due	Coupon Rate	Due Oct 1	Principal Due	Coupon Rate	Due Oct 1	Principal Due	Coupon Rate
2017	\$ 85,000	5.90%	2023	\$ 120,000	6.10%	2029	\$ 170,000	6.10%
2018	90,000	5.90%	2024	125,000	6.10%	2030	180,000	6.10%
2019	95,000	5.90%	2025	130,000	6.10%	2031	190,000	6.10%
2020	100,000	5.90%	2026	140,000	6.10%			
2021	105,000	5.90%	2027	150,000	6.10%			
2022	110,000	6.10%	2028	160,000	6.10%			

SOURCE: Bond Purchase Contract

Bremerton Government Center 2005 Revenue Bonds

On June 6, 2005, Housing Kitsap issued \$2,325,000 in tax-exempt variable rate revenue bonds to finance and refinance the completion of the construction of the Norm Dicks Government Center (NDGC), an office building located in Bremerton, Washington. The office building is partially owned and operated by the Agency and used by various government entities. In September 2014, Bremerton Housing Authority refinanced and defeased \$1.635 million of the bonds, which represented their portion of the obligation. For the remaining bonds, the Agency has pledged General Revenue for repayment. The bonds are insured by the MBIA Insurance Corporation. In addition, Kitsap County (the County) entered into a Contingent Loan Agreement to loan funds to the Agency, if necessary, to pay the debt service on the bonds as long as they remaining outstanding. The County has not had to pay any debt service related to these bonds in the current year nor cumulatively. If it became necessary for the County to loan the Agency funds for debt service, the loan would be repaid on reasonable terms established by the County.

**HOUSING KITSAP
NOTES TO FINANCIAL STATEMENTS
June 30, 2017**

at the time the funds are advanced. The Agency would be required to repay the loans first by any available funds received from lessees of units owned by the Agency; amounts held in the debt service reserve; and general revenues of the Agency. In addition, if available funds were not sufficient to repay the loan, the Agency would use its best efforts through liquidation of its facilities or grant funding to repay the County loans.

The bonds have interest rates ranging from 4.25% to 4.5% and are payable semi-annually on July 1 and January 1 of each year until maturity. The bonds are in integral multiples of \$5,000 and mature based on the following schedule:

Bremerton Government Center, 2005								
Due July 1	Principal Due	Coupon Rate	Due July 1	Principal Due	Coupon Rate	Due July 1	Principal Due	Coupon Rate
2017	\$ 15,000	4.25%	2024	\$ 10,000	4.25%	2031	\$ 15,000	4.50%
2018	10,000	4.25%	2025 (1)	10,000	4.25%	2032	15,000	4.50%
2019	15,000	4.25%	2026	10,000	4.50%	2033	15,000	4.50%
2020	10,000	4.25%	2027	15,000	4.50%	2034 (1)	20,000	4.50%
2021	15,000	4.25%	2028	15,000	4.50%			
2022	10,000	4.25%	2029	15,000	4.50%			
2023	15,000	4.25%	2030	15,000	4.50%			

(1) Term Bond Maturity

SOURCE: Bond Purchase Contract

Bonds maturing in 2025 and 2034 are term bonds and are subject to mandatory redemption at par plus accrued interest to the date of redemption based on the schedule above. The Bonds maturing on and after July 1, 2016 are subject to redemption in whole or in part at the option and written direction of the Agency at a price of par plus accrued interest to the date of redemption.

Housing Revenue Bonds, 2007 (Pooled Tax Credit Projects)

On June 29, 2007 Housing Kitsap issued tax-exempt Housing Revenue Bonds, 2007 (Pooled Tax Credit Projects) in the principal amount of \$11,845,000 to provide funds to loan Kitsap Apartments 2006 Limited Partnership, of which the Agency is the sole general partner. Pursuant to a loan agreement between the Partnership and the Agency, the funds were used to finance the acquisition for federal tax purposes and rehabilitation of three apartment complexes (Port Orchard Valley, Park Place, and Kingston Ridge Apartments) owned by the Agency, which were then leased (Note 4) back to the Partnership to provide housing for low-income persons within Kitsap County. At least 50% of the units are rent restricted to low-income households. Principal and interest on the bonds will be payable from, and secured by a pledge of loan payments made by the Partnership. The bonds are further secured by deeds of trust and a general revenue pledge of the Agency.

The bonds have interest rates ranging from 5.5% to 5.6% and are payable semi-annually on June 1 and December 1 of each year until maturity. The bonds are fully registered and issued in integrals of \$5,000. Bonds maturing in 2027 and 2037 are term bonds and are subject to mandatory redemption at par plus accrued interest to the date of redemption based on the following schedule:

**HOUSING KITSAP
NOTES TO FINANCIAL STATEMENTS
June 30, 2017**

Housing Revenue Bonds 2007, Pooled Tax Credit

Due June 1	Principal Due	Coupon Rate	Due June 1	Principal Due	Coupon Rate	Due June 1	Principal Due	Coupon Rate
2018	\$ 280,000	5.50%	2026	\$ 430,000	5.50%	2034	\$ 660,000	5.60%
2019	295,000	5.50%	2027 (1)	450,000	5.50%	2035	695,000	5.60%
2020	310,000	5.50%	2028	475,000	5.60%	2036	735,000	5.60%
2021	330,000	5.50%	2029	505,000	5.60%	2037 (1)	780,000	5.60%
2022	345,000	5.50%	2030	530,000	5.60%			
2023	365,000	5.50%	2031	560,000	5.60%			
2024	385,000	5.50%	2032	595,000	5.60%			
2025	405,000	5.50%	2033	625,000	5.60%			

(1) Term Bond Maturity

SOURCE: Bond Purchase Contract

**HOUSING KITSAP
NOTES TO FINANCIAL STATEMENTS
June 30, 2017**

The following is a schedule of outstanding notes payable for Housing Kitsap and its' blended component unit as of June 30, 2017:

NOTES						
Description of Note	Loan Date	Maturity Date	Interest Rate	Original Amount	Outstanding June 30, 2017	
Mutual Self Help Program						
Community Frameworks KCCHA-10-3	21-Nov-2014	Sale of Property	0.00%	405,000	\$ 405,000	
Community Frameworks KCCHA-11-2	21-Nov-2014	Sale of Property	0.00%	195,000	195,000	
Community Frameworks KCCHA-11-3	11-Dec-2014	Sale of Property	0.00%	540,000	540,000	
Community Frameworks KCCHA-11-4	30-Mar-2017	Sale of Property	0.00%	405,000	405,000	
Community Frameworks KCCHA-13-1	12-Aug-2015	Sale of Property	0.00%	30,000	30,000	
Community Frameworks KCCHA-13-2	2-Feb-2016	Sale of Property	0.00%	45,000	45,000	
Community Frameworks KCCHA-13-3a	8-Mar-2016	Sale of Property	0.00%	15,000	15,000	
Community Frameworks KCCHA-13-3b	23-Sep-2016	Sale of Property	0.00%	15,000	15,000	
Community Frameworks KCCHA-13-3c	27-Sep-2016	Sale of Property	0.00%	15,000	30,000	
Community Frameworks KCCHA-14-1	2-Feb-2016	Sale of Property	0.00%	165,000	165,000	
Community Frameworks KCCHA-14-2	28-Mar-2017	Sale of Property	0.00%	165,000	45,000	
Community Frameworks KCCHA-14-3	28-Apr-2017	Sale of Property	0.00%	165,000	15,000	
Community Frameworks KCCHA-16-1	28-Mar-2017	Sale of Property	0.00%	165,000	135,000	
Dyes Inlet Limited Partnership						
Kitsap County, HOME Investment Partnership Program	2-Nov-1998	31-Dec-2048	1.00%	300,000	300,000	
Washington State Department of Community Development, Housing Trust Fund	31-Mar-1999	31-Dec-2049	1.00%	305,793	305,793	
Washington State Department of Community Development, HOME Investment Partnership	31-Mar-1999	31-Dec-2049	1.00%	273,461	273,461	
Golden Tides II Senior Apartments						
Kitsap County, HOME Investment Partnership Program	24-Oct-1994	30-Jun-2046	1.00%	300,000	284,730	
Washington State Department of Community Development, HOME Investment Partnership Program	7-Aug-1995	30-Jun-2046	0.00%	1,800,000	1,225,943	
19th Hole (Madrona Manor Apartments)						
Kitsap County, HOME Investment Partnership Program	6-Oct-1997	31-Dec-2046	1.00%	350,000	349,492	
Washington State Department of Community Development, Housing Trust Fund	19-Sep-1996	31-Dec-2052	0.00%	1,200,000	1,096,254	
Orchard Bluff Mobile Home Park						
Kitsap County Bond	28-Jul-1999	31-Dec-2019	5.26%	1,490,000	300,000	
State of Washington Housing Trust Fund	4-Sep-1996	31-Dec-2046	0.00%	1,800,000	1,561,629	
Fjord Manor Apartments						
U.S. Department of Agriculture Rural Development Mortgage	1-Aug-1988	19-Aug-2038	8.50%	1,348,604	1,140,705	
U.S. Department of Agriculture Rural Development Mortgage	19-Aug-1988	19-Aug-2038	9.50%	30,940	27,011	
Rhododendron Apartments						
U.S. Department of Agriculture Rural Development Mortgage	30-May-1996	31-May-2029	6.75%	571,558	353,887	
U.S. Department of Agriculture Rural Development Mortgage	31-Aug-2002	30-Sep-2032	6.75%	150,197	110,888	
Bainbridge Island Housing Trust Fund	15-Feb-2008	1-Mar-2028	0.00%	59,171	59,171	

**HOUSING KITSAP
NOTES TO FINANCIAL STATEMENTS
June 30, 2017**

Description of Note	Loan Date	Maturity Date	Interest Rate	Original Amount	Outstanding June 30, 2017
Windsong Apartments					
U.S. Department of Agriculture Rural Development Mortgage	31-Jul-2003	31-Aug-2032	8.25%	310,112	209,770
Anchor Savings Bank - Windsong	31-Jul-2003	1-Aug-2033	6.50%	975,000	738,793
State of Washington (HOME)	8-Oct-2003	31-Dec-2043	0.00%	300,948	300,948
Finch Place Apartments					
Housing Assistance Council 0-001-0608	4-Aug-2006	28-Feb-2036	3.00%	505,000	373,745
U.S. Department of Agriculture Rural Development Mortgage	21-Mar-2007	1-Mar-2057	5.75%	978,811	931,900
550 Madison Apartments					
Tax Exempt - Columbia Bank, formerly American Marine Bank	8-Sep-2004	1-Sep-2019	3.675%	450,000	321,314
Taxable - Columbia Bank, formerly American Marine Bank	8-Sep-2004	1-Sep-2019	3.675%	50,000	35,698
Lines of Credit					
US Bank - Line of Credit	31-Aug-2006	Under negotiation	Prime Rate or 57% of Prime Rate	Not to Exceed \$3,000,000	981,829
Kitsap County Loan Agreement (Loan A)	25-Apr-2013	30-Jun-2053	See Note 10 for details	4,944,039	4,534,497
Kitsap County Loan Agreement (Loan B)	25-Apr-2013	30-Jun-2053	See Note 10 for details	13,273,216	11,688,043
Total Notes Payable					\$ 29,545,501
Less: Amounts Due Within One Year					(1,487,062)
Total Long Term Notes Payable					\$ 28,058,439

Housing Kitsap Notes Payable

Mutual Self Help Program - Community Frameworks Notes

The Loan Agreements with Community Frameworks (CF) state that CF shall make a determination upon maturity of the notes to forgive all or a portion of the notes. Forgivable portions must continue to be used for eligible purposes. At maturity, Housing Kitsap continues to use the funds for eligible purposes, and reports the notes as a liability until such time as Community Frameworks makes their determination.

Golden Tides II Senior Housing

Golden Tides II, located in Silverdale, Washington, houses very low and extremely low-income senior citizens ages 55 and older and/or disabled. Originally established as a Low Income Housing Tax Credit (LIHTC) project in 1994, equity interest of 99% in the Golden Tides Associates Limited Partnership held by the limited partner was gifted to the Agency after the tax credit investment period expired during fiscal year 2012. While the partner is no longer involved in the project, the complex will remain under tax credit compliance for 25 additional years. As a result of the equity transfer, partnership obligations originally funded by Kitsap County HOME in the original amount of \$300,000 and Washington State Department of Commerce loan in the original amount of \$1,354,136 were absorbed by the Agency. Both obligations were deferred. The 15 year deferral period for the HOME loan ended on June 30, 2011 with annual principal and interest payments of \$11,359 beginning June 2012 through maturity in June 2046. Expiration of the 5 year deferral period for the Washington State Department of Commerce loan was June 30, 2013 and annual payments of \$42,300 commenced in June 2013. Both note payables will be repaid from rent and fees charged sufficient to meet debt service.

Madrona Manor Apartments

Madrona Manor located in Port Orchard Washington is a 40-unit apartment project that provides affordable rental housing for elderly low-income households in Kitsap County. Originally established as a Low Income Housing Tax Credit (LIHTC) project in 1995, equity interest of 99% in the 19th Hole Limited Partnership held by the limited partner was gifted to the Agency after the tax credit investment period expired during fiscal year 2013. While the partner is no longer involved in the project, the

HOUSING KITSAP NOTES TO FINANCIAL STATEMENTS June 30, 2017

complex will remain under tax credit compliance for 25 additional years. As a result of the equity transfer, partnership obligations were absorbed by the Agency. The note in the original amount of \$350,000 payable to Kitsap County, HOME Investment Partnership Program accrues interest at 1 percent annually. Payments are deferred for the first 15 years. Upon completion of the deferral period, the principal and interest of \$13,576 will be amortized and paid through December 2046. The second note in the original amount of \$1,200,000 payable to the Washington State Department of Community Development was amended to defer payments for five years beginning after December 31, 2008. All interest accrued from the inception of the original contract to December 31, 2008 was included in the principal balance and re-amortized at a 0% interest rate. The deferment period ends with annual principal payments of \$30,451 commencing at December 31, 2013 and every year thereafter until December 31, 2052. Housing revenue bonds in the amount of \$190,000 payable to Bank of America has interest that is adjusted at the reset date according to the terms of the note (6.08 percent at December 31, 2013). Monthly principal and interest installments of \$1,208 are paid until the bond matures in December 2017.

Orchard Bluff Mobile Home Park

In July 1999, the Agency assisted Kitsap County in purchasing and relocating residents to a new mobile home park, known as the Orchard Bluff Project. In the interest of present value savings, Kitsap County issued long-term general obligation bonds (1999 Series B LTGO Bonds) to refund the Agency's Housing Revenue Bonds, 1996 originally issued to provide funds to acquire and improve the Project's 88-pad mobile home park located near the City of Port Orchard, Washington. The County then loaned the LTGO bond proceeds to the Agency to own and operate the new mobile home park, Orchard Bluff Mobile Estates. The note payable will be repaid from rent and fees charged sufficient to meet bond debt service.

On September 4, 1996, Housing Kitsap was selected to receive Housing Assistance Program funding through the Housing Trust Fund in the loan amount of \$1,800,000 to be used solely for the acquisition of Orchard Bluff Mobile Home Estates. The loan is secured by a deed of trust. The contract has been amended, in which all parties agreed to defer loan payments until December 31, 2020 and change the interest rate from 1% to 0%. Annual payments of \$57,838 shall begin on December 31, 2020 and shall be due each December 31 for 34 years. Loan covenants limit the use of the project to housing for low income households that at the time of initial occupancy have gross annual household incomes at or below fifty percent of the median income for Bremerton-Silverdale, WA MSA.

Fjord Manor Apartments

In August 1988, the U.S. Department of Agriculture – Rural Development issued the Agency two Rural Rental Housing loans for \$1,348,604 and \$30,940, respectively, to finance the acquisition of a 38 unit apartment complex known as Fjord Manor Apartments. The apartment complex provides affordable elderly rental housing for low and moderate income households. Interest accrues at 8.5% and 9.5% per year with monthly payments of \$9,693.97 and \$247.13, respectively. U.S. Department of Agriculture – Rural Development provides for monthly interest subsidies on both loans in the amounts of \$6,833.15 and \$181.50, respectively. Interest expense is reported net of interest subsidies in the statement of revenues, expenses and changes in net position. In the event of default, U.S. Department of Agriculture maintains a security interest in the property.

Rhododendron Apartments

On May 30, 1996, the U.S. Department of Agriculture – Rural Development issued the Agency a Rural Rental Housing loan for \$571,558 to finance the acquisition of a 50 unit apartment complex known as Rhododendron Apartments. The apartment complex provides affordable rental housing for low and moderate income households. Interest accrues at 6.75% per year with monthly payments of \$3,608.66. U.S. Department of Agriculture – Rural Development provides for monthly interest subsidy in the amounts of \$1,909.89. Interest expense is reported net of interest subsidies in the statement of revenues, expenses and changes in net position. In the event of default, U.S. Department of Agriculture maintains a security interest in the property.

On August 31, 2002, the U.S. Department of Agriculture – Rural Development issued the Agency a Rural Rental Housing loan for \$150,197 to finance the rehabilitation and repairs of Rhododendron Apartments. Interest accrues at 6.75% per year with monthly payments of \$974.91. U.S. Department of Agriculture – Rural Development provides for monthly interest subsidy in the amounts of \$490.67. Interest expense is reported net of interest subsidies in the statement of revenues, expenses and changes in net position. In the event of default, U.S. Department of Agriculture maintains a security interest in the property.

On February 19, 2008, the City of Bainbridge Island Council approved a loan to Housing Kitsap for \$59,171 from the City's Housing Trust Fund. The emergency funding covered the cost to replace and/or repair decks, rails and stairs of the Rhododendron Apartments. Interest accrues at 0% and matures on March 1, 2028. The City retains sole discretion to forgive and waive repayment of any portion of the funds based in part upon the approval of the loan request pending before the U.S. Department of Agriculture – Rural Development (USDA-RD). If the USDA-RD loan request is approved for less than the original amount of \$350,000, the City will deem its loan a grant, forgiving and waiving repayment of the entire loan amount. As of June 30, 2017, no determination has been made on the USDA-RD loan request.

HOUSING KITSAP
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Windsong Apartments

On July 31, 2003, the U.S. Department of Agriculture – Rural Development issued the Agency a Rural Rental Housing loan for \$310,112 to finance the acquisition of a 36 unit apartment complex known as Windsong Apartments. The apartment complex provides affordable rental housing for low and moderate income households. Interest accrues at 8.25% per year with monthly payments of \$2,457.65. U.S. Department of Agriculture – Rural Development provides for monthly interest subsidy in the amounts of \$1,271.49. Interest expense is reported net of interest subsidies in the statement of revenues, expenses and changes in net position. In the event of default, U.S. Department of Agriculture maintains a security interest in the property.

In July 2003, Housing Kitsap entered into a loan agreement in the principal amount of \$975,000 with the Washington Community Reinvestment Association, a banking consortium of for-profit banks and thrifts that band together to participate in community development lending for low- and moderate-income housing at below market rates. The loan funds were used to provide partial funding to acquire and rehabilitate the Windsong Apartments, 36 units of low income housing. The 30 year loan bears interest at 6.5% per annum and monthly principal and interest installments of \$6,162.66 are payable to Anchor Bank, which is designated by the consortium. The loan is secured by a deed of trust.

In October 2003, Housing Kitsap entered into a loan agreement with the State of Washington Department of Community, Trade and Economic Development (Department). The funds were appropriated from the US Department of Housing and Urban Development's HOME Investment Partnership Program which provides financial assistance to local governments, housing authorities and certified 501(c)(3) nonprofit organizations to assist very low-income households in meeting their basic housing needs. The purpose of the loan in the principal amount of \$300,948 was to acquire and rehabilitate 36 units of affordable housing for low income families and individuals who at the time of initial occupancy have gross annual household incomes at or below 50% of median income for Kitsap County, Washington. The loan accrues interest at 0% and is deferred for 40 years. If the terms and conditions of the contract are met, the loan will convert to a grant with no expectation of repayment on December 31, 2043. However, if the property is sold, refinanced, transferred or the use changes during the 40 year deferral period, the award amount, plus a proportional share of the appreciated value of the property will become due. The loan is secured by a subordinate lien position deed of trust to the Department.

Finch Place Apartments

In August 2006, the Housing Assistance Council approved Housing Kitsap's loan request in the principal amount of \$505,000 from the Preservation Revolving Loan Fund. The purpose of the loan was to provide partial financing for the 29-unit affordable, senior housing project, known as Finch Place Apartments, located on Bainbridge Island, Washington. The housing units must be affordable to households earning 80% of the area's median income in Kitsap County. The 30 year loan bears interest at 3% and principal and interest payments of \$6,533.71 are due quarterly. The loan is secured by a deed of trust.

On March 21, 2007, the U.S. Department of Agriculture – Rural Development issued the Agency a Rural Rental Housing loan for \$978,811 to finance the acquisition of Finch Place Apartments. Interest accrues at 5.75% per year with monthly payments of \$4,974.04. U.S. Department of Agriculture – Rural Development provides for monthly interest subsidy in the amounts of \$2,897.67. Interest expense is reported net of interest subsidies in the statement of revenues, expenses and changes in net position. In the event of default, U.S. Department of Agriculture maintains a security interest in the property.

550 Madison Apartments

In September 2004, Housing Kitsap entered into two loan agreements with Columbia Bank, formerly American Marine Bank, for principal amounts of \$450,000 and \$50,000 with the greater amount being tax-exempt and subject to rebate requirements imposed by Section 148(f) of the IRS Code. Initially, the Agency issued Tax-Exempt Revenue Bond, 2004 (550 Madison Project) and Taxable Revenue Bond, 2004 (550 Madison Project) in the same principal amounts as discussed above and subsequently sold the bonds to American Marine Bank making the bank the registered owner of the bonds. The purpose of the bond issuances was to provide partial financing to acquire and renovate a 13-unit apartment complex located at 550 Madison Avenue on Bainbridge Island, Washington. Interest on both notes coincides with the bond interest of 5.5% per annum through and including October 1, 2011 on a 30-year amortization with a balloon principal payment due at the end of the 15 year maturity. After October 1, 2011, the notes will adjust to the Federal Home Loan Bank 7-year amortizing rate plus 1.25% for the remaining term of the loan. The notes are secured by a First Deed of Trust on the 550 Madison apartment complex, including assignments of rents.

On January 29, 2010, American Marine Bank, Bainbridge Island, WA was closed by the Washington Department of Financial Institutions, and the Federal Deposit Insurance Corporation (FDIC) was named Receiver. In addition to assuming all of the deposits of the failed bank, Columbia State Bank agreed to purchase essentially all of the assets, and the above referenced notes contractually continued under the same terms.

**HOUSING KITSAP
NOTES TO FINANCIAL STATEMENTS
June 30, 2017**

Dye's Inlet Associates Limited Partnership

The note in the original amount of \$300,000 is payable to Kitsap County, HOME Investment Partnership Program. Interest accrues at 1 percent annually. Payments are deferred for the first 15 years. Upon completion of the deferral period, the principal and accrued interest will be amortized and paid over the remaining 35-year life of the loan.

The note payable, funded from the Washington State Housing Trust Fund and the HOME Investment Partnership Program, in the original amount of \$579,254 is payable to Washington State Department of Community Development. Interest accrues at 1 percent annually. Payments are deferred for the first 15 years. Upon completion of the deferral period, the principal and accrued interest will be amortized and paid over the remaining 35-year life of the loan.

Housing Kitsap and HK Communities, LLC, in which Housing Kitsap is the sole member, are the general and limited partners in Dye's Inlet. No partner is individually liable on the mortgage notes.

Line of Credit

The Line of Credit with U.S. Bank consists of two notes, one taxable and one tax-exempt. The combined aggregate outstanding balance may not exceed \$3,000,000, and may be used for development projects approved by the bank on a project-by-project basis. The taxable interest rate is fully floating variable interest rate equal to US Bank's Prime Rate. The tax-exempt interest rate is 57% of the Prime Rate. As part of the agreement, monthly principal and interest payments are required until the obligation is paid in full on the extended maturity date, which is currently under negotiations for annual extension.

The following is a summary of changes in Housing Kitsap's short-term borrowings as of June 30, 2017:

	July 1, 2016	Additions	Decreases	June 30, 2017
US Bank - Line of Credit	\$ 1,125,829	\$ -	\$ (144,000)	\$ 981,829
	\$ 1,125,829	\$ -	\$ (144,000)	\$ 981,829

Kitsap County Bonds and Housing Kitsap Loan and Repayment Agreement

On April 25, 2013, Kitsap County issued Limited Tax General Obligation Refunding Bonds 2013 ("County Bonds"), in the original amount of \$48,280,000 for the purpose of (a) refinancing the Bank of America and Key Bank Tri-Party Agreements established with Housing Kitsap in 2009; (b) refund the Norm Dicks Government Center Bonds, in which Housing Kitsap is the bond holder and mortgagor for the portion of the building the County currently owns; (c) establish a source of funds to manage, market and sell the remaining collateralized property under the Tri-Party Agreements; and (d) refinance certain other debt independently owed by the County.

A portion of the County Bonds has a 7 year maturity date, is callable after five years, and has a par value of \$2,430,000. These bonds are referred to as the "Short Term Bonds". Another portion of the County Bonds has a 16 year maturity date, is callable after ten years, and has a par value of \$9,335,000. These bonds are referred to as the "Long Term Bonds".

With the issuance of the County LTGO Bonds on April 25, 2013 and subsequent "New County Loan Agreement", Housing Kitsap acknowledged indebtedness to Kitsap County for the principal amounts shown in the following schedule under "Total Sources".

**HOUSING KITSAP
NOTES TO FINANCIAL STATEMENTS
June 30, 2017**

	Kitsap County LTGO 2013 Bonds (HK Portion)			
	Loan A NDGC	Loan B Short Term	Loan B Long Term	
Housing Kitsap Loans	Refunding	Bonds	Bonds	Total
Par Amount of Bonds	\$ 4,615,000	\$ 2,430,000	\$ 9,335,000	\$ 16,380,000
Reoffering Premium	329,039	408,629	1,099,588	1,837,256
Total Sources	\$ 4,944,039	\$ 2,838,629	\$ 10,434,588	\$ 18,217,256
Cost of Bond Issuance	\$ 66,544	\$ 34,978	\$ 134,369	\$ 235,891
NDGC 2003 Bond Refunding Escrow	4,877,495	-	-	4,877,495
Bank of America Tri-Party Debt Payoff	-	2,553,651	8,748,797	11,302,448
Key Bank Tri-Party Debt Payoff	-	-	1,559,263	1,559,263
Reserve Account Funded	-	250,000	-	250,000
Credit from County - Property Transfer	-	-	(52,913)	(52,913)
Excess Cash	-	-	45,072	45,072
Total Uses	\$ 4,944,039	\$ 2,838,629	\$ 10,434,588	\$ 18,217,256

The loans are secured by the "NDGC Pledge" of Agency general revenues for the portion covered under the NDGC refunding and the remaining real property collateralized under the Tri-Party Agreements described below.

In addition, Housing Kitsap will be assessed, or credited, an amount known as the Lost Investment Income (LII) Assessment. The LII Assessment will be calculated by multiplying the current monthly Kitsap County Investment Pool investment rate by the amount representing the difference between the outstanding County Bond balance versus the loans outstanding between Housing Kitsap and the County. The LII Assessment will cease on the later of the 16th Anniversary Date of the New County Loan or the date the County Bonds are paid in full.

Semi-annual payments made under Loan A will remain consistent with the original NDGC bond payments prior to the refunding. Amounts saved on the original NDGC bond payments due to the County refinance will be allocated to Loan B. Housing Kitsap will pay the County all excess funds, exclusive of all revenues and receipts reasonable necessary to enable Housing Kitsap to pay the cost of all operating and overhead costs associated with the core functions of the Agency. Housing Kitsap payment milestones are as follows:

Year	Milestone Date	Loan Payment
8	12/1/2019	\$ 3,150,000 plus accrued LII Assessment
10	6/30/2022	\$ 4,637,000 plus accrued LII Assessment
15	6/30/2027	\$ 6,976,000 plus accrued LII Assessment
20	6/30/2032	\$ 9,865,000 plus accrued LII Assessment
25	6/30/2037	\$ 12,646,000 NA
30	6/30/2042	\$ 16,115,000 NA
35	6/30/2047	\$ 19,631,000 NA
40	6/30/2052	\$ 23,330,000 NA
41	6/30/2053	Residual balance

**HOUSING KITSAP
NOTES TO FINANCIAL STATEMENTS
June 30, 2017**

Discretely-Presented Component Units

The following is a schedule of outstanding Notes as of December 31, 2016.

Description of Note	Loan Date	Maturity Date	Interest Rate	Original Amount	Balance Outstanding December 31, 2016
Liberty Bay Limited Partnership					
Kitsap County, HOME Investment Partnership Program	1-Jan-2002	31-Dec-2051	1.00%	50,000	43,640
Washington State Department of Community Development, HOME Investment Partnership Program	18-Sep-2000	31-Dec-2051	0.00%	524,102	425,462
Railroad Avenue Limited Partnership					
Kitsap County, HOME Investment Partnership Program	16-Oct-2003	31-Dec-2053	1.00%	75,000	58,934
Kitsap County, HOME Investment Partnership Program	29-Sep-2004	31-Dec-2054	1.00%	197,392	197,392
United States Department of Agriculture, Rural Development Multiple Family Housing	29-Apr-2005	29-Apr-2035	1.00%	1,000,156	940,946
Washington State Department of Community Development, HOME Investment Partnership Program	12-May-2003	1-May-2054	1.00%	373,929	299,950
Red Barn Limited Partnership					
Washington State Department of Community Development, HOME Investment Partnership Program	12-Dec-2003	30-Jun-2044	0.00%	1,041,426	882,360
Kitsap County, HOME Investment Partnership Program	25-Nov-2003	31-Dec-2054	1.00%	440,622	440,622
Kitsap County, HOME Investment Partnership Program	29-Sep-2004	31-Dec-2053	1.00%	129,252	129,252
CRE Ventures, LLC (formerly West Sound Bank)	21-Feb-2005	21-Feb-2020	7.25%	850,000	688,779
				<u>\$</u>	<u>4,107,336</u>
Total Face Value of Notes				\$	4,107,336
Less: Notes Due Within One Year					(80,088)
				<u>\$</u>	<u>4,027,248</u>

HOUSING KITSAP
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Discretely-Presented Component Unit Notes Payable

Liberty Bay Associates Limited Partnership

The note payable issued by Washington State Department of Community Development was amended to defer payments for five years beginning after December 31, 2008. The amendment also converted the annual interest rate to 0% for the remaining 39 year period. The deferment period ends with annual principal payments of \$12,156 commencing at December 31, 2013 and every year thereafter until December 31, 2051.

The note payable issued by Kitsap County through the HOME Investment Partnership Program is to be repaid in annual installments of \$1,276 including interest at 1 percent, based on a 50-year amortization schedule, through December 31, 2051.

No partner is individually liable on the mortgage notes.

Railroad Avenue Associates Limited Partnership

In April 2005, Rural Development funded a permanent loan in the principal amount of \$1,000,156, with an interest rate of 5.625 percent per year. The note is to be repaid in monthly installments of \$4,991 beginning on June 1, 2005 and thereafter on the 1st of each month until the principal and interest is fully paid. The note matures in April 29, 2035. The mortgage note is nonrecourse. Loan proceeds were used to pay down general partnership construction advances. The stated rate of 5.625 percent varies from the effective rate of 1% due to a mortgage interest subsidy provided by Rural Housing Service (RHS).

The note in the original amount of \$373,929 is payable to Washington State Department of Community Development. It is to be paid in annual installments of \$9,527 including interest at 1 percent beginning May 2005, based on a 39-year amortization schedule, through May 31, 2054.

The notes in the original amounts of \$197,392 and \$75,000 are payable to Kitsap County through the HOME Investment Partnership Program. Annual payments of principal and interest for the note in the original amount of \$197,392 begin December 31, 2020. Annual payments for both notes will continue on December 31 for each successive year until the maturity date at which time the notes shall be payable in full.

No partner is individually liable on the mortgage notes.

Red Barn Associates Limited Partnership

CRE Ventures, LLC purchased the note payable formerly held by Westsound Bank before it went into FDIC receivership and serviced by Situs Asset Management. In March 2012, Midland Loan Services took over the servicing of the loan from Situs Asset Management. In November 2015, Quorus Commercial took over the servicing of the loan from Midland Loan Services. The note is to be repaid in monthly payments of \$5,492 including interest at 6.75%, based on an 8-year amortization schedule, through 2020.

The note payable to Washington State Department of Community Development in the original amount of \$1,401,426 is to be repaid in quarterly installments of \$8,214 including interest at 1 percent beginning December 2005, based on a 39-year amortization schedule, through June 30, 2044. Payments were made each quarter in the amount of \$8,214.73 through September 30, 2008. The contract was amended to defer the remaining balance of \$986,639.42 for five (5) years at zero percent (0%) interest. Then, the remaining balance of \$986,639.42 will be amortized quarterly at zero percent (0%) interest for the remaining 35.75 years. Quarterly payments in the amount of \$8,021.46 will commence on December 31, 2013 and will continue to be due each September 30, December 31, March 31, and June 30 for 30.75 years. The final payment of principal and interest will be due on or before June 30, 2044.

The note payable to Kitsap County in the original amount of \$569,874 bears interest at 1 percent per annum beginning January 1, 2005. Annual payments of principal and interest begin December 31, 2020 continuing on December 31 for each successive year until the maturity date at which time the note shall be payable in full.

No partner is individually liable on the mortgage notes.

HOUSING KITSAP
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Annual Requirements to Retire Debt Obligations

The annual debt service requirements on revenue bonds and notes currently outstanding are as follows:
Housing Kitsap

Year Ending	Revenue				
June 30	Bonds	Lines of Credit	Notes	Interest	Total
2018	630,081	981,829	505,231	1,234,937	3,352,078
2019	543,195	-	538,209	1,183,938	2,265,342
2020	573,613	-	899,671	1,135,472	2,608,756
2021	599,044	-	549,725	1,142,133	2,290,902
2022	634,490	-	569,106	1,030,470	2,234,065
2023-2027	3,607,632	-	5,166,313	4,292,087	13,066,032
2028-2032	4,280,000	-	3,481,762	3,268,756	11,030,518
2033-2037	3,545,000	-	2,772,557	913,798	7,231,354
2038-2042	-	-	3,798,183	45,169	3,843,352
2043-2047	-	-	8,457,176	10,635	8,467,811
2048-2052	-	-	588,945	696	589,641
2053-2057	-	-	1,236,793	-	1,236,793
	\$ 14,413,054	\$ 981,829	\$ 28,563,671	\$ 14,258,089	\$ 58,216,645

Component Units

Year Ending			
December 31	Notes	Interest	Total
2017	80,088	69,531	149,619
2018	81,978	67,641	149,619
2019	83,994	65,625	149,619
2020	686,020	54,166	740,186
2021	62,202	46,457	108,659
2022-2026	359,413	191,166	550,579
2027-2031	456,456	105,889	562,345
2032-2036	487,651	74,694	562,345
2037-2041	526,655	38,277	564,932
2042-2046	495,666	22,379	518,045
2047-2051	478,083	12,613	490,695
2052-2056	304,924	2,859	307,783
2057-2061	4,206	226	4,432
	\$ 4,107,336	\$ 751,523	\$ 4,858,859

**HOUSING KITSAP
NOTES TO FINANCIAL STATEMENTS
June 30, 2017**

Changes in Long-Term Liabilities

Housing Kitsap long-term liability activity for the year ended June 30, 2017, was as follows:

	Balance			Balance		
	July 1, 2016	Additions	Reductions	June 30, 2017	Due Within	One Year
Bonds and Notes payable:						
Revenue bonds	\$ 14,902,676	\$ -	\$ (489,621)	\$ 14,413,055	\$	630,080
Less Issue Premiums/Discounts	(16,760)	-	1,686	(15,074)		-
Notes Payable:	29,917,792	645,000	(1,017,293)	29,545,499		1,487,062
Total Bonds and Notes Payable	44,803,708	645,000	(1,505,228)	43,943,480		2,117,142
Payable from Restricted Assets						
Escrow, Debt Service, & Construction	19,223	6,451	(5,131)	20,543		5,866
Unearned Revenue						
Financing Lease Receivable	9,353,357	-	(784,250)	8,569,107		760,438
Unearned Gain on Sale of Assets	6,313,337	-	(570,919)	5,742,418		570,919
Net Pension Liability	2,204,987	436,923	(47,949)	2,593,961		-
Compensated Absences	183,010	8,870	-	191,880		143,910
Other Long Term Liabilities	96,148	8,793	(37,183)	67,758		34,615
Total Long-Term Liabilities	\$ 62,973,770	\$ 1,106,037	\$ (2,950,660)	\$ 61,129,147	\$	3,632,890

Discretely-presented component units' long-term liability activity for the year ended December 31, 2016, was as follows:

	Balance			Balance		
	January 1, 2016	Additions	Reductions	December 31, 2016	Due Within	One Year
Notes Payable	\$ 4,185,632	\$ -	\$ (78,295)	\$ 4,107,337	\$	80,089
Accrued Interest	87,657	7,674	-	95,331		-
Due to the Housing Authority						
Notes	11,857,748	531,687	(166,559)	12,222,878		7,014
Capital Leases	13,716,075	-	(383,813)	13,332,262		412,998
Total Long-Term Liabilities	\$ 29,847,112	\$ 539,361	\$ (628,667)	\$ 29,757,808	\$	500,101

**HOUSING KITSAP
NOTES TO FINANCIAL STATEMENTS
June 30, 2017**

NOTE 10– OPERATING LEASES

Operating Lease Income

Housing Kitsap maintains a lease for a portion of office space it owns in the Norm Dicks Government Center, including some improvements and equipment, totaling approximately 1,004 square feet. This lease is considered an operating lease for accounting purposes. The space is leased for two years to Representative Derek Kilmer, U.S. House of Representatives, and expires January 3, 2019. The cost allocable to building and equipment for the portions under lease is approximately \$467,364, less accumulated depreciation through June 30, 2017 of \$152,992. Minimum lease revenue for the year ended June 30, 2017 amounted to \$17,220.

Future minimum rental income under these leases is as follows:

Fiscal Year Ending June 30	Buildings	Equipment
2018	\$ 16,719	\$ 501
2019	\$ 8,359	\$ 251
Total	\$ 25,078	\$ 752

NOTE 11 – PAYMENTS IN LIEU OF TAXES

Payments in Lieu of Taxes (PILOT) are payments made by one government to another in lieu of taxes it would have to pay, had its property and expenses been subject to taxation by the recipient government on the same basis as privately owned property. The Housing Kitsap has negotiated amounts to be paid for services provided by other governments in lieu of payment of real estate taxes. Total PILOT reported on the financial statements is \$22,698 for Housing Kitsap and \$0 for Component Units.

**HOUSING KITSAP
NOTES TO FINANCIAL STATEMENTS
June 30, 2017**

NOTE 12 – RECONCILIATION OF NET POSITION

The following discloses the components of net position invested in capital assets, net of related debt and restricted net position.

	<u>Housing Kitsap June 30, 2017</u>	<u>Discretely-Presented Component Units December 31, 2016</u>
Capital Assets, Net of Accumulated Depreciation	\$ 24,863,914	\$ 28,560,398
Related Debt		
Bonds and Note Payable, net of Premium Discount	15,947,770	25,120,197
Less: Bond Proceeds Financing Debt Service Reserves	<u>(108,796)</u>	<u>(1,185,290)</u>
Total Related Debt	<u>15,838,974</u>	<u>23,934,907</u>
Investment in Capital Assets, Net of Related Debt	<u>\$ 9,024,940</u>	<u>\$ 4,625,491</u>
Restricted Assets		
Cash & Cash Equivalents	\$ 4,664,107	\$ 1,325,117
Investments	128,769	1,195,022
Assets Held for Sale	2,132,144	-
Due from Other Governments and Agencies	300,783	-
Note Receivable	3,021,173	-
Real Estate Contracts	<u>296,522</u>	<u>-</u>
Total Restricted Assets	<u>10,543,498</u>	<u>2,520,139</u>
Payable from Restricted Assets		
Security Deposits	163,122	147,322
Accounts Payable	178,135	-
Trust Funds	333,306	-
HSP Prepaid Rent and Unclaimed Property	10,000	-
Tenant Escrow	14,677	-
Debt Reserve	<u>2,045,866</u>	<u>-</u>
Total Payable from Restricted Assets	<u>2,745,106</u>	<u>147,322</u>
Restricted Net Position	<u>\$ 7,798,392</u>	<u>\$ 2,372,817</u>

NOTE 13 – CONDUIT FINANCING

Housing Kitsap is authorized to facilitate the issuance of tax-exempt nonrecourse revenue bonds to finance housing projects. Revenue bonds issued by Housing Kitsap are payable from revenues derived as a result of the project activities funded by the revenue bonds. The bonds are not a liability or contingent liability of Housing Kitsap or a lien on any of its properties or revenues other than for the project for which they are issued. The outstanding revenue bonds are not recorded in Housing Kitsap's financial statements, as they represent conduit debt obligations under GASB Interpretation No. 2.

Housing Kitsap issued and sold tax-exempt and taxable revenue bonds through a private placement on behalf of Hostmark Village Cove, LLC totaling \$4,620,000 on June 30, 2003. There was \$4,007,753 in bonds outstanding at June 30, 2017. The proceeds were used to finance the cost of acquiring an existing 120 unit elderly housing project known as the Hostmark Apartments located in Poulsbo, Washington. The bonds are a special obligation of Housing Kitsap payable solely from loan payments received from Hostmark Village Cove, LLC, from money and investments held by the trustee under the indenture, and investment earnings thereon. The bonds are also secured by a Deed of Trust on the above referenced property.

HOUSING KITSAP
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 14 – SEGMENT INFORMATION

Housing Kitsap issues separate revenue bonds or other debt to finance the acquisition, rehabilitation, and construction of housing and community development projects. The financial activity is reported within Housing Kitsap activities. Investors in the revenue bonds and lenders rely on the revenue generated by the individual activities for repayment. In addition, the bonds are secured by a pledge of the General Revenues of Housing Kitsap. Summary financial information for activities that meet these criteria is presented on the following pages.

HOUSING KITSAP
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

	Orchard Bluff Mobile Home Park	550 Madison Apartments	Golden Tides II	Madrona Manor
CONDENSED STATEMENTS OF NET POSITION				
Assets				
Current Assets	\$ 7,983	\$ 927	\$ 5,310	\$ 221,293
Due from Other Programs	-	-	-	-
Restricted Assets	18,168	18,015	97,340	146,933
Capital Assets	4,567,774	672,148	2,124,435	2,136,520
Other Assets	-	-	-	-
Total Assets	4,593,925	691,090	2,227,085	2,504,745
Deferred Outflows of Resources				
Deferred Loss on Refunding	16,153	-	-	-
Total Deferred Outflows of Resources	16,153	-	-	-
Liabilities				
Current Liabilities	2,265	3,968	1,533	2,382
Current Portion of LT Debt	95,000	15,483	63,601	152,825
Due to Housing Kitsap	115,493	125,001	330,699	-
Current Liabilities	13,150	6,279	15,225	9,250
Payable from Restricted Assets	1,766,179	341,528	1,562,833	1,405,213
Noncurrent Liabilities	1,992,087	492,259	1,973,891	1,569,670
Total Liabilities	1,992,087	492,259	1,973,891	1,569,670
Net Assets				
Net Investment in Capital Assets	2,722,749	315,137	498,000	578,481
Restricted	5,018	11,736	82,115	137,683
Unrestricted (Deficit)	(109,774)	(128,042)	(326,921)	218,911
Total Net Position	\$ 2,617,993	\$ 198,831	\$ 253,194	\$ 935,075
CONDENSED STATEMENTS OF REVENUE, EXPENSE, AND CHANGES IN NET POSITION				
Operating Income (Loss)				
Operating Revenue	\$ 388,300	\$ 96,192	\$ 337,855	\$ 285,876
Depreciation Expense	(117,127)	(21,761)	(50,357)	(52,215)
Other Operating Expense	(236,857)	(60,013)	(261,463)	(188,358)
Total Operating Income (Loss)	34,317	14,418	26,035	45,303
Nonoperating Revenue (Expense)				
Investment Income	34	32	180	282
Capital Grant	-	-	-	-
Interest Expense	(11,950)	(13,212)	(7,828)	(11,546)
Grants Received	-	-	-	-
Gain (Loss) on Sale of Assets	-	-	-	-
Transfers	-	-	-	-
Total Nonoperating Revenue (Expense)	(11,916)	(13,180)	(7,648)	(11,264)
Change in Net Position	22,401	1,238	18,387	34,039
Net Position, Beginning of Year	2,595,592	197,593	234,807	901,036
Net Position, End of Year	\$ 2,617,993	\$ 198,831	\$ 253,194	\$ 935,075
CONDENSED STATEMENTS OF CASH FLOWS				
Net Cash Provided (Used) by				
Operating Activities	\$ 141,375	\$ 38,178	\$ 72,021	\$ 99,431
Noncapital Financing Activities	(71,034)	(15,177)	(9,735)	(6,579)
Capital Financing Activities	(89,999)	(28,189)	(71,259)	(59,498)
Investing Activities	34	32	180	282
Net Increase (Decrease)	(19,624)	(5,157)	(8,793)	33,636
Cash and Cash Equivalents, Beginning of Year	41,863	21,257	109,159	333,075
Cash and Cash Equivalents, End of Year	\$ 22,239	\$ 16,100	\$ 100,366	\$ 366,711

**HOUSING KITSAP
NOTES TO FINANCIAL STATEMENTS
June 30, 2017**

Fjord Manor A partments	Rhododendron A partments	Windsong A partments	Finch Place A partments	Bremerton Government Center
\$ 5,703	\$ 26,770	\$ 13,246	\$ 6,971	\$ 730
-	-	-	-	251,959
228,916	379,839	258,906	358,800	30,524
716,543	1,964,693	1,522,078	1,596,647	257,787
-	-	-	-	609,178
<u>951,162</u>	<u>2,371,302</u>	<u>1,794,230</u>	<u>1,962,418</u>	<u>1,150,178</u>
-	-	-	-	-
-	-	-	-	-
1,284	9,528	374	3,446	103,053
20,558	79,377	39,374	21,359	15,000
39,382	39,792	16,868	19,966	-
16,709	30,719	17,947	18,299	-
<u>1,147,158</u>	<u>1,078,247</u>	<u>1,210,137</u>	<u>1,284,287</u>	<u>2,893,225</u>
<u>1,225,092</u>	<u>1,237,663</u>	<u>1,284,700</u>	<u>1,347,357</u>	<u>3,011,278</u>
(451,174)	905,269	272,567	291,000	(2,424,137)
212,207	349,226	240,959	342,564	24,658
(34,963)	(120,856)	(3,996)	(18,502)	538,382
\$ (273,930)	\$ 1,133,639	\$ 509,529	\$ 615,062	\$ (1,861,097)
\$ 222,523	\$ 354,203	\$ 255,051	\$ 198,672	\$ 17,220
(41,449)	(58,987)	(40,393)	(35,109)	(110,589)
(125,731)	(239,676)	(129,020)	(122,869)	225,982
<u>55,343</u>	<u>55,540</u>	<u>85,637</u>	<u>40,694</u>	<u>132,613</u>
67	152	82	96	21,589
-	73,850	-	-	-
(16,099)	(52,952)	(51,407)	(30,394)	(158,534)
-	-	-	-	-
-	-	-	-	(934,697)
-	-	-	-	-
<u>(16,032)</u>	<u>21,050</u>	<u>(51,326)</u>	<u>(30,298)</u>	<u>(1,071,642)</u>
39,312	76,590	34,311	10,396	(939,029)
(313,242)	1,057,049	475,218	604,666	(922,068)
\$ (273,930)	\$ 1,133,639	\$ 509,529	\$ 615,062	\$ (1,861,097)
\$ 95,610	\$ 143,457	\$ 131,971	\$ 79,218	\$ 242,981
(1,874)	2,628	(4,946)	(1,944)	33,158
(35,117)	(246,752)	(114,823)	(51,051)	(509,161)
67	108	82	96	(4,694)
<u>58,687</u>	<u>(100,560)</u>	<u>12,285</u>	<u>26,320</u>	<u>(237,716)</u>
170,229	382,155	246,622	332,480	203,963
\$ 228,916	\$ 281,595	\$ 258,907	\$ 358,800	\$ (33,753)

**HOUSING KITSAP
NOTES TO FINANCIAL STATEMENTS
June 30, 2017**

NOTE 15 – DISCRETELY-PRESENTED COMPONENT UNITS

The component units are formed as limited partnerships with the Housing Kitsap serving as general partner. These partnerships provide housing for low income families, seniors, and disabled individuals. Ownership percentages and general partner equity through June 30, 2017 are summarized as follows:

Component Unit	General Partner Percentage	General Partner Equity Balance
Heritage Apartments, LP	0.10%	(80)
Kitsap Apartments 2006, LP	0.01%	(364)
Liberty Bay, LP	0.01%	395,618
Railroad Avenue, LP	0.01%	118,465
Red Barn, LP	0.01%	158,945
Viewmont East Apartments, LP	0.10%	483
Total Investment		\$ 673,067

As general partner, Housing Kitsap complies with the duties and responsibilities established with each limited partner in the related partnership agreement. In general, Housing Kitsap is obligated to provide funds to each partnership for any operating deficit during the initial break-even period as a contribution to capital in an amount equal to the operating deficit, except Liberty Bay, LP for which there is no limit. All of the partnerships have met the break even requirement. Liberty Bay incurred an operating deficit during the calendar year of 2001, in which the general partner contributed \$38,633 to the original contribution of \$448,757. The Red Barn and Railroad Avenue partnerships incurred operating deficits during the 2005 calendar year prior to the stabilization (break-even) date of approximately \$90,000 and \$30,000, respectively, for which Housing Kitsap is obligated to advance funds. Housing Kitsap satisfied its commitment to fund the deficit for Railroad Avenue, LP by obtaining an operating grant in the amount of \$35,000, which was received and reported as revenue in January 2006. Pursuant to the agreements set forth in the partnerships, Housing Kitsap has additional obligations to make capital contributions for Railroad Avenue, LP up to \$65,000 and Red Barn, LP up to \$400,000 to cover subsequent operating deficits during the term of the partnership. Pursuant to the partnership agreement, Housing Kitsap is obligated to fund unlimited operating deficits generated by Kitsap Apartments, 2006, LLP through the stabilization date. In the event operating deficits are generated, these funds would be loans to the partnership, repayable without interest. After the stabilization date, the maximum operating deficit required to be funded by Housing Kitsap is \$ 423,000. Housing Kitsap is released from the operating deficit obligation on the date the project has operated at break-even for at least three consecutive calendar years following the stabilization date and the balance in the operating reserve equals or exceeds \$849,472. As of June 30, 2017, Housing Kitsap has funded operating deficits of \$346,785 generated by Kitsap Apartments 2006, LLP.

HOUSING KITSAP
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

	Heritage	Liberty Bay	Railroad Avenue
CONDENSED STATEMENTS OF NET POSITION			
ASSETS			
Current Assets	\$ 62,529	\$ 31,830	\$ 69,954
Restricted Assets	281,527	98,590	222,071
Capital Assets	1,882,372	1,286,233	1,710,367
Total Assets	2,226,428	1,416,653	2,002,392
LIABILITIES			
Current Liabilities	30,699	5,375	5,771
Current Portion of Long Term Debt	-	12,963	15,003
Current Portion Due to Housing Authority	99,527	833	1,482
Current Liabilities Payable from			
Restricted Assets	11,778	3,000	7,907
Due to Housing Authority, Long Term	1,629,260	143,595	64,832
Long Term Debt, net of Current Portion	-	456,138	1,482,219
Other Noncurrent Liabilities	-	3,263	23,687
Total Liabilities	1,771,264	625,167	1,600,901
NET POSITION			
Net Investment in Capital Assets	485,153	816,148	213,145
Restricted	269,749	95,589	214,164
Unrestricted (Deficit)	(299,738)	(120,251)	(25,818)
Total Net Position	\$ 455,164	\$ 791,486	\$ 401,491
CONDENSED STATEMENTS OF REVENUE, EXPENSE, AND CHANGES IN NET POSITION			
Operating Income (Loss)			
Operating Revenue	\$ 520,754	\$ 146,682	\$ 141,863
Depreciation Expense	(71,288)	(56,892)	(60,027)
Other Operating Expense	(310,489)	(121,278)	(75,529)
Total Operating Income (Loss)	138,977	(31,488)	6,307
Non-operating Revenue (Expense)			
Investment Income	8,696	2	4
Interest Expense	(117,625)	(1,197)	(24,770)
Total Non-Operating Revenue (Expense)	(108,929)	(1,195)	(24,766)
Change in Net Position	30,048	(32,683)	(18,459)
Net Position, Beginning of Year	425,116	824,169	419,950
Net Position, End of Year	\$ 455,164	\$ 791,486	\$ 401,491

**HOUSING KITSAP
NOTES TO FINANCIAL STATEMENTS
June 30, 2017**

Red Barn	View mont East	Kitsap Apartments
\$ 79,900	\$ 115,146	\$ 705,030
183,523	418,783	1,315,646
3,789,504	2,640,241	17,251,681
<u>4,052,927</u>	<u>3,174,170</u>	<u>19,272,357</u>
37,541	32,305	61,519
52,123	-	-
3,336	123,668	336,231
10,000	20,397	94,240
439,733	1,841,619	21,016,086
2,088,891	-	-
68,381	-	-
<u>2,700,005</u>	<u>2,017,989</u>	<u>21,508,076</u>
1,539,522	930,069	641,454
173,522	398,386	1,221,406
(360,122)	(172,274)	(4,098,579)
<u>\$ 1,352,922</u>	<u>\$ 1,156,181</u>	<u>\$ (2,235,719)</u>
\$ 349,670	\$ 669,939	\$ 2,091,293
(128,112)	(93,206)	(442,790)
(221,138)	(399,495)	(1,032,773)
<u>420</u>	<u>177,238</u>	<u>615,730</u>
96	10,770	40,680
(59,167)	(142,587)	(943,158)
<u>(59,071)</u>	<u>(131,817)</u>	<u>(902,478)</u>
(58,651)	45,421	(286,748)
1,411,573	1,110,760	(1,948,971)
<u>\$ 1,352,922</u>	<u>\$ 1,156,181</u>	<u>\$ (2,235,719)</u>

HOUSING KITSAP
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 16 – BLENDED COMPONENT UNITS

In accordance with GASB Statement No. 61, *The Financial Reporting Entity, Omnibus*, Dye's Inlet Associates LP (Dye's Inlet), formerly a discretely presented component unit, and HK Communities, LLC, a newly formed legally separate entity, have been reported under the blending method as of June 30, 2017. On May 15, 2015, HK Communities LLC, a single-member limited liability company, was given 99.9% limited partnership interest in Dye's Inlet by the former limited partner and investor, Key Bank. Housing Kitsap is the single member of HK Communities, LLC, as well as the general partner and .1% owner of Dye's Inlet. Since the governing body is substantively the same as Housing Kitsap and Housing Kitsap manages the activities of the component units in essentially the same manner in which it manages its own programs and departments, both Dye's Inlet and HK Communities LLC have been consolidated into Housing Kitsap financial information as follows:

	Dye's Inlet	HK Communities	Housing Kitsap	Eliminations	Total
CONDENSED STATEMENTS OF NET POSITION					
ASSETS					
Current Assets	\$ 29,925	\$ -	\$ 3,724,174	\$ (15,951)	\$ 3,738,148
Restricted Assets	53,113	-	10,490,390	-	10,543,503
Capital Assets	1,134,430	-	23,729,485	-	24,863,915
Other Assets	-	161,153	35,325,270	(277,964)	35,208,459
Total Assets	1,217,468	161,153	73,269,319	(293,915)	74,354,025
DEFERRED OUTFLOWS OF RESOURCES					
Deferred Loss on Refunding	-	-	712,350	-	712,350
Deferred Outflow - Pension Expense	-	-	596,049	-	596,049
Total Deferred Outflows of Resources	-	-	1,308,399	-	1,308,399
LIABILITIES					
Current Liabilities	36,652	-	2,380,828	-	2,417,480
Current Portion of Long Term Debt	-	-	2,117,142	-	2,117,142
Current Portion Due to Housing Authority	15,532	419	-	(15,951)	-
Current Liabilities Payable from					
Restricted Assets	5,800	-	674,629	-	680,429
Due to Housing Authority, Long Term	117,467	-	-	(117,467)	-
Long Term Debt, net of Current Portion	879,254	-	40,947,084	-	41,826,338
Other Noncurrent Liabilities	23,142	-	15,646,776	-	15,669,918
Total Liabilities	1,077,847	419	61,766,459	(133,418)	62,711,307
DEFERRED INFLOWS OF RESOURCES					
Deferred Inflow - Proportionate Share	-	-	10,878	-	10,878
Deferred Inflow - Net Difference in Investment Earnings	-	-	126,592	-	126,592
Total Deferred Inflows of Resources	-	-	137,470	-	137,470
NET POSITION					
Net Investment in Capital Assets	255,176	-	8,769,764	-	9,024,940
Restricted	47,308	-	7,751,085	-	7,798,393
Unrestricted (Deficit)	(162,863)	160,734	(3,847,060)	(160,497)	(4,009,686)
Total Net Position	\$ 139,621	\$ 160,734	\$ 12,673,789	\$ (160,497)	\$ 12,813,647

HOUSING KITSAP
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

	Dye's Inlet	HK Communities	Housing Kitsap	Eliminations	Total
CONDENSED STATEMENTS OF REVENUE, EXPENSE, AND CHANGES IN NET POSITION					
Operating Income (Loss)					
Operating Revenue	\$ 129,998	\$ -	\$ 9,113,712	(6,536)	\$ 9,237,174
Depreciation Expense	(39,798)	-	(806,960)	6,536	(840,222)
Other Operating Expense	(82,628)	(71)	(8,886,415)	-	(8,969,114)
Total Operating Income (Loss)	<u>7,572</u>	<u>(71)</u>	<u>(579,663)</u>	<u>-</u>	<u>(572,162)</u>
Non-operating Revenue (Expense)					
Investment Income	2	-	1,177,297	-	1,177,299
Gain on Disposal of Assets	-	-	(365,791)	-	(365,791)
Interest Expense	(11,425)	-	(1,487,324)	-	(1,498,749)
Total Non-Operating Revenue (Expense)	<u>(11,423)</u>	<u>-</u>	<u>(675,818)</u>	<u>-</u>	<u>(687,241)</u>
Capital Grants Received	-	-	682,978	-	682,978
Contributions Received	-	-	-	-	-
Change in Net Position	(3,851)	(71)	(572,503)	-	(576,425)
Net Position, Beginning of Year	143,472	160,805	13,246,292	(160,497)	13,390,072
Net Position, End of Year					
CONDENSED STATEMENTS OF CASH FLOWS					
Net Cash Provide d (Used) by					
Operating Activities	\$ 47,923	\$ -	\$ (393,042)	\$ -	\$ (345,119)
Noncapital Financing Activities	-	-	1,813,675	-	1,813,675
Capital Financing Activities	(35,245)	-	(314,767)	-	(350,012)
Investing Activities	2	-	46,716	-	46,718
Net Increase (Decrease)	12,680	-	1,152,582	-	1,165,262
Cash, Beginning of Year	65,425	-	5,532,744	-	5,598,169
Cash, End of Year	<u>\$ 78,105</u>	<u>\$ -</u>	<u>\$ 6,685,326</u>	<u>\$ -</u>	<u>\$ 6,763,431</u>

**HOUSING KITSAP
NOTES TO FINANCIAL STATEMENTS
June 30, 2017**

NOTE 17 – RELATED PARTY TRANSACTIONS

Receivables and payables as of June 30, 2017 resulted from various transactions between Housing Kitsap activities and discretely-presented component units, and are summarized as follows:

	Due From Component Units June 30, 2017	Adjustment for Difference in Fiscal Year Ends and Accounting Treatment	Due to Housing Kitsap December 31, 2016
Accounts Receivable and Payable (Net)	\$ 924,612	\$ (200,308)	\$ 1,124,920
Notes	8,180,622	(2,784)	8,183,406
Capital Leases	21,481,608	8,149,346	13,332,262
Less Unearned Revenue on Capital Lease	(8,345,503)	(8,345,503)	-
Long Term Accrued Interest	3,232,509	172,893	3,059,616
Net Due from (Due to)	<u>\$ 25,473,848</u>	<u>\$ (226,356)</u>	<u>\$ 25,700,204</u>
Current			
Accounts Receivable and Payable (Net)	\$ 41,979	\$ (3,093)	\$ 45,072
Notes Receivable/Payable	7,014	-	7,014
Accrued Interest Receivable/Payable	98,779	(1,214)	99,993
Capital Financing Lease Receivable/Payable	1,167,433	754,435	412,998
Total Due To/From - Current	1,315,205	750,128	565,077
Unearned Revenue on Capital Lease Receivable	(739,435)	(739,435)	-
Current Due From (Due To) - Net	<u>575,770</u>	<u>10,693</u>	<u>565,077</u>
Long-Term			
Accounts Receivable and Payable (Net)	4,016,364	(23,107)	4,039,471
Notes Receivable/Payable	8,173,608	(2,784)	8,176,392
Capital Financing Lease Receivable/Payable	20,314,174	7,394,910	12,919,264
Total Due To/From - Net of Current	32,504,146	7,369,019	25,135,127
Unearned Revenue on Capital Lease Receivable	(7,606,068)	(7,606,068)	-
Long-Term Due From (Due To) - Net	<u>24,898,078</u>	<u>(237,049)</u>	<u>25,135,127</u>
Totals	<u><u>\$ 25,473,848</u></u>	<u><u>\$ (226,356)</u></u>	<u><u>\$ 25,700,204</u></u>

Accounts Receivable and Payable (net)

Throughout the year, Housing Kitsap advances funds to the component units for short-term cash flow needs. These advances do not bear interest, are payable upon demand, and are considered short-term and temporary in nature. Housing Kitsap also receives quarterly management fees specified in each limited partnership agreement.

In accordance with Liberty Bay Associates Limited Partnership Agreement, Housing Kitsap, as general partner, is entitled to a \$10,000 annual fee for supervisory and administrative services with increases at the rate of four percent per year. Payment of the fee is contingent upon available cash flow, as defined by the partnership agreement, and is deducted as an expense in the year actually paid. Unpaid fees may accrue interest. For the year ended 2016, \$15,746 in partnership administration fees were paid and deducted as an expense. As of December 31, 2016, partnership administration fee outstanding totaled \$142,623 is payable should sufficient cash flow become available in future years.

In accordance with Red Barn Associates Limited Partnership Agreement, Housing Kitsap, as general partner, is entitled to a \$15,000 annual fee for supervisory and administrative services. The fee is paid over the term of the agreement, commencing in 2004, and increases at the rate of two percent per year. Payment of the fee is contingent upon available cash flow, as defined by the partnership agreement, and is deducted as an expense in the year actually paid. For the year ended 2016, \$21,685 in partnership administration fees were paid and deducted as an expense. As of December 31, 2016, partnership administration fee outstanding totaled \$53,021.

HOUSING KITSAP
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

In accordance with Red Barn Associates Limited Partnership Agreement, Housing Kitsap, as general partner, is entitled to a \$10,000 annual tenant services fee for certain social services for the benefit of the residents of the Project. The fee is paid over the term of the agreement, commencing in 2004, and increases at the rate of two percent per year. Payment of the fee is contingent upon available cash flow, as defined by the partnership agreement, and is deducted as an expense in the year actually paid. Unpaid tenant services fees for 2015 are \$12,682 and are payable should sufficient cash flow become available in future years. As of December 31, 2016, tenant services fee outstanding totaled \$142,464.

In accordance with Railroad Avenue Associates Limited Partnership Agreement, Housing Kitsap, as general partner, is entitled to a \$3,000 annual fee for supervisory and administrative services. The fee is paid over the term of the agreement, commencing in 2004, and increases at the rate of three percent per year. Payment of the fee is contingent upon available cash flow, as defined by the partnership agreement, and is deducted as an expense in the year actually paid. Unpaid fees accrue interest. USDA-Rural Development restricts the annual combined totals of the partnership administration fee and the investor services fee to \$4,210. For the year ended 2016, there were no partnership administration fees paid or deducted as an expense. Unpaid partnership administration fees for 2016 are \$2,784 and are payable should sufficient cash flow become available in future years. As of December 31, 2016, partnership administration fee outstanding totaled \$38,812.

In accordance with Kitsap Apartments 2006 Limited Partnership Agreement, Housing Kitsap, as general partner, is entitled to a \$50,000 annual fee for supervisory and administrative services. The annual fee shall increase at the rate of 3 percent per year. Payment of the fee is contingent upon available cash flow, as defined by the partnership agreement. The fee shall accumulate from year to year, provided however, that no amount shall be deducted as an expense until such amount is paid. For the year ended 2016, there were no partnership administration fees paid or deducted as an expense. As of December 31, 2016, the accumulated administration fees totaled \$548,194.

Notes Payable to Housing Kitsap

Heritage Apartments Limited Partnership has entered into a developer services agreement with the general partner, Housing Kitsap. The developer services agreement provides for a developer fee of \$219,171. The developer services agreement provides for \$196,000 of the developer fee to be secured. Interest is charged on the note at 6 percent. During 2016, interest charged totaled \$1,598. For the year ended December 31, 2016, the partnership paid the development fee and accrued interest of \$73,508 in full.

During 2014, the general partner, Housing Kitsap, charged Heritage Apartments Limited Partnership a tax credit monitoring fee, according to the terms of the partnership agreement, in the amount of \$11,977. Tax credit monitoring fee payable at December 31, 2016 totaled \$139,542.

Housing Kitsap, as general partner, issued single-purpose, tax exempt revenue bonds to finance the purchase and rehabilitation of the Heritage Apartments project. Bond proceeds were split between a capital financing lease (93.4684%) and a related loan agreement (6.5316%). See Note 12 for details on the capital financing lease. Lease and loan payments are made semi-annually in amounts sufficient to redeem the bonds over 30 years as scheduled. The interest rate varies between 3.8% and 6.1% based on the maturity schedule of the underlying bonds, which is detailed in Note 10. The outstanding balance of the note payable as of December 31, 2016 was \$99,280.

As required by the Kitsap Apartments 2006 Limited Partnership agreements, the general partner is required to fund Partnership operating deficits in the form of a loan. As of December 31, 2016, operating deficit notes payable totaled \$346,785. The commitment to fund operating deficits is unlimited through the stabilization date and is capped at \$423,000 after the stabilization date.

On November 1, 2015, Housing Kitsap loaned \$186,000 of grant funds awarded by Kitsap County's Community Development Block Grant Program to Kitsap Apartments 2006 LP. The loan funds were used to replace roofs at Conifer Woods as defined in the grant award. The loan is unsecured and bears interest at 4%. The loan will be repaid upon the earlier of the date the properties are sold or October 31, 2046.

Housing Kitsap, as general partner, issued single-purpose, tax exempt revenue bonds to finance the purchase and rehabilitation of the Kitsap Apartments project. Bond proceeds and seller equity were lent to the Partnership in the forms of a capital financing lease and a related seller's loan agreement. See Note 4 and 12 for details on the capital financing lease. Lease payments are made semi-annually in amounts sufficient to redeem the bonds over 30 years as scheduled. The interest rate varies between 5.5% and 5.6% based on the maturity schedule of the underlying bonds, which is detailed in Note 10. The seller's note is representative of \$5,555,000 in seller's equity and \$1,670,765 in advances to fund rehabilitation, cost of bond issuance, and operating deficits. The seller's note incurs interest at a rate of 5.04%. The outstanding balance of the seller note payable as of December 31, 2016 was \$7,225,765 and accrued interest for the year was \$336,856. Total outstanding accrued interest is \$2,945,502.

HOUSING KITSAP
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Railroad Avenue Associates Limited Partnership has entered into a developer services agreement with Housing Kitsap, the general partner. At December 31, 2016, development fees payable totaled \$26,020. The fee is payable from net cash flow, as defined in the partnership agreement, and does not bear interest. In the event any portion of the developer fee remains unpaid on December 31, 2012, the general partner is required to make an additional capital contribution in order to pay the remaining balance. As of December 31, 2016, the general partner has not made a capital contribution to pay the developer fee which is not in accordance with the provisions in the partnership agreement. The general partner will seek a modification of the partnership agreement extending the due date for the unpaid developer fee. In addition, the general partner will discuss agreement modification and repayment options with U.S.D.A – R.D. The partnership will have the ability to pay the developer fee payable in the future or a capital contribution will be made at the end of the initial 15 year tax credit compliance period, April 2019. During 2016, payments to the developer fee totaled \$2,825.

Through the use of a U.S. Bank line of credit (see Note 10), Housing Kitsap also advanced Red Barn Associates Limited Partnership \$62,968 for the purposes of providing construction financing to the project. The loan bears interest at a rate equal to the bank's prime rate. Monthly payments of interest only are required and are passed through as charges to the partnership. Housing Kitsap advanced an additional \$46,000 to the partnership. As of December 31, 2016, principal and interest accrued are \$46,000 and \$5,280 respectively.

Housing Kitsap also advanced Red Barn Associates Limited Partnership discretionary funding of \$130,000. The loan does not bear interest and is payable upon demand.

During 2016, the general partner, Housing Kitsap, charged Viewmont Apartments Limited Partnership a tax credit monitoring fee, according to the terms of the partnership agreement, in the amount of \$15,193. Tax credit monitoring fee payable at December 31, 2016 totaled \$15,193.

Housing Kitsap, as general partner, issued single-purpose, tax exempt revenue bonds to finance the purchase and rehabilitation of the Viewmont Apartments project. Bond proceeds were split between a capital financing lease (97.1275%) and a related loan agreement (2.8725%). See Note 12 for details on the capital financing lease. Lease and loan payments are made semi-annually in amounts sufficient to redeem the bonds over 30 years as scheduled. The interest rate varies between 3.8% and 6.1% based on the maturity schedule of the underlying bonds, which is detailed in Note 10. The outstanding balance of the note payable as of December 31, 2016 was \$53,573.

Four Component Units (as lessees), Liberty Bay, Heritage Apartments, LP, Viewmont East, LP, and Kitsap Apartments 2006, LP have entered into lease agreements with the Housing Kitsap (as lessor) for financing the acquisition of real property. Through the lease agreements, the Partnerships have assumed the burdens and benefits of ownership and, therefore, qualify as capital leases for accounting purposes. The leases have been recorded at the present value of the future minimum lease payments as of the inception date. Land leased for a term of ninety-nine years by Liberty Bay Limited Partnership was capitalized at \$161,742. Assets leased by Heritage Apartments Limited Partnership and Viewmont East Limited Partnership were capitalized at \$4,789,495, and the accumulated amortization was \$1,553,447 at December 31, 2016. Assets under lease with Kitsap Apartments Limited Partnership 2006 were capitalized at \$17.4 million, and the accumulated amortization was \$3,159,219 as of December 31, 2016.

**HOUSING KITSAP
NOTES TO FINANCIAL STATEMENTS
June 30, 2017**

The future minimum lease obligation and the net present value for the minimum lease payments as of December 31, 2016 are as follows:

Year Ending December 31	Liberty Bay	Heritage	Viewmont East	Kitsap Apts	Total
2017	12	154,398	195,951	813,794	1,164,155
2018	12	155,142	195,865	813,738	1,164,757
2019	12	151,006	195,492	812,856	1,159,367
2020	12	151,475	194,833	811,150	1,157,470
2021	12	151,668	193,887	813,458	1,159,025
2022-2026	60	762,521	964,829	4,046,809	5,774,219
2027-2031	60	727,684	931,426	4,021,633	5,680,803
2032-2036	60	-	-	3,996,133	3,996,193
2037-2041	60	-	-	798,344	798,404
2042-2046	60	-	-	180	240
2047-2051	60	-	-	180	240
2052-2056	60	-	-	180	240
2057-2061	60	-	-	180	240
2062-2066	60	-	-	180	240
2067-2071	60	-	-	180	240
2072-2076	60	-	-	180	240
2077-2081	60	-	-	180	240
2082-2086	60	-	-	180	240
2087-2091	60	-	-	180	240
2092-2096	60	-	-	180	240
2097-2101	24	-	-	180	204
2102-2106	-	-	-	180	180
2107-2111	-	-	-	54	54
Total Minimum Lease Payments	\$ 984	\$ 2,253,895	\$ 2,872,283	\$ 16,930,310	\$ 22,057,471
Less Amounts Representing Interest	-	(798,029)	(1,016,871)	(6,910,310)	(8,725,209)
Present Value of Minimum Lease Payments	\$ 984	\$ 1,455,866	\$ 1,855,412	\$ 10,020,000	\$ 13,332,262
Current (Principal Only)	\$ 12	\$ 65,428	\$ 82,558	\$ 265,000	\$ 412,998
Long - Term	972	1,390,438	1,772,854	9,755,000	12,919,264
Totals	\$ 984	\$ 1,455,866	\$ 1,855,412	\$ 10,020,000	\$ 13,332,262

NOTE 18 – RISK MANAGEMENT

Housing Kitsap is a member of the Housing Authorities Risk Retention Pool (HARRP). Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), fifty-five public housing authorities in the states of Washington, Oregon and California originally formed HARRP in March 1987. HARRP was created for the purposes of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and/or jointly contracting for risk management services. HARRP currently has a total of ninety-two members in the states of Washington, Oregon, Nevada and California. Thirty-six of the ninety two members are Washington public housing entities.

New members originally contract for a three year term and thereafter automatically renew on an annual basis. Members may quit (after completion of the three year commitment) upon giving notice to HARRP prior to their renewal date. HARRP can terminate the members after giving a sixty (60) day notice prior to the renewal date. Termination does not relieve a former member from its unresolved losses incurred during membership.

General and Automobile Liability coverages are written on an occurrence basis, without member deductibles. Errors & Omissions coverage (which includes Employment Practices Liability) is written on a claims made basis, and the members are responsible for 10percent of the incurred costs of the claims. (Due to special underwriting circumstances, some members may be subject to a greater E&O co-payment.) The Property coverage offered by HARRP is on a replacement cost basis with deductibles ranging from \$1,000 to \$25,000. Fidelity coverage, with limits of \$100,000 (with options up to \$500,000) for employee dishonesty and forgery or alteration and \$10,000 for theft are also provided with deductibles the same as Property.

HOUSING KITSAP
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Coverage limits for General Liability, Errors & Omissions and Property are \$2,000,000 per occurrence and \$2,000,000 annual aggregate. (Some members have chosen greater Property limits for higher valued properties.) Limits for Automobile Liability are \$1,000,000/\$1,000,000.

HARRP self-insures the full layer of coverage for liability lines (\$2,000,000 per occurrence and \$2,000,000 annual aggregate). There is no purchased reinsurance above this limit. For property, HARRP retains \$2,000,000 and \$63,000,000 of reinsurance from St. Paul/Travelers Insurance Company for a combined total of \$65,000,000. The HARRP Board of Directors determines the limits and coverage terms, at its sole discretion.

HARRP provides loss control services, claim investigation and adjusting, litigation management and defense with in-house staff and retained third party contractors.

HARRP is fully funded by member assessments that are adjusted annually by the HARRP Board on the basis of independent actuarial studies. These assessments cover loss, loss adjustment expenses, reinsurance and other administrative expenses. HARRP does not have the right to assess the membership for any shortfall in its funding. Such shortfalls are made up through future rate adjustments.

Settled claims have not exceeded insurance coverage during the past three years.

NOTE 19 – CONTINGENCIES

Housing Kitsap has recorded in its financial statements all material liabilities, including estimates for situations which are not yet resolved, but where management believes, based on available information; it is probable that Housing Kitsap will have to make payment. In the opinion of management, Housing Kitsap's insurance policies are adequate to pay all known or pending claims.

The Housing Kitsap participates in a number of federal, state, and county programs that are fully or partially funded by grants received from other governmental units. Expenses financed by grants are subject to audit by the appropriate grantor government. Such audits could result in requests for reimbursement to the grantors for expenditures disallowed under the terms of the grants. As of June 30, 2017, not all grant expenses have been audited. The Housing Kitsap is not aware of any noncompliance issues, and believes that in the unlikely event any expense is disallowed it would be immaterial.

NOTE 20 – SUBSEQUENT EVENTS

Subsequent to year end and before this report was issued, the following events occurred:

On July 11, 2017, Housing Kitsap's Board of Commissioners approved the write off of uncollectible Down Payment Assistance loans in the amount of \$326,714.

On June 10, 2016, Housing Kitsap's annual renewal of its \$982 thousand line of credit with US Bank expired. Active renewal negotiations are still in process with US Bank as of November 2017.

HOUSING KITSAP

Schedules of Required Supplementary Information
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

June 30, 2017
 Pension Plans
 Last 10 Fiscal Years*

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
PERS # 1										
Housing Authority's proportion of the net pension liability (asset)	0.022273%	0.022704%	0.024791%	0.023667%						
Housing Authority's proportionate share of the net pension liability (asset)	1,196,165	1,187,630	1,248,858	1,382,923						
Housing Authority's covered-employee payroll	30,481	34,299	33,659	-						
Housing Authority's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	3924.30%	3462.58%	3710.32%	#DIV/0!						
Plan fiduciary net position as a percentage of the total pension liability	57.03%	59.10%	61.19%							
PERS # 2/3										
Housing Authority's proportion of the net pension liability (asset)	0.027762%	0.028473%	0.031240%	0.031518%						
Housing Authority's proportionate share of the net pension liability (asset)	1,397,795	1,017,357	631,473	1,345,823						
Housing Authority's covered-employee payroll	2,612,113	2,522,304	2,526,507	2,596,304						
Housing Authority's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	53.51%	40.33%	24.99%	51.84%						
Plan fiduciary net position as a percentage of the total pension liability	85.82%	89.20%	93.29%							

HOUSING KITSAP
Schedules of Required Supplementary Information
SCHEDULE OF EMPLOYER CONTRIBUTIONS

June 30, 2017
Pension Plans
Last 10 Fiscal Years*

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
<u>PERS # 1</u>										
Contractually required contribution	3,293.96	3,100.00	2,380.00	-	-	-	-	-	-	-
Contributions in relation to the contractually required contribution	(3,293.96)	(3,100.00)	(2,380.00)	-	-	-	-	-	-	-

Contribution deficiency (excess)	-	-	-	-	-	-	-	-	-	-
Housing Authority's covered-employee payroll	30,481	34,299	33,659							
Contributions as a percentage of covered-employee payroll	10.81%	9.04%	7.07%							

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
<u>PERS # 2/3</u>										
Contractually required contribution	283,286.48	232,691.11	244,093.73	187,224.00						
Contributions in relation to the contractually required contribution	(283,286.48)	(232,691.11)	(244,093.73)	(187,224.00)						

Contribution deficiency (excess)	-	-	-	-	-	-	-	-	-	-
Housing Authority's covered-employee payroll	2,612,113	2,522,304	2,526,507	2,596,304						
Contributions as a percentage of covered-employee payroll	10.85%	9.23%	9.66%	7.21%						

HOUSING KITSAP
Notes to Required Supplementary Information
For the Year Ended June 30, 2017

Changes of benefit terms: There were no changes in the benefit terms for the Pension Plans.

Changes of assumptions: There were no changes in the assumptions for the Pension Plans.

**HOUSING KITSAP
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2017**

Federal Agency Name	Pass Through Agency	Cluster Name	CFDA Number	Federal Program Title	Other I.D. Number	Expenditures		Debt Liability Balance	TOTAL FEDERAL AWARDS	Passed through to Subrecipients	Note Ref.			
						From Pass Through Awards*	From Direct Awards*							
U.S. Department of Agriculture - Rural Housing Service			10.415	Rural Rental Housing Loans (Interest Subsidy)	551170445 02-0 Fjord Manor		\$ 84,176	\$ 1,167,716	\$ 1,251,892		4A			
					551170445 03-1 Rhododendron		28,808	464,775	493,583		4A			
					551170445 05-5 Windsong		15,258	209,770	225,028		4A			
					551170445 06-7 Finch Place		34,772	931,900	966,672		4A			
					Subtotal		-	163,014	2,774,161	2,937,175				
			10.420	Rural Self-Help Housing Technical Assistance	U015		676,329	-	676,329					
					U017		527,684	-	527,684					
					Subtotal		-	1,204,013	-	1,204,013				
			Total U.S. Department of Agriculture - Rural Housing Service							1,367,027	2,774,161	4,141,188		
			U.S. Department of Housing and Urban Development (HUD)	Kitsap County	CDBG Entitlement Grants	14.218	Community Development Block Grants / Entitlement Grants	KC-362-14	153,335			153,335		3A
KC-212-	73,850								73,850					
KC-418	90,895								90,895					
KC-434-16	14,909								14,909					
Subtotal	332,989	-						-	332,989					
		14.239		Home Investment Partnership Program (Down Payment Assistance)	KC-432-16	130,373			130,373		3B			
Community Frameworks				14.247	Self Help Homeownership Opportunity Program (SHOP)	HK-10	-		-	-		4B		
						HK-11	405,000		1,545,000	1,545,000		4B		
						HK-13	45,000		135,000	135,000		4B		
						HK-14	60,000		225,000	225,000		4B		
						HK-16	135,000		135,000	135,000		4B		
Subtotal	645,000	-		2,040,000	2,040,000									
				14.850	Public and Indian Housing (CY 2015 & CY 2016)	WA03620202016D		212,895		212,895				
						WA03620202017D		198,620		198,620				
						Subtotal		411,515	-	411,515				
						14.870	Resident Opportunity and Supportive Services - Service Coordinators	WA036RPS001A013		60,030		60,030		
				Housing Voucher		14.871	Section 8 Housing Choice Vouchers	WA036VO		2,682,990		2,682,990		5
		14.872		Public Housing Capital Fund	WA19P03650115		35,000		35,000					
					WA19P03650116		184,619		184,619					
Subtotal		-		219,619	-	219,619								
Total U.S. Department of Housing and Urban Development (HUD)						1,108,362	3,374,154	2,040,000	5,877,516					
TOTAL FEDERAL AWARDS						\$ 1,108,362	\$ 4,741,181	\$ 4,814,161	\$ 10,018,704					

*See Note 4 for included debt liability balances.

The Accompanying Notes to the Schedule of Expenditures of Federal Awards are an Integral Part of this Schedule.

**HOUSING KITSAP
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2017**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of the federal programs administered by Housing Kitsap (HK).

From time to time, Housing Kitsap may assist others in managing assistance programs. These programs would not be included as part of Housing Kitsap for financial reporting purposes, and therefore would also not be included in the Schedule of Expenditures of Federal Awards.

Basis of Accounting

The Schedule of Expenditures of Federal Awards is prepared on the same basis of accounting as Housing Kitsap's financial statements. Housing Kitsap uses the accrual basis of accounting and presents its financial reporting for its business type activities as of fiscal year end June 30, 2017 and for its component unit's activities as of calendar year end December 31, 2016.

NOTE 2 – PROGRAM INCOME AND COSTS

The amounts shown as current year expenditures represent only the Federal portion of the program costs. Actual program costs, including Housing Kitsap's portion, may be more than shown. Program income is netted in current year expenditures for purposes of Schedule of Expenditures of Federal Awards reporting.

NOTE 3 – REVOLVING LOAN - PROGRAM INCOME

Housing Kitsap administers multiple revolving loan programs for low-income housing. Under these grants, repayments to HK are considered program revenues (income) and loans of such funds to eligible recipients are considered expenditures.

(A) Housing Rehabilitation Loans – CDBG 14.218

For KC-362-14 the amount of loans/grants and administrative funds disbursed to program participants in FY 2017 was \$166,959. The amount of principal and interest received in loan repayments for the year was \$13,624 and the net amount reported is \$153,335.

For KC-418-16 the amount of loans/grants and administrative funds disbursed to program participants in FY 2017 was \$90,895. The amount of principal and interest received in loan repayments for the year was \$0.

(B) Down Payment Assistance – HOME 14.239

For KC-432-16, the amount of loan funds disbursed to program participants during the year was \$130,373 as presented in this schedule; the amount of principal and interest received in loan repayments during the year was \$17,690.

For KC-434-16, the amount of loan funds disbursed to program participants during the year was \$14,909 as presented in this schedule; the amount of principal and interest received in loan repayments during the year was \$0.

NOTE 4 – FEDERAL LOANS

(A) U.S. Department of Agriculture – Rural Rental Housing Loans – 10.415

Housing Kitsap receives interest subsidy on the loans from the US Department of Agriculture – Rural Housing Service according to the terms of the respective loan agreements. All loans have continuing compliance requirements. Table 1 below shows the value of the interest subsidy received during the year and the respective debt liability balances as of June 30, 2017.

Table 1 - CFDA 10.415

Loan I.D. Number	Subsidy Received During the Year	Debt Liability Ending Balance	Total Federal Award Reported
551170445 02-0	\$ 84,176	\$ 1,167,716	\$ 1,251,892
551170445 03-1	\$ 28,808	\$ 464,775	\$ 493,583
551170445 05-5	\$ 15,258	\$ 209,770	\$ 225,028
551170445 06-7	\$ 34,772	\$ 931,900	\$ 966,672
Total Reported	\$ 163,014	\$ 2,774,161	\$ 2,937,175

**HOUSING KITSAP
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2017**

(B) U.S. Department of Housing and Urban Development - Self Help Opportunity Program – SHOP 14.247

Housing Kitsap periodically receives Self Help Opportunity Program (SHOP) loans as pass through awards from the Department of Housing & Urban Development (HUD) by Community Frameworks. These funds are used to purchase home sites and develop or improve the infrastructure needed to establish mutual self-help homeownership programs for eligible low-income persons and families. The amounts listed on the schedule include loan proceeds received during the year and outstanding loan balances. Both the current and prior year loans are also reported as HK's liabilities and schedule of long-term debt until they are determined to be eligible for debt forgiveness, or repaid if deemed non-eligible for forgiveness. During the year a total of \$405,000 in loans were forgiven and \$645,000 new loan funding was received. The combined outstanding loan balances total \$2,040,000 as reported on the schedule. All loans have continuing compliance requirements. Table 2 below shows the value of the loans received and forgiven during the year and the respective debt liability balances at June 30, 2017.

Table 2 - CFDA 14.247

Loan I.D. Number	Loans Received During the Year	Loans Forgiven During the Year	Loans Transferred During the Year	Debt Liability Beginning Balance	Total Federal Award Reported
HK-10	\$ -	(\$375,000)	\$ 405,000	\$ 375,000	\$ 405,000
HK-11	\$ 405,000	(\$ 30,000)	(\$405,000)	\$ 1,170,000	\$ 1,140,000
HK-13	\$ 45,000	-		\$ 90,000	\$ 135,000
HK-14	\$ 60,000	-		\$ 165,000	\$ 225,000
HK-16	\$ 135,000				\$ 135,000
Total Reported	\$ 645,000	(\$405,000)	\$ -	\$ 1,800,000	\$ 2,040,000

NOTE 5 – SECTION 8 HOUSING CHOICE VOUCHERS 14.871

The amount reported on the SEFA is operating subsidy revenue received. Actual program expenses totaled \$2,584,240 during the year.

NOTE 6 – NO ELECTION TO CHARGE A DE MINIMIS 10% INDIRECT COST RATE

Housing Kitsap has not elected to use a 10% de minimus cost rate as described in 2CFR 200.414 Indirect (F&A) costs.

Kitsap County Consolidated Housing Auth (WA036)

Silverdale, WA

Entity Wide Balance Sheet Summary

Submission Type: Audited/Single Audit

Fiscal Year End: 06/30/2017

	14-900 Lead-Based Paint Remediation - Community Owned Housing	10-415 Rent Items - Housing Loans	10-420 Rural Self-Help Housing Assistance	14-218 Community Investment Block Grants/Elementary Grants	14-870 Resident Opportunity and Supportive Services	14-871 Housing Choice Vouchers	14-247 Self-Help Homeownership Program	6-1 Component Unit - Discrepancy Presented	6-2 Component Unit - Blended	14-239 HOME Investment Program	9 Other Federal Program 2	1 Business Activities	Subtotal	ELIM	Total
111 Cash - Unrestricted	\$813,408	\$389,858			\$483,051	\$483,051		\$862,690	\$24,897	\$106,051		\$472,981	\$3,082,014		\$3,082,014
112 Cash - Restricted - Modernization and Development	\$6,204	\$857,748	\$52		\$65,691	\$65,691	\$1,190,124	\$1,177,795	\$47,309			\$2,289,123	\$5,443,045		\$5,443,045
114 Cash - Other Restricted	\$31,807	\$81,611				\$5,800	\$147,322	\$147,322	\$5,800			\$43,904	\$310,444		\$310,444
116 Cash - Restricted for Payment of Current Liabilities		\$1,128,217	\$52		\$5,726	\$5,726	\$1,194,124	\$2,287,807	\$78,005	\$106,051		\$3,035,997	\$9,051,238	\$0	\$9,051,238
100 Total Cash	\$851,417	\$1,128,217	\$52		\$483,051	\$483,051	\$1,194,124	\$2,287,807	\$78,005	\$106,051		\$3,035,997	\$9,051,238	\$0	\$9,051,238
121 Accounts Receivable - PHA Projects					\$4,818	\$0						\$164,136	\$4,818		\$4,818
122 Accounts Receivable - HUD Other Projects						\$1,002						\$256,996	\$256,996		\$256,996
123 Accounts Receivable - Other Government						\$0						\$176,085	\$176,085	-\$65,465	\$60,620
125 Accounts Receivable - Miscellaneous												\$0	\$0		\$0
126 Accounts Receivable - Tenants	\$50,479	\$129,605			\$2,059	\$2,059	\$187,730	\$187,730	\$2,059			\$11,542	\$381,415		\$381,415
128.1 Allowance for Doubtful Accounts - Tenants	-\$37,803	-\$70,740			\$0	\$0	-\$123,452	-\$123,452	-\$1,231			-\$3,523	-\$244,749		-\$244,749
128.2 Allowance for Doubtful Accounts - Other					\$0	\$0						\$0	\$0		\$0
129 Notes, Loans, & Mortgages Receivable - Current										\$1,410		\$80,980	\$82,390		\$82,390
128 Fraud Recovery															\$0
128.1 Allowance for Doubtful Accounts - Fraud															\$0
129 Accrued Interest Receivable															\$0
130 Total Receivables, Net of Allowances for Doubtful Accounts	\$12,676	\$50,865	\$103,441	\$27,387	\$4,818	\$1,002	\$64,278	\$64,278	\$828	\$1,410	\$0	\$589,220	\$625,925	-\$65,465	\$560,460
131 Investments - Unrestricted												\$0	\$0		\$0
132 Investments - Restricted								\$1,195,022				\$0	\$0		\$0
135 Investments - Restricted for Payment of Current Liability	\$88,201											\$30,568	\$1,323,761		\$1,323,761
142 Prepaid Expenses and Other Assets	\$1,621	\$1,824						\$37,421	\$4,105			\$1,372,828	\$1,417,799		\$1,417,799
143 Investments	\$0											\$0	\$0		\$0
143.1 Allowance for Obsolete Inventories												\$0	\$0		\$0
144 Inter Program Due From		\$70,639					\$37,645			\$26,313		\$15,897,851	\$15,721,348	-\$15,721,348	\$0
145 Assets Held for Sale															\$0
150 Total Current Assets	\$665,714	\$1,278,151	\$103,443	\$98,026	\$4,818	\$565,470	\$1,236,669	\$3,556,528	\$63,038	\$12,774	\$0	\$22,893,569	\$30,557,250	-\$15,798,813	\$14,570,637
161 Land	\$1,223,718	\$1,488,148						\$5,954,480	\$245,960			\$8,298,911	\$17,688,802		\$17,688,802
162 Buildings	\$7,146,188	\$5,716,626		\$824,826			\$31,446,627	\$1,702,002	\$1,702,002	\$561,079		\$6,130,191	\$53,637,237		\$53,637,237
163 Furniture, Equipment & Machinery - Dwellings	\$306,107	\$33,581						\$252,976				\$52,789	\$845,353		\$845,353
164 Furniture, Equipment & Machinery - Administration	\$144,590	\$60,638		\$16,148				\$418,772				\$1,348,918	\$1,996,638		\$1,996,638
165 Leased Improvements	\$1,289,514	\$205,726			\$372			\$800,905	\$74,089			\$2,125,778	\$4,986,322		\$4,986,322
166 Accumulated Depreciation	-\$6,004,419	-\$2,999,402		-\$220,732		-\$372		-\$10,117,284	-\$887,631	-\$98,978		-\$4,926,322	-\$24,980,140	-\$24,980,140	-\$24,980,140
167 Construction in Progress	\$837	\$9,743						\$6,019				\$54,689	\$70,098		\$70,098
168 Infrastructure															\$0
169 Total Capital Assets, Net of Accumulated Depreciation	\$3,516,633	\$4,912,860	\$0	\$720,242	\$0	\$0	\$28,560,365	\$1,134,430	\$464,801	\$464,801	\$420,885	\$13,893,964	\$53,124,310	\$0	\$53,124,310
171 Notes, Loans and Mortgages Receivable - Non-Current															\$0
172 Notes, Loans, & Mortgages Receivable - Non-Current - Past Due															\$0
173 Grants Receivable - Non-Current															\$0
174 Other Assets	\$18,127	\$198,770					\$2,897,987					\$50,526,880	\$53,441,774	-\$20,954,264	\$32,487,510
176 Investments in Joint Ventures		\$315,000										\$0	\$889,703		\$889,703
180 Total Non-Current Assets	\$3,534,760	\$4,912,860	\$0	\$2,421,895	\$0	\$0	\$2,895,079	\$28,560,365	\$1,134,430	\$2,474,391	\$420,885	\$66,828,060	\$112,882,775	-\$20,954,264	\$91,928,511
200 Deferred Outflow of Resources															\$0
206 Total Assets and Deferred Outflow of Resources	\$4,200,474	\$6,192,111	\$103,443	\$2,519,921	\$4,818	\$565,470	\$4,131,749	\$32,144,923	\$1,277,469	\$2,807,165	\$420,885	\$90,440,549	\$144,546,424	-\$36,741,077	\$107,805,347
311 Bank Overdraft															\$0
312 Accounts Payable < 90 Days															\$0
313 Accounts Payable - 90 Days Past Due															\$0
320 Accrued Wages/Payroll Taxes Payable															\$0
322 Accrued Compensated Absences - Current Portion															\$0
324 Accrued Contingency Liability															\$0
325 Accrued Interest Payable															\$0
331 Accounts Payable - HUD PHA Programs															\$0
332 Accounts Payable - PHA Projects	\$873						\$497						\$873		\$873
333 Accounts Payable - Other Government															\$0
341 Tenant Security Deposits	\$31,807	\$81,611						\$147,322	\$6,800			\$488,163	\$545,355		\$545,355
342 Unearned Revenue	\$2,356	\$7,969						\$18,700	\$251			\$167,689	\$1,700,964		\$1,700,964
343 Current Portion of Long-Term Debt - Capital Projects/Mortgage Revenue								\$645,165	\$251			\$61,197	\$1,417,830		\$1,417,830
344 Current Portion of Long-Term Debt - Operating Borrowings															\$0
345 Other Current Liabilities															\$0
345 Other Current Liabilities															\$0

Kitsap County Consolidated Housing Auth (WA036)
Silverdale, WA

Entity Wide Revenue and Expense Summary

Submission Type: Audited/Single Audit

Fiscal Year End: 06/30/2017

	Project Total	14-900 Lead-Based Paint Remediation - Rental Housing	10-420 Rural Self-Help Housing	14-218 Community Development Grants	14-870 Resident Opportunity and Supportive Services	14-871 Housing Choice Vouchers	14-247 Self-Help Homeownership Program	6.1 Component Unit - Discrepancy Presented	6.2 Component Unit - Blended	14-239 HOME Investment Program	9 Other Federal Program 2	1 Business Address	Subtotal	ELIM	Total
70000 Nat Tenant Rental Revenue	\$381,583	\$1,079,559	\$0	\$0	\$0	\$0	\$0	\$1,936,465	\$88,354	\$0	\$0	\$24,309	\$3,720,270	\$0	\$3,720,270
70400 Tenant Revenue - Other	\$66,267	\$51,574	\$0	\$0	\$0	\$0	\$0	\$151,822	\$32,851	\$0	\$0	\$14,599	\$15,613	\$0	\$15,613
70500 Total Tenant Revenue	\$446,850	\$1,131,133	\$0	\$0	\$0	\$0	\$0	\$2,088,287	\$121,205	\$0	\$0	\$38,908	\$4,035,883	\$0	\$4,035,883
70600 HUD PHA Operating Grants	\$411,515	\$0	\$0	\$0	\$0	\$0	\$0	\$1,704,276	\$0	\$130,273	\$0	\$73,912	\$5,997,725	-\$553,433	\$1,019,290
70610 Capital Grants	\$219,619	\$332,989	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$662,981	\$0	\$662,981
70710 Management Fee	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
70720 Asset Management Fee	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
70730 Book Keeping Fee	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
70740 Front Line Services Fee	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
70750 Other Fees	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
70700 Total Fee Revenue	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
70800 Other Government Grants	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
71000 Investment Income - Unrestricted	\$143	\$12	\$1,204,013	\$0	\$0	\$0	\$0	\$120,559	\$2	\$0	\$0	\$85	\$1,487,386	\$0	\$1,487,386
71000 Mortgage Interest Income	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
71300 Proceeds from Disposition of Assets Held for Sale	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
71910 Cost of Sale of Assets	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
71400 Fraud Recovery	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
71500 Other Revenue	\$143	\$12	\$1,204,013	\$0	\$0	\$0	\$0	\$120,559	\$2	\$0	\$0	\$85	\$1,487,386	\$0	\$1,487,386
71600 Gain or Loss on Sale of Capital Assets	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
72000 Investment Income - Restricted	\$1,078,127	\$387	\$1,204,556	\$345,392	\$80,030	\$2,884,146	\$656	\$80,047	\$131,207	\$139,489	\$0	\$3,920,556	\$15,245,545	-\$553,433	\$14,712,112
91000 Administrative Salaries	\$56,089	\$63,151	\$165,309	\$39,354	\$24,855	\$2,664	\$194,742	\$558	\$0	\$5,646	\$0	\$1,715,300	\$2,394,797	\$0	\$2,394,797
91200 Auditing Fees	\$5,278	\$3,104	\$13,071	\$3,471	\$206,672	\$0	\$33,470	\$436,906	\$6,536	\$0	\$0	\$16,022	\$796,127	-\$553,433	\$222,694
91310 Book-keeping Fee	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
91400 Advertising and Marketing	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
91500 Employee Benefit Contributions - Administrative	\$27,104	\$40,876	\$69,796	\$14,166	\$14,166	\$0	\$8,872	\$2,522	\$386	\$0	\$0	\$40,557	\$88,332	\$0	\$88,332
91600 Office Expenses	\$81	\$2,488	\$2,361	\$0	\$0	\$0	\$799	\$98	\$0	\$0	\$0	\$9,756	\$19,583	\$0	\$19,583
91700 Legal Expenses	\$17,874	\$11,564	\$2,628	\$0	\$0	\$0	\$8,299	\$73,323	\$0	\$0	\$0	\$32,968	\$73,323	\$0	\$73,323
91800 Travel	\$164	\$2,450	\$1,951	\$0	\$131	\$0	\$5,253	\$241	\$0	\$0	\$0	\$15,208	\$24,998	\$0	\$24,998
91810 Allocated Overhead	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
91900 Other	\$59,706	\$23,792	\$114,556	\$10,236	\$5,636	\$1,578	\$97,880	\$5,901	\$235	\$235	\$0	\$54,919	\$93,131	\$0	\$93,131
91900 Total Operating - Administrative	\$143,356	\$297,395	\$359,277	\$63,814	\$54,800	\$215,212	\$839,221	\$18,866	\$6,447	\$6,447	\$0	\$2,816,744	\$4,786,574	-\$553,433	\$4,233,141
92000 Asset Management Fee	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
92100 Tenant Services - Salaries	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
92200 Recreation Costs	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
92300 Employee Benefit Contributions - Tenant Services	\$40	\$1,088	\$0	\$129	\$129	\$0	\$280	\$280	\$0	\$0	\$0	\$0	\$1,537	\$0	\$1,537
92500 Total Tenant Services	\$40	\$1,088	\$0	\$129	\$129	\$0	\$280	\$280	\$0	\$0	\$0	\$0	\$1,537	\$0	\$1,537
93000 Water	\$36,406	\$15,554	\$0	\$0	\$0	\$0	\$131,182	\$2,656	\$2,656	\$0	\$0	\$29,733	\$210,531	\$0	\$210,531
93000 Electricity	\$10,483	\$24,245	\$0	\$0	\$0	\$0	\$78,662	\$2,562	\$2,562	\$0	\$0	\$30,317	\$146,169	\$0	\$146,169
93000 Gas	\$2,043	\$0	\$0	\$0	\$0	\$0	\$1,136	\$1,011	\$0	\$0	\$0	\$5,822	\$10,012	\$0	\$10,012
93400 Fuel	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
93500 Labor	\$66,573	\$74,332	\$0	\$0	\$0	\$0	\$200,624	\$11,978	\$557,492	\$0	\$0	\$17,085	\$557,492	\$0	\$557,492
93600 Snow	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
93700 Employee Benefit Contributions - Utilities	\$14,344	\$13,699	\$0	\$0	\$0	\$0	\$103,869	\$597	\$597	\$0	\$0	\$102,345	\$234,614	\$0	\$234,614
93900 Total Utilities	\$154,849	\$127,830	\$0	\$0	\$0	\$0	\$575,373	\$18,464	\$18,464	\$0	\$0	\$282,302	\$1,158,918	\$0	\$1,158,918
94000 Ordinary Maintenance and Operations - Labor	\$62,897	\$57,557	\$325,085	\$6,948	\$12,997	\$0	\$172,659	\$2,997	\$2,997	\$0	\$0	\$400,305	\$1,086,108	\$0	\$1,086,108
94000 Ordinary Maintenance and Operations - Materials and Other	\$38,464	\$31,994	\$180	\$197,469	\$3,514	\$0	\$151,924	\$401,545	\$0	\$0	\$0	\$15,194	\$401,545	\$0	\$401,545
94300 Ordinary Maintenance and Operations Contracts	\$70,758	\$60,489	\$16,031	\$536	\$536	\$0	\$121,624	\$176,810	\$13,624	\$0	\$0	\$176,810	\$498,289	\$0	\$498,289
94500 Employee Benefit Contributions - Ordinary Maintenance	\$35,720	\$31,307	\$120,034	\$1,014	\$78,669	\$0	\$89,428	\$392,592	\$7420	\$0	\$0	\$89,428	\$392,592	\$0	\$392,592
94900 Total Maintenance	\$236,899	\$181,357	\$461,130	\$0	\$536	\$0	\$659,638	\$37,145	\$37,145	\$0	\$0	\$746,667	\$2,338,544	\$0	\$2,338,544
95100 Protective Services - Labor	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0

11210 Number of Unit Months Leased	1525	1789	4094	4654	210	2185	14417	14417
11270 Excess Cash	\$25,799						\$25,799	\$25,799
11610 and Purchases	\$0						\$0	\$0
11620 Building Purchases	\$55,018						\$55,018	\$55,018
11840 Furniture & Equipment - Dwelling Purchases	\$2,630						\$2,630	\$2,630
11840 Furniture & Equipment - Administrative Purchases	\$0						\$0	\$0
11860 Leasehold Improvements Purchases	\$0						\$0	\$0
11860 Insurance Purchases	\$0						\$0	\$0
13510 CFFP Debt Service Payments	\$0						\$0	\$0
13901 Replacement Housing Factor Funds	\$0						\$0	\$0



U.S. Department of Housing and Urban Development

Seattle Regional Office
Seattle Federal Office Building
Office of Public Housing
909 First Avenue, Suite 360
Seattle, WA 98104-1000



DEC 11 2017

Stuart Grogan, Executive Director
Kitsap County Consolidated Housing Authority
345 6th Street, Suite 100
Bremerton, WA 98337-1891

Dear Mr. Grogan:

Subject: Approval of Final Performance and Evaluation Report (P&E) and Actual
Modernization Cost Certificate (AMCC) WA19P03650115

Our office reviewed the Final P&E Report and the AMCC (form HUD-53001) for the subject grant. The P&E report and AMCC are approved as submitted for pre-audit. A signed copy of the AMCC is enclosed for your records.

Please ensure that the Capital Fund costs for this grant are verified during your next regularly scheduled fiscal audit. Additionally, please provide the auditor a copy of the AMCC as an enclosure to the financial statements in the audit report.

Following receipt of the audit report, and providing there are no audit findings, our office will execute final approval of the AMCC, and provide a closeout copy for your records.

Should you have any questions, please contact Carmen Tennison, Facilities Management Specialist at carmen.tennison@hud.gov or at 907-677-9898.

Sincerely,

Harlan Stewart
Director
Office of Public Housing

Enclosure

www.hud.gov/washington.html
espanol.hud.gov

**Actual Modernization
Cost Certificate**

U.S. Department of Housing
and Urban Development
Office of Public and Indian Housing

OMB Approval No. 2577-0157 (exp. 01/31/2017)

Capital Fund Program (CFP)

Public reporting burden for this collection of information is estimated to average 2 hours per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to the Reports Management Officer, Paperwork Reduction Project (2577-0044 and 0157), Office of Information Technology, U.S. Department of Housing and Urban Development, Washington, D.C. 20410-3600. This agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless that collection displays a valid OMB control number.

Do not send this form to the above address.

This collection of information requires that each Housing Authority (HA) submit information to enable HUD to initiate the fiscal closeout process. The information will be used by HUD to determine whether the modernization grant is ready to be audited and closed out. The information is essential for audit verification and fiscal close out. Responses to the collection are required by regulation. The information requested does not lend itself to confidentiality.

PHA Name: KCCHA dba HOUSING KITSAP	Modernization Project Number: WA019P036501-15
---------------------------------------	--

The PHA hereby certifies to the Department of Housing and Urban Development as follows:

1. That the total amount of Modernization Cost (herein called the "Actual Modernization Cost") of the Modernization Grant, is as shown below:

A. Funds Approved	\$ 194,199.00
B. Funds Disbursed	\$ 194,199.00
C. Funds Expended (Actual Modernization Cost)	\$ 194,199.00
D. Amount to be Recaptured (A-C)	\$ 0.00
E. Excess of Funds Disbursed (B-C)	\$ 0.00

- That all modernization work in connection with the Modernization Grant has been completed;
- That the entire Actual Modernization Cost or liabilities therefor incurred by the PHA have been fully paid;
- That there are no undischarged mechanics', laborers', contractors', or material-men's liens against such modernization work on file in any public office where the same should be filed in order to be valid against such modernization work;
- That the time in which such liens could be filed has expired; and
- That for any years in which the grantee is subject to the audit requirements of the Single Audit Act, 31 U.S.C. § 7501 et seq., as amended, the grantee has or will perform an audit in compliance with said requirements.

7. Please mark one:

- A. This grant will be included in the PHA's next fiscal year audit per the requirements of the Single Audit Act.
- B. This grant will not be included in the PHA's next fiscal year audit per the requirements of the Single Audit Act.

I hereby certify that all the information stated herein, as well as any information provided in the accompaniment herewith, is true and accurate.

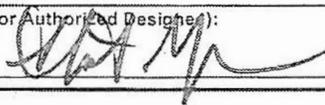
Warning: HUD will prosecute false claims and statements. Conviction may result in criminal and/or civil penalties. (18 U.S.C. 1001, 1010, 1012; 31 U.S.C. 3729, 3802)

Name & Title of Authorized Signatory (type or print clearly):

STUART GROGAN, Executive Director

Signature of Executive Director (or Authorized Designee):

X



Date:

12/15/17

For HUD Use Only

The Cost Certificate is approved for audit (if box 7A is marked):

Approved for Audit (Director, Office of Public Housing)

X



Date:

12-11-2017

The costs shown above agree with HUD verified costs (if box 7A or 7B is marked):

Approved: (Director, Office of Public Housing)

X

Date:

Position 3
**MULTI-FAMILY HOUSING
BORROWER BALANCE SHEET**
PART I - BALANCE SHEET

PROJECT NAME Fjord Manor	BORROWER NAME Kitsap County Consolidated HA	BORROWER ID AND PROJECT NO. 55170445-02-0
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	CURRENT YEAR (07-01-2016) (06-30-2017)	PRIOR YEAR (07-01-2015) (06-30-2016)	COMMENTS
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ASSETS

CURRENT ASSETS

	CURRENT YEAR	PRIOR YEAR	COMMENTS
1. GENERAL OPERATING ACCOUNT	96,998.00	\$51,281.00	
2. R.E. TAX & INSURANCE ACCOUNT			
3. RESERVE ACCOUNT	114,376.00	100,590.00	
4. SECURITY DEPOSIT ACCOUNT	17,392.00	18,210.00	
5. OTHER CASH (<i>identify</i>)	150.00	150.00	Petty Cash
6. OTHER (<i>identify</i>)			
7. TOTAL ACCOUNTS RECEIVABLE (<i>Attach list</i>)	5,246.00	5,935.00	
..... ACCTS RCVBL 0-30 DAYS \$ 5,242.00		5,935.00	
ACCTS RCVBL 30-60 DAYS \$			
ACCTS RCVBL 60-90 DAYS \$			
ACCTS RCVBL OVER 90 DAYS \$ 4.00			
8. LESS: ALLOWANCE FOR DOUBTFUL ACCOUNTS	(4.00)		
9. INVENTORIES (<i>supplies</i>)	()	()	
10. PREPAYMENTS	453.00	622.00	
11. _____			
12. TOTAL CURRENT ASSETS (Add 1 thru 11)	234,611.00	176,788.00	

FIXED ASSETS

13. LAND	190,000.00	190,000.00	
14. BUILDINGS	1,302,951.00	1,262,378.00	
15. LESS: ACCUMULATED DEPRECIATION	(934,358.00)	(892,908.00)	
16. FURNITURE & EQUIPMENT	84,274.00	84,274.00	
17. LESS: ACCUMULATED DEPRECIATION	()	()	
18. <u>Land Improvements & CIP</u>	73,676.00	114,250.00	
19. TOTAL FIXED ASSETS (Add 13 thru 18)	\$716,543.00	\$757,994.00	

OTHER ASSETS

20. _____			
21. TOTAL ASSETS (Add 12, 19, and 20)	\$951,154.00	\$934,782.00	

LIABILITIES AND OWNERS EQUITY

CURRENT LIABILITIES

22. TOTAL ACCOUNTS PAYABLE (<i>Attach list</i>)	\$40,667.00	\$44,617.00	
..... ACCTS PAYABLE 0-30 DAYS \$ 10,447.00		18,680.00	
ACCTS PAYABLE 30-60 DAYS \$			
ACCTS PAYABLE 60-90 DAYS \$			
ACCTS PAYABLE OVER 90 DAYS \$ 30,220.00		25,937.00	FY12-16 NP Fee
23. NOTES PAYABLE (<i>Attach list</i>)			
24. SECURITY DEPOSITS	16,709.00	16,804.00	
25. TOTAL CURRENT LIABILITIES (Add 22 thru 24)	\$57,376.00	\$61,421.00	

According to the Paperwork Reduction Act of 1995, an agency may not conduct or sponsor, and a person is not required to respond to a collection of information unless it displays a valid OMB control number. The valid OMB control number for this information collection is 0575-0189. The time required to complete this information collection is estimated to average 2 hour per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information.

LONG-TERM LIABILITIES

26. NOTES PAYABLE RURAL DEVELOPMENT	\$1,167,716.00	\$1,186,600.00	
27. OTHER (Identify)			
28. TOTAL LONG-TERM LIABILITIES (Add 26 and 27)	1,167,716.00	1,186,600.00	
29. TOTAL LIABILITIES (Add 25 and 28)	1,225,092.00	1,248,021.00	
30. OWNER'S EQUITY (Net Worth) (21 minus 29)	(273,938.00)	(313,239.00)	
31. TOTAL LIABILITIES AND OWNER'S EQUITY (Add 29 and 30)	\$951,154.00	\$934,782.00	

Warning: Section 1001 of Title 18, United States Code provides: "Whoever, in any matter within the jurisdiction any of department or agency of the United States knowingly and willfully falsifies, conceals or covers up by any trick, scheme, or device a material fact, or makes any false, fictitious or fraudulent statements or representations, or makes or uses any false writing or document knowing the same to contain any false, fictitious or fraudulent statement or entry, shall be fined under this title or imprisoned not more than five years, or both.

I HAVE READ THE ABOVE WARNING STATEMENT AND I HEREBY CERTIFY THE FOREGOING INFORMATION IS COMPLETE AND ACCURATE TO THE BEST OF MY KNOWLEDGE.

10-30-2017

(Date)



(Signature of Borrower or Borrower' Representative)
Executive Director

(Title)

PART II - VERIFICATION OF REVIEW

I/We have reviewed the borrower's records. The accompanying balance sheet, and statement of actual budget and income on Form RD 1930-7, is a fair presentation of the borrower's records.

I/We certify that no identity of interest exists between me/us and any individual or organization doing business with the project or borrower.

(Date)

(Signature)

(Name and Title)

(Address)

In lieu of the above verification and signature, a review completed, dated and signed by a person or firm qualified by I license or certification is attached.

Position 3
**MULTIPLE FAMILY HOUSING PROJECT BUDGET/
UTILITY ALLOWANCE**

PROJECT NAME Fjord Manor		BORROWER NAME Kitsap County Consolidated HA		BORROWER ID AND PROJECT NO. 551170445 02-0	
Loan/Transfer Amount \$		Note Rate Payment \$		IC Payment \$	
Reporting Period <input checked="" type="checkbox"/> Annual <input type="checkbox"/> Quarterly <input type="checkbox"/> Monthly	Budget Type <input type="checkbox"/> Initial <input checked="" type="checkbox"/> Regular Report <input type="checkbox"/> Rent Change <input type="checkbox"/> SMR <input type="checkbox"/> Other Servicing	Project Rental Type <input type="checkbox"/> Family <input checked="" type="checkbox"/> Elderly <input type="checkbox"/> Congregate <input type="checkbox"/> Group Home <input type="checkbox"/> Mixed <input type="checkbox"/> LH	Profit Type <input type="checkbox"/> Full Profit <input type="checkbox"/> Limited Profit <input checked="" type="checkbox"/> Non-Profit	The following utilities are master metered: <input type="checkbox"/> Electricity <input type="checkbox"/> Gas <input checked="" type="checkbox"/> Water <input checked="" type="checkbox"/> Sewer <input checked="" type="checkbox"/> Trash <input type="checkbox"/> Other _____	
					<input checked="" type="checkbox"/> I hereby request 22 units of RA. Current number of RA units 22 Borrower Accounting Method <input type="checkbox"/> Cash <input checked="" type="checkbox"/> Accrual

PART I-CASH FLOW STATEMENT

	CURRENT BUDGET	ACTUAL	PROPOSED BUDGET	COMMENTS or (YTD)
BEGINNING DATES>	07-01-2016	07-01-2016	07-01-2017	
ENDING DATES>	06-30-2017	06-30-2017	06-30-2018	
OPERATIONAL CASH SOURCES				
1. RENTAL INCOME	220,704.00	165,135.00	220,704.00	
2. RHS RENTAL ASSISTANCE RECEIVED		64,529.00		
3. APPLICATION FEES RECEIVED		0.00		
4. LAUNDRY AND VENDING	2,000.00	2,031.00	2,000.00	
5. INTEREST INCOME	65.00	68.00	65.00	
6. TENANT CHARGES	600.00	763.00	600.00	
7. OTHER -PROJECT SOURCES	0.00	0.00	0.00	
8. LESS (Vacancy and Contingency Allowance)	(8,828.00)		(6,094.00)	
9. LESS (Agency Approved Incentive Allowance)	(0.00)		(0.00)	
10. SUB-TOTAL [(1 thru 7) - (8 & 9)]	214,541.00	232,526.00	217,275.00	
NON-OPERATIONAL CASH SOURCES				
11. CASH-NON PROJECT	0.00	0.00	0.00	
12. AUTHORIZED LOAN (Non-RHS)	0.00	0.00	0.00	
13. TRANSFER FROM RESERVE	11,000.00	0.00	0.00	
14. SUB-TOTAL (11 thru 13)	11,000.00	0.00	0.00	
15. TOTAL CASH SOURCES (10+14)	225,541.00	232,526.00	217,275.00	
OPERATIONAL CASH USES				
16. TOTAL O&M EXPENSES (From Part II)	162,983.00	125,740.00	152,608.00	
17. RHS DEBT PAYMENT	35,118.00	35,117.00	35,118.00	
18. RHS PAYMENT (Overage)		9,938.00		
19. RHS PAYMENT (Late Fee)		0.00		
20. REDUCTION IN PRIOR YEAR PAYABLES		0.00		
21. TENANT UTILITY PAYMENTS		0.00		
22. TRANSFER TO RESERVE	13,760.00	13,786.00	13,788.00	
23. RETURN TO OWNER/NP ASSET MANAGEMENT FEE	0.00	0.00	0.00	
24. SUB-TOTAL (16 thru 23)	211,861.00	184,581.00	201,514.00	
NON-OPERATIONAL CASH USES				
25. AUTHORIZED DEBT PAYMENT (Non-RHS)	0.00	0.00	0.00	
26. ANNUAL CAPITAL BUDGET (From Part III, Lines 4-6)	11,000.00	0.00	0.00	
27. MISCELLANEOUS	0.00	0.00	0.00	
28. SUB-TOTAL (25 thru 27)	11,000.00	0.00	0.00	
29. TOTAL CASH USES (24+28)	222,861.00	184,581.00	201,514.00	
30. NET CASH (DEFICIT) (15- 29)	2,680.00	47,945.00	15,761.00	
CASH BALANCE				
31. BEGINNING CASH BALANCE	51,438.00	51,438.00	124,886.00	
32. ACCRUAL TO CASH ADJUSTMENT		(2,235.00)	0.00	
33. ENDING CASH BALANCE (30+31+32)	54,118.00	97,148.00	140,647.00	

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PART II-OPERATING AND MAINTENANCE EXPENSE SCHEDULE

	CURRENT BUDGET	ACTUAL	PROPOSED BUDGET	COMMENTS or (YTD)
1. MAINTENANCE AND REPAIRS PAYROLL	30,490.00	12,756.00	14,145.00	
2. MAINTENANCE AND REPAIRS SUPPLY	5,000.00	6,115.00	7,200.00	
3. MAINTENANCE AND REPAIRS CONTRACT	3,050.00	0.00	4,500.00	
4. PAINTING		0.00	0.00	
5. SNOW REMOVAL	150.00	0.00	150.00	
6. ELEVATOR MAINTENANCE/CONTRACT	4,000.00	3,086.00	4,000.00	
7. GROUNDS	6,000.00	2,500.00	6,000.00	
8. SERVICES	6,200.00	7,482.00	1,250.00	
9. ANNUAL CAPITAL BUDGET (From Part V- Operating)	3,500.00	939.00	0.00	
10. OTHER OPERATING EXPENSES (Itemize)	0.00	0.00	0.00	
11. SUB-TOTAL MAINT. & OPERATING (1 thru 10)	58,390.00	32,878.00	37,245.00	
12. ELECTRICITY	6,250.00	6,056.00	6,809.00	
13. WATER	3,100.00	3,367.00	3,700.00	
14. SEWER	10,300.00	11,548.00	9,500.00	
15. FUEL (Oil/Coal/Gas).....	0.00	0.00	0.00	
16. GARBAGE & TRASH REMOVAL.....	4,400.00	4,825.00	4,900.00	
17. OTHER UTILITIES.....		0.00	2,502.00	
18. SUB-TOTAL UTILITIES (12 Thru 17).....	24,050.00	25,796.00	27,411.00	
19. SITE MANAGEMENT PAYROLL.....	16,605.00	13,830.00	23,685.00	
20. MANAGEMENT FEE.....	25,536.00	22,736.00	26,448.00	
21. PROJECT AUDITING EXPENSE	2,875.00	2,577.00	3,000.00	
22. PROJECT BOOKKEEPING/ACCOUNTING.....	0.00	0.00	0.00	
23. LEGAL EXPENSES.....	500.00	0.00	500.00	
24. ADVERTISING	200.00	76.00	200.00	
25. TELEPHONE & ANSWERING SERVICE.....	3,700.00	3,855.00	3,900.00	
26. OFFICE SUPPLIES.....	550.00	436.00	500.00	
27. OFFICE FURNITURE & EQUIPMENT	550.00	258.00	300.00	
28. TRAINING EXPENSE	550.00	765.00	600.00	
29. HEALTH INS. & OTHER EMP. BENEFITS.....	18,667.00	13,574.00	17,566.00	
30. PAYROLL TAXES	1,400.00	1,000.00	1,211.00	
31. WORKMAN'S COMPENSATION	750.00	600.00	1,413.00	
32. OTHER ADMINISTRATIVE EXPENSES (Itemize).....	750.00	761.00	1,125.00	See Comments
33. SUB-TOTAL ADMINISTRATIVE (19 thru 32).....	72,633.00	60,468.00	80,448.00	
34. REAL ESTATE TAXES.....	0.00	0.00	0.00	
35. SPECIAL ASSESSMENTS	0.00	0.00	0.00	
36. OTHER TAXES, LICENSES& PERMITS.....	1,100.00	946.00	965.00	
37. PROPERTY & LIABILITY INSURANCE.....	4,900.00	5,652.00	6,539.00	
38. FIDELITY COVERAGE INSURANCE.....	0.00	0.00	0.00	
39. OTHER INSURANCE.....	0.00	0.00	0.00	
40. SUB-TOTAL TAXES& INSURANCE (34 thru 39).....	6,000.00	6,598.00	7,504.00	
41. TOTAL O&M EXPENSES (11 +18+33+40)	161,073.00	125,740.00	152,608.00	

PART III-ACCOUNT BUDGETING/STATUS

	CURRENT BUDGET	ACTUAL	PROPOSED BUDGET	COMMENTS or (YTD)
RESERVE ACCOUNT:				
1. BEGINNING BALANCE	100,599.00	100,589.00	147,901.00	
2. TRANSFER TO RESERVE	13,760.00	13,786.00	13,760.00	
TRANSFER FROM RESERVE				
3. OPERATING DEFICIT			0.00	
4. ANNUAL CAPITAL BUDGET (Part V - Reserve)	11,000.00		0.00	
5. BUILDING & EQUIPMENT REPAIR			0.00	
6. OTHER NON-OPERATING EXPENSES			0.00	
7. TOTAL (3 thru 6)	(11,000.00)	(0.00)	(0.00)	
8. ENDING BALANCE [(1 +2)-7]	103,359.00	114,375.00	161,661.00	

GENERAL OPERATING ACCOUNT:*

BEGINNING BALANCE	51,431.00	
ENDING BALANCE	97,148.00	

REAL ESTATE TAX AND INSURANCE ESCROW ACCOUNT:*

BEGINNING BALANCE	0.00	
ENDING BALANCE	0.00	

TENANT SECURITY DEPOSIT ACCOUNT:*

BEGINNING BALANCE	18,210.00	
ENDING BALANCE	17,392.00	

(*Complete upon submission of actual expenses.)

NUMBER OF APPLICANTS ON THE WAITING LIST		RESERVE ACCT. REQ. BALANCE	
NUMBER OF APPLICANTS NEEDING RA		AMOUNT AHEAD/BEHIND	

PART V - ANNUAL CAPITAL BUDGET

		Proposed Number of Units/Items	Proposed from Reserve	Actual from Reserve	Proposed from Operating	Actual from Operating	Actual Total Cost	Total Actual Units/Items
Appliances:								
	Range				500	470	470	
	Refrigerator				500	470	470	
	Range Hood							
	Washers & Dryers							
	Other:							
Carpet & Vinyl:								
	1BR							
	2BR							
	3BR							
	4BR							
	Other:							
Cabinets:								
	Kitchens							
	Bathrooms							
	Other:							
Doors:								
	Exterior							
	Interior							
	Other:							
Window Coverings:								
	List:							
	Other:							
Heating & Air Conditioning:								
	Heating							
	Air Conditioning							
	Other:							
Plumbing:								
	Water Heater							
	Bath Sinks							
	Kitchen Sinks							
	Faucets							
	Toilets							
	Other:							
Major Electrical:								
	List:							
	Other:							
Structures:								
	Windows							
	Screens							
	Walls							
	Roofing							
	Siding							
	Exterior Painting							
	Other:							
Paving:								
	Asphalt							
	Concrete							
	Seal & Stripe							
	Other:							
Landscape & Grounds:								
	Landscaping							
	Lawn Equipment							
	Fencing							
	Recreation Area							
	Signs							
	Other:							
Accessibility Features:								
	List:							
	Other:							
Automation Equipment:								
	Site Management							
	Common Area							
	Other:							
Other:								
	List:							
	List:							
	List:							
TOTAL CAPITAL EXPENSES:						939	939	

PART VI -- SIGNATURES, DATES AND COMMENTS

Warning: Section 1001 of Title 18, United States Code provides: "Whoever, in any matter within the jurisdiction of any department or agency of the United States knowingly and willfully falsifies, conceals or covers up by any trick, scheme, or device a material fact, or makes any false, fictitious or fraudulent statements or representations, or makes or uses any false writing or document knowing the same to contain any false, fictitious or fraudulent statement or entry, shall be fined under this title or imprisoned not more than five years, or both.

I HAVE READ THE ABOVE WARNING STATEMENT AND I HEREBY CERTIFY THAT THE FOREGOING INFORMATION IS COMPLETE AND ACCURATE TO THE BEST OF MY KNOWLEDGE.

10-30-2017

(DATE)



(Signature of Borrower or Borrower's Representative)

Executive Director

(Title)

AGENCY APPROVAL (<i>Rural Development Approval Official</i>):	DATE:
--	-------

COMMENTS:

Part 1 Line 32 Accrual To Cash Adjustment- Security Deposits \$723; Accounts Receivable \$685; Prepaid Expenses \$169; Accounts Payable (\$3,815); Prepaid Rents (\$1); Miscellaneous Income \$4

Part 2 Line 32 Other Admin Expenses- Membership Dues \$182; Screening Fee \$84; Bank Charge \$10; Tenant Activities \$485

Position 3
**MULTI-FAMILY HOUSING
BORROWER BALANCE SHEET**
PART I - BALANCE SHEET

PROJECT NAME Rhododendron	BORROWER NAME Kitsap County Consolidated HA	BORROWER ID AND PROJECT NO. 551170445-03-1
------------------------------	--	---

	CURRENT YEAR (07-01-2016) (06-30-2017)	PRIOR YEAR (07-01-2015) (06-30-2016)	COMMENTS
--	--	--	----------

ASSETS

	CURRENT YEAR	PRIOR YEAR	COMMENTS
CURRENT ASSETS			
1. GENERAL OPERATING ACCOUNT	79,191.00	\$194,665.00	
2. R.E. TAX & INSURANCE ACCOUNT			
3. RESERVE ACCOUNT	171,473.00	160,429.00	
4. SECURITY DEPOSIT ACCOUNT	30,932.00	26,912.00	
5. OTHER CASH (<i>identify</i>)		150.00	Petty Cash
6. OTHER (<i>identify</i>)			
7. TOTAL ACCOUNTS RECEIVABLE (<i>Attach list</i>)	92,617.00	61,403.00	
..... ACCTS RCVBL 0-30 DAYS \$ 26,174.00		21,362.00	
ACCTS RCVBL 30-60 DAYS \$		5,478.00	
ACCTS RCVBL 60-90 DAYS \$		4,101.00	
ACCTS RCVBL OVER 90 DAYS \$ 66,443.00		30,462.00	
8. LESS: ALLOWANCE FOR DOUBTFUL ACCOUNTS	(66,443.00)	(\$13,576.00)	
9. INVENTORIES (<i>supplies</i>)	()	()	
10. PREPAYMENTS	596.00	819.00	
11. Funds Held By Trustee	98,244.00	98,200.00	
12. TOTAL CURRENT ASSETS (Add 1 thru 11)	406,610.00	529,002.00	

FIXED ASSETS

13. LAND	464,400.00	464,400.00	
14. BUILDINGS	2,451,271.00	2,257,097.00	
15. LESS: ACCUMULATED DEPRECIATION	(984,765.00)	(927,048.00)	
16. FURNITURE & EQUIPMENT	24,044.00	24,044.00	
17. LESS: ACCUMULATED DEPRECIATION	()	()	
18. <u>Construction In Progress</u>	9,743.00	9,743.00	
19. TOTAL FIXED ASSETS (Add 13 thru 18)	\$1,964,693.00	\$1,828,236.00	

OTHER ASSETS

20. <u>Net Intangible</u>	\$11,322.00	\$12,591.00	
21. TOTAL ASSETS (Add 12, 19, and 20)	\$2,382,625.00	\$2,369,829.00	

LIABILITIES AND OWNERS EQUITY

CURRENT LIABILITIES

22. TOTAL ACCOUNTS PAYABLE (<i>Attach list</i>)	\$49,320.00	\$45,145.00	
..... ACCTS PAYABLE 0-30 DAYS \$ 36,937.00		32,762.00	
ACCTS PAYABLE 30-60 DAYS \$			
ACCTS PAYABLE 60-90 DAYS \$			
ACCTS PAYABLE OVER 90 DAYS \$ 12,383.00		12,383.00	FY12-15 NP Fee
23. NOTES PAYABLE (<i>Attach list</i>)			
24. SECURITY DEPOSITS	30,719.00	25,899.00	
25. TOTAL CURRENT LIABILITIES (Add 22 thru 24)	\$80,039.00	\$71,044.00	

According to the Paperwork Reduction Act of 1995, an agency may not conduct or sponsor, and a person is not required to respond to a collection of information unless it displays a valid OMB control number. The valid OMB control number for this information collection is 0575-0189. The time required to complete this information collection is estimated to average 2 hour per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information.

LONG-TERM LIABILITIES

26. NOTES PAYABLE RURAL DEVELOPMENT	\$464,775.00	\$487,565.00	
27. OTHER (Identify) <u>Housing Revenue Bond & HTF Loan</u>	704,171.00	754,171.00	
28. TOTAL LONG-TERM LIABILITIES (Add 26 and 27)	1,168,946.00	1,241,736.00	
29. TOTAL LIABILITIES (Add 25 and 28).....	1,248,985.00	1,312,780.00	
30. OWNER'S EQUITY (Net Worth) (21 minus 29).....	(1,133,640.00)	(1,057,049.00)	
31. TOTAL LIABILITIES AND OWNER'S EQUITY (Add 29 and 30)	\$2,382,625.00	\$2,369,829.00	

Warning: Section 1001 of Title 18, United States Code provides: "Whoever, in any matter within the jurisdiction any of department or agency of the United States knowingly and willfully falsifies, conceals or covers up by any trick, scheme, or device a material fact, or makes any false, fictitious or fraudulent statements or representations, or makes or uses any false writing or document knowing the same to contain any false, fictitious or fraudulent statement or entry, shall be fined under this title or imprisoned not more than five years, or both.

I HAVE READ THE ABOVE WARNING STATEMENT AND I HEREBY CERTIFY THE FOREGOING INFORMATION IS COMPLETE AND ACCURATE TO THE BEST OF MY KNOWLEDGE.

11-02-2017

(Date)



(Signature of Borrower or Borrower' Representative)
Executive Director

(Title)

PART II - VERIFICATION OF REVIEW

I/We have reviewed the borrower's records. The accompanying balance sheet, and statement of actual budget and income on Form RD 1930-7, is a fair presentation of the borrower's records.

I/We certify that no identity of interest exists between me/us and any individual or organization doing business with the project or borrower.

(Date)

(Signature)

(Name and Title)

(Address)

In lieu of the above verification and signature, a review completed, dated and signed by a person or firm qualified by I license or certification is attached.

Position 3
**MULTIPLE FAMILY HOUSING PROJECT BUDGET/
UTILITY ALLOWANCE**

PROJECT NAME Rhododendron		BORROWER NAME Kitsap County Consolidated HA		BORROWER ID AND PROJECT NO. 51170445 03-1	
Loan/Transfer Amount \$		Note Rate Payment \$		IC Payment \$	
Reporting Period <input checked="" type="checkbox"/> Annual <input type="checkbox"/> Quarterly <input type="checkbox"/> Monthly	Budget Type <input type="checkbox"/> Initial <input checked="" type="checkbox"/> Regular Report <input type="checkbox"/> Rent Change <input type="checkbox"/> SMR <input type="checkbox"/> Other Servicing	Project Rental Type <input checked="" type="checkbox"/> Family <input type="checkbox"/> Elderly <input type="checkbox"/> Congregate <input type="checkbox"/> Group Home <input type="checkbox"/> Mixed <input type="checkbox"/> LH	Profit Type <input type="checkbox"/> Full Profit <input type="checkbox"/> Limited Profit <input checked="" type="checkbox"/> Non-Profit	The following utilities are master metered: <input type="checkbox"/> Electricity <input type="checkbox"/> Gas <input checked="" type="checkbox"/> Water <input checked="" type="checkbox"/> Sewer <input checked="" type="checkbox"/> Trash <input type="checkbox"/> Other _____	
					<input checked="" type="checkbox"/> I hereby request 0 units of RA. Current number of RA units 48 Borrower Accounting Method <input type="checkbox"/> Cash <input checked="" type="checkbox"/> Accrual

PART I-CASH FLOW STATEMENT

	CURRENT BUDGET	ACTUAL	PROPOSED BUDGET	COMMENTS or (YTD)
BEGINNING DATES>	07-01-2016	07-01-2016	07-01-2017	
ENDING DATES>	06-30-2017	06-30-2017	06-30-2018	
OPERATIONAL CASH SOURCES				
1. RENTAL INCOME	442,800.00	170,707.00	171,996.00	
2. RHS RENTAL ASSISTANCE RECEIVED		233,458.00		
3. APPLICATION FEES RECEIVED				
4. LAUNDRY AND VENDING	3,500.00	3,357.00	3,500.00	
5. INTEREST INCOME	115.00	108.00	115.00	
6. TENANT CHARGES	3,500.00	3,599.00	23,143.00	
7. OTHER -PROJECT SOURCES	0.00	0.00	0.00	
8. LESS (Vacancy and Contingency Allowance)	(0.00)		(23,143.00)	
9. LESS (Agency Approved Incentive Allowance)	(0.00)		(0.00)	
10. SUB-TOTAL [(1 thru 7) - (8 & 9)]	449,915.00	411,229.00	175,611.00	
NON-OPERATIONAL CASH SOURCES				
11. CASH-NON PROJECT	0.00		0.00	
12. AUTHORIZED LOAN (Non-RHS)	0.00		0.00	
13. TRANSFER FROM RESERVE	0.00		0.00	
14. SUB-TOTAL (11 thru 13)	0.00	0.00	0.00	
15. TOTAL CASH SOURCES (10+14)	449,915.00	411,229.00	175,611.00	
OPERATIONAL CASH USES				
16. TOTAL O&M EXPENSES (From Part II)	353,926.00	487,220.00	281,435.00	
17. RHS DEBT PAYMENT	26,196.00	26,196.00	26,196.00	
18. RHS PAYMENT (Overage)		3,010.00		
19. RHS PAYMENT (Late Fee)				
20. REDUCTION IN PRIOR YEAR PAYABLES				
21. TENANT UTILITY PAYMENTS		549.00		
22. TRANSFER TO RESERVE	11,000.00	11,044.00	11,000.00	
23. RETURN TO OWNER/NP ASSET MANAGEMENT FEE	2,450.00	0.00	2,450.00	
24. SUB-TOTAL (16 thru 23)	393,572.00	528,019.00	321,081.00	
NON-OPERATIONAL CASH USES				
25. AUTHORIZED DEBT PAYMENT (Non-RHS)	96,913.00	96,913.00	96,913.00	
26. ANNUAL CAPITAL BUDGET (From Part III, Lines 4-6)	0.00	0.00	0.00	
27. MISCELLANEOUS	4,025.00	3,320.00	0.00	
28. SUB-TOTAL (25 thru 27)	100,938.00	100,233.00	96,913.00	
29. TOTAL CASH USES (24+28)	494,510.00	628,252.00	417,994.00	
30. NET CASH (DEFICIT) (15- 29)	(44,595.00)	(217,023.00)	(242,383.00)	
CASH BALANCE				
31. BEGINNING CASH BALANCE	186,589.00	186,738.00	109,200.00	
32. ACCRUAL TO CASH ADJUSTMENT		101,264.00	0.00	
33. ENDING CASH BALANCE (30+31+32)	141,994.00	70,979.00	(133,183.00)	

According to the Paperwork Reduction Act of 1995, an agency may not conduct sponsor and a person is not required to respond to a collection of information unless it displays a valid OMB control number. The valid OMB control number for this information collection is 0575-0189. The time required to complete this information collection is estimated to average 2 1/2 hours per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information.

PART II-OPERATING AND MAINTENANCE EXPENSE SCHEDULE

	CURRENT BUDGET	ACTUAL	PROPOSED BUDGET	COMMENTS or (YTD)
1. MAINTENANCE AND REPAIRS PAYROLL	23,750.00	24,797.00	26,518.00	
2. MAINTENANCE AND REPAIRS SUPPLY	18,000.00	15,658.00	10,000.00	
3. MAINTENANCE AND REPAIRS CONTRACT	6,850.00	4,645.00	500.00	
4. PAINTING	0.00	0.00	8,000.00	
5. SNOW REMOVAL	150.00	0.00	0.00	
6. ELEVATOR MAINTENANCE/CONTRACT	0.00	0.00	0.00	
7. GROUNDS	13,000.00	3,300.00	20,000.00	
8. SERVICES	2,950.00	2,168.00	3,600.00	
9. ANNUAL CAPITAL BUDGET (From Part V- Operating)	125,500.00	201,812.00	153,500.00	
10. OTHER OPERATING EXPENSES (Itemize)	0.00	0.00	0.00	
11. SUB-TOTAL MAINT. & OPERATING (1 thru 10)	190,200.00	252,380.00	222,118.00	
12. ELECTRICITY	7,400.00	5,687.00	7,500.00	
13. WATER	5,900.00	5,615.00	5,900.00	
14. SEWER	39,100.00	43,417.00	36,100.00	
15. FUEL (Oil/Coal/Gas).....	0.00	0.00	0.00	
16. GARBAGE & TRASH REMOVAL.....	8,700.00	7,998.00	9,000.00	
17. OTHER UTILITIES.....	0.00	0.00	2,000.00	
18. SUB-TOTAL UTILITIES (12 Thru 17).....	61,100.00	62,717.00	60,500.00	
19. SITE MANAGEMENT PAYROLL.....	19,510.00	29,782.00	54,140.00	
20. MANAGEMENT FEE.....	33,600.00	29,008.00	34,800.00	
21. PROJECT AUDITING EXPENSE	5,750.00	4,810.00	5,750.00	
22. PROJECT BOOKKEEPING/ACCOUNTING.....	0.00	0.00	0.00	
23. LEGAL EXPENSES.....	2,500.00	11,564.00	2,500.00	
24. ADVERTISING	300.00	879.00	2,300.00	
25. TELEPHONE & ANSWERING SERVICE.....	2,300.00	2,333.00	2,300.00	
26. OFFICE SUPPLIES.....	1,100.00	1,872.00	600.00	
27. OFFICE FURNITURE & EQUIPMENT	250.00	0.00	250.00	
28. TRAINING EXPENSE	515.00	1,751.00	250.00	
29. HEALTH INS. & OTHER EMP. BENEFITS.....	20,310.00	24,420.00	31,907.00	
30. PAYROLL TAXES	1,285.00	1,530.00	5,865.00	
31. WORKMAN'S COMPENSATION	1,645.00	1,800.00	2,201.00	
32. OTHER ADMINISTRATIVE EXPENSES (Itemize).....	6,250.00	55,601.00	2,567.00	
33. SUB-TOTAL ADMINISTRATIVE (19 thru 32).....	95,315.00	165,350.00	145,430.00	
34. REAL ESTATE TAXES.....	0.00	0.00	0.00	
35. SPECIAL ASSESSMENTS	0.00	0.00	0.00	
36. OTHER TAXES, LICENSES& PERMITS.....	1,446.00	1,245.00	1,022.00	
37. PROPERTY & LIABILITY INSURANCE.....	5,865.00	5,528.00	5,865.00	
38. FIDELITY COVERAGE INSURANCE.....	0.00	0.00	0.00	
39. OTHER INSURANCE.....	0.00	0.00	0.00	
40. SUB-TOTAL TAXES& INSURANCE (34 thru 39).....	7,311.00	6,773.00	6,887.00	
41. TOTAL O&M EXPENSES (11 +18+33+40)	353,926.00	487,220.00	434,935.00	

PART III-ACCOUNT BUDGETING/STATUS

	CURRENT BUDGET	ACTUAL	PROPOSED BUDGET	COMMENTS or (YTD)
RESERVE ACCOUNT:				
1. BEGINNING BALANCE	160,423.00	160,429.00	179,130.00	
2. TRANSFER TO RESERVE	11,000.00	11,044.00	9,500.00	
TRANSFER FROM RESERVE				
3. OPERATING DEFICIT	0.00	0.00	0.00	
4. ANNUAL CAPITAL BUDGET (Part V - Reserve)	0.00	0.00	0.00	
5. BUILDING & EQUIPMENT REPAIR	0.00	0.00	0.00	
6. OTHER NON-OPERATING EXPENSES	0.00	0.00	0.00	
7. TOTAL (3 thru 6)	(0.00)	(0.00)	(0.00)	
8. ENDING BALANCE [(1 +2)-7]	171,423.00	171,473.00	188,630.00	

GENERAL OPERATING ACCOUNT:*

BEGINNING BALANCE	186,738.00	
ENDING BALANCE	70,979.00	

REAL ESTATE TAX AND INSURANCE ESCROW ACCOUNT:*

BEGINNING BALANCE	0.00	
ENDING BALANCE	0.00	

TENANT SECURITY DEPOSIT ACCOUNT:*

BEGINNING BALANCE	26,912.00	
ENDING BALANCE	30,932.00	

(*Complete upon submission of actual expenses.)

NUMBER OF APPLICANTS ON THE WAITING LIST		RESERVE ACCT. REQ. BALANCE	
NUMBER OF APPLICANTS NEEDING RA		AMOUNT AHEAD/BEHIND	

PART V - ANNUAL CAPITAL BUDGET

	Proposed Number of Units/Items	Proposed from Reserve	Actual from Reserve	Proposed from Operating	Actual from Operating	Actual Total Cost	Total Actual Units/Items
Appliances:							
Range				2,000	954	954	
Refrigerator				1,500	954	954	
Range Hood							
Washers & Dryers							
Other:							
Carpet & Vinyl:							
1BR				7,500	2,865	2,865	
2BR				2,500	2,864	2,864	
3BR							
4BR							
Other:							
Cabinets:							
Kitchens							
Bathrooms							
Other:							
Doors:							
Exterior							
Interior							
Other:							
Window Coverings:							
List:							
Other:							
Heating & Air Conditioning:							
Heating							
Air Conditioning							
Other:							
Plumbing:							
Water Heater							
Bath Sinks							
Kitchen Sinks							
Faucets							
Toilets							
Other:							
Major Electrical:							
List:							
Other:							
Structures:							
Windows							
Screens							
Walls							
Roofing							
Siding							
Exterior Painting							
Other:				75,000	179,420	179,420	
Paving:							
Asphalt							
Concrete							
Seal & Stripe				15,000			
Other:							
Landscape & Grounds:							
Landscaping							
Lawn Equipment							
Fencing							
Recreation Area							
Signs							
Other:				2,000			
Accessibility Features:							
List:							
Other:							
Automation Equipment:							
Site Management							
Common Area							
Other:							
Other:							
List:				20,000	14,755	14,755	
List:							
List:							
TOTAL CAPITAL EXPENSES:				125,500	201,812	201,812	

PART VI -- SIGNATURES, DATES AND COMMENTS

Warning: Section 1001 of Title 18, United States Code provides: "Whoever, in any matter within the jurisdiction of any department or agency of the United States knowingly and willfully falsifies, conceals or covers up by any trick, scheme, or device a material fact, or makes any false, fictitious or fraudulent statements or representations, or makes or uses any false writing or document knowing the same to contain any false, fictitious or fraudulent statement or entry, shall be fined under this title or imprisoned not more than five years, or both."

I HAVE READ THE ABOVE WARNING STATEMENT AND I HEREBY CERTIFY THAT THE FOREGOING INFORMATION IS COMPLETE AND ACCURATE TO THE BEST OF MY KNOWLEDGE.

11-02-2017

(DATE)



(Signature of Borrower or Borrower's Representative)

Executive Director

(Title)

AGENCY APPROVAL (<i>Rural Development Approval Official</i>):	DATE:
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COMMENTS:

Part 1 Line 32 Accrual To Cash Adjustment- Security Deposits \$800; Investment Trustee P&I (\$44); Accounts Receivable \$21,653; Prepaid Expenses \$223; Prepaid Rents \$4,782; Revenue-Capital Grants \$73,850

Part 2 Line 32 Other Admin Expenses- Membership Dues \$97; Screening Fee \$823; Bank Charge \$285; Tenant Activities \$482; Bad Debts Tenants \$53,916

Position 3
**MULTI-FAMILY HOUSING
BORROWER BALANCE SHEET**
PART I - BALANCE SHEET

PROJECT NAME Windsong	BORROWER NAME Kitsap Consolidated HA	BORROWER ID AND PROJECT NO. 551170445-05-5
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	BEGINNING DATES> (07-01-2016)	CURRENT YEAR (06-30-2017)	PRIOR YEAR (07-01-2015) (06-30-2016)	COMMENTS
ASSETS				
CURRENT ASSETS				
1. GENERAL OPERATING ACCOUNT		83,952.00	\$83,057.98	
2. R.E. TAX & INSURANCE ACCOUNT		0.00	0.00	
3. RESERVE ACCOUNT		157,110.00	143,574.00	
4. SECURITY DEPOSIT ACCOUNT		17,695.00	19,840.00	
5. OTHER CASH (<i>identify</i>)		150.00	150.00	Petty Cash
6. OTHER (<i>identify</i>)				
7. TOTAL ACCOUNTS RECEIVABLE (<i>Attach list</i>)		18,781.00	16,359.00	
..... ACCTS RCVBL 0-30 DAYS \$ 12,817.00			13,334.00	
ACCTS RCVBL 30-60 DAYS \$			434.00	
ACCTS RCVBL 60-90 DAYS \$			656.00	
ACCTS RCVBL OVER 90 DAYS \$ 5,964.00			1,935.00	
8. LESS: ALLOWANCE FOR DOUBTFUL ACCOUNTS		(5,964.00)	(\$153.00)	
9. INVENTORIES (<i>supplies</i>)		()	()	
10. PREPAYMENTS		429.00	590.00	
11. _____				
12. TOTAL CURRENT ASSETS (Add 1 thru 11)		272,153.00	263,417.98	

FIXED ASSETS				
13. LAND		254,657.00	254,657.00	
14. BUILDINGS		1,680,692.00	1,680,692.00	
15. LESS: ACCUMULATED DEPRECIATION		(499,069.00)	(458,676.00)	
16. FURNITURE & EQUIPMENT		1,231.00	1,231.00	
17. LESS: ACCUMULATED DEPRECIATION		()	()	
18. <u>Land Improvements</u>		84,568.00	62,068.00	
19. TOTAL FIXED ASSETS (Add 13 thru 18)		\$1,522,079.00	\$1,539,972.00	

OTHER ASSETS				
20. _____				
21. TOTAL ASSETS (Add 12, 19, and 20)		\$1,794,232.00	\$1,803,389.98	

LIABILITIES AND OWNERS EQUITY

CURRENT LIABILITIES				
22. TOTAL ACCOUNTS PAYABLE (<i>Attach list</i>)		\$17,242.00	\$24,256.00	
..... ACCTS PAYABLE 0-30 DAYS \$ 4,755.00			11,769.00	
ACCTS PAYABLE 30-60 DAYS \$				
ACCTS PAYABLE 60-90 DAYS \$				
ACCTS PAYABLE OVER 90 DAYS \$ 12,487.00			12,487.00	FY12-15 NP Fee
23. NOTES PAYABLE (<i>Attach list</i>)				
24. SECURITY DEPOSITS		17,947.00	17,705.00	
25. TOTAL CURRENT LIABILITIES (Add 22 thru 24)		\$35,189.00	\$41,961.00	

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LONG-TERM LIABILITIES

26. NOTES PAYABLE RURAL DEVELOPMENT	\$209,770.00	\$221,428.00	
27. OTHER (Identify)	1,039,741.00	1,064,781.00	
28. TOTAL LONG-TERM LIABILITIES (Add 26 and 27)	1,249,511.00	1,286,209.00	
29. TOTAL LIABILITIES (Add 25 and 28)	1,284,700.00	1,328,170.00	
30. OWNER'S EQUITY (Net Worth) (21 minus 29)	(509,532.00)	(475,219.98)	
31. TOTAL LIABILITIES AND OWNER'S EQUITY (Add 29 and 30)	\$1,794,232.00	\$1,803,389.98	

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I HAVE READ THE ABOVE WARNING STATEMENT AND I HEREBY CERTIFY THE FOREGOING INFORMATION IS COMPLETE AND ACCURATE TO THE BEST OF MY KNOWLEDGE.

10-30-2017

 (Date)



 (Signature of Borrower or Borrower' Representative)
 Executive Director

 (Title)

PART II - VERIFICATION OF REVIEW

I/We have reviewed the borrower's records. The accompanying balance sheet, and statement of actual budget and income on Form RD 1930-7, is a fair presentation of the borrower's records.

I/We certify that no identity of interest exists between me/us and any individual or organization doing business with the project or borrower.

 (Date)

 (Signature)

 (Name and Title)

 (Address)

In lieu of the above verification and signature, a review completed, dated and signed by a person or firm qualified by I license or certification is attached.

Position 3
**MULTIPLE FAMILY HOUSING PROJECT BUDGET/
UTILITY ALLOWANCE**

PROJECT NAME Windsong		BORROWER NAME Kitsap County Consolidated HA		BORROWER ID AND PROJECT NO. 551170445 05-5	
Loan/Transfer Amount \$		Note Rate Payment \$		IC Payment \$	
Reporting Period <input checked="" type="checkbox"/> Annual <input type="checkbox"/> Quarterly <input type="checkbox"/> Monthly	Budget Type <input type="checkbox"/> Initial <input checked="" type="checkbox"/> Regular Report <input type="checkbox"/> Rent Change <input type="checkbox"/> SMR <input type="checkbox"/> Other Servicing	Project Rental Type <input checked="" type="checkbox"/> Family <input type="checkbox"/> Elderly <input type="checkbox"/> Congregate <input type="checkbox"/> Group Home <input type="checkbox"/> Mixed <input type="checkbox"/> LH	Profit Type <input type="checkbox"/> Full Profit <input type="checkbox"/> Limited Profit <input checked="" type="checkbox"/> Non-Profit	The following utilities are master metered: <input type="checkbox"/> Electricity <input type="checkbox"/> Gas <input checked="" type="checkbox"/> Water <input checked="" type="checkbox"/> Sewer <input checked="" type="checkbox"/> Trash <input type="checkbox"/> Other _____	
					<input checked="" type="checkbox"/> I hereby request 0 units of RA. Current number of RA units _____ Borrower Accounting Method <input type="checkbox"/> Cash <input checked="" type="checkbox"/> Accrual

PART I-CASH FLOW STATEMENT

	CURRENT BUDGET	ACTUAL	PROPOSED BUDGET	COMMENTS or (YTD)
BEGINNING DATES>	07-01-2016	07-01-2016	07-01-2017	
ENDING DATES>	06-30-2017	06-30-2017	06-30-2018	
OPERATIONAL CASH SOURCES				
1. RENTAL INCOME	262,320.00	114,202.00	115,584.00	
2. RHS RENTAL ASSISTANCE RECEIVED		143,849.00		
3. APPLICATION FEES RECEIVED		0.00		
4. LAUNDRY AND VENDING	3,000.00	2,186.00	2,500.00	
5. INTEREST INCOME	75.00	82.00	85.00	
6. TENANT CHARGES	2,400.00	2,416.00	2,500.00	
7. OTHER -PROJECT SOURCES	0.00	0.00	0.00	
8. LESS (Vacancy and Contingency Allowance)	(7,432.00)		(6,421.00)	
9. LESS (Agency Approved Incentive Allowance)	(0.00)		(0.00)	
10. SUB-TOTAL [(1 thru 7) - (8 & 9)]	260,363.00	262,735.00	114,248.00	
NON-OPERATIONAL CASH SOURCES				
11. CASH-NON PROJECT	0.00	0.00	0.00	
12. AUTHORIZED LOAN (Non-RHS)	0.00	0.00	0.00	
13. TRANSFER FROM RESERVE	0.00	0.00	0.00	
14. SUB-TOTAL (11 thru 13)	0.00	0.00	0.00	
15. TOTAL CASH SOURCES (10+14)	260,363.00	262,735.00	114,248.00	
OPERATIONAL CASH USES				
16. TOTAL O&M EXPENSES (From Part II)	156,347.00	157,476.00	214,902.00	
17. RHS DEBT PAYMENT	14,234.00	14,234.00	14,234.00	
18. RHS PAYMENT (Overage)		1,597.00		
19. RHS PAYMENT (Late Fee)		0.00		
20. REDUCTION IN PRIOR YEAR PAYABLES		0.00		
21. TENANT UTILITY PAYMENTS		55.00		
22. TRANSFER TO RESERVE	13,500.00	13,535.00	13,500.00	
23. RETURN TO OWNER/NP ASSET MANAGEMENT FEE	1,765.00	0.00		NP Fee
24. SUB-TOTAL (16 thru 23)	185,846.00	186,897.00	242,636.00	
NON-OPERATIONAL CASH USES				
25. AUTHORIZED DEBT PAYMENT (Non-RHS)	73,952.00	73,592.00	73,952.00	
26. ANNUAL CAPITAL BUDGET (From Part III, Lines 4-6)	0.00	0.00	0.00	
27. MISCELLANEOUS	0.00	0.00	0.00	
28. SUB-TOTAL (25 thru 27)	73,952.00	73,592.00	73,952.00	
29. TOTAL CASH USES (24+28)	259,798.00	260,489.00	316,588.00	
30. NET CASH (DEFICIT) (15- 29)	565.00	2,246.00	(202,340.00)	
CASH BALANCE				
31. BEGINNING CASH BALANCE	83,058.00	83,208.00	60,400.00	
32. ACCRUAL TO CASH ADJUSTMENT		(1,352.00)		
33. ENDING CASH BALANCE (30+31+32)	83,623.00	84,102.00	(141,940.00)	

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PART II-OPERATING AND MAINTENANCE EXPENSE SCHEDULE

	CURRENT BUDGET	ACTUAL	PROPOSED BUDGET	COMMENTS or (YTD)
1. MAINTENANCE AND REPAIRS PAYROLL	12,370.00	12,673.00	23,056.00	
2. MAINTENANCE AND REPAIRS SUPPLY	8,000.00	6,448.00	10,750.00	
3. MAINTENANCE AND REPAIRS CONTRACT	2,350.00	240.00	6,000.00	
4. PAINTING	0.00	0.00	0.00	
5. SNOW REMOVAL	150.00	0.00	150.00	
6. ELEVATOR MAINTENANCE/CONTRACT	0.00	0.00	0.00	
7. GROUNDS	8,500.00	3,000.00	4,200.00	
8. SERVICES	3,500.00	2,842.00	500.00	
9. ANNUAL CAPITAL BUDGET (From Part V- Operating)	20,750.00	26,505.00	61,000.00	
10. OTHER OPERATING EXPENSES (Itemize)	0.00	0.00	0.00	
11. SUB-TOTAL MAINT. & OPERATING (1 thru 10)	55,620.00	51,708.00	105,656.00	
12. ELECTRICITY	2,075.00	2,615.00	2,750.00	
13. WATER	4,100.00	3,954.00	4,100.00	
14. SEWER	17,750.00	18,546.00	12,500.00	
15. FUEL (Oil/Coal/Gas).....	0.00	0.00	0.00	
16. GARBAGE & TRASH REMOVAL.....	6,450.00	7,378.00	7,720.00	
17. OTHER UTILITIES.....	0.00	0.00	7,750.00	
18. SUB-TOTAL UTILITIES (12 Thru 17).....	30,375.00	32,493.00	34,820.00	
19. SITE MANAGEMENT PAYROLL.....	16,605.00	16,880.00	24,657.00	
20. MANAGEMENT FEE.....	24,192.00	21,392.00	25,056.00	
21. PROJECT AUDITING EXPENSE	3,550.00	3,111.00	3,550.00	
22. PROJECT BOOKKEEPING/ACCOUNTING.....	0.00	0.00	0.00	
23. LEGAL EXPENSES.....	750.00	0.00	750.00	
24. ADVERTISING	200.00	951.00	1,000.00	
25. TELEPHONE & ANSWERING SERVICE.....	1,800.00	1,952.00	2,000.00	
26. OFFICE SUPPLIES.....	650.00	623.00	400.00	
27. OFFICE FURNITURE & EQUIPMENT	3,000.00	0.00	100.00	
28. TRAINING EXPENSE	550.00	428.00	250.00	
29. HEALTH INS. & OTHER EMP. BENEFITS.....	11,125.00	14,242.00	8,638.00	
30. PAYROLL TAXES	860.00	1,380.00	1,294.00	
31. WORKMAN'S COMPENSATION	675.00	1,195.00	1,510.00	
32. OTHER ADMINISTRATIVE EXPENSES (Itemize).....	1,255.00	6,358.00	0.00	
33. SUB-TOTAL ADMINISTRATIVE (19 thru 32).....	65,212.00	68,512.00	69,205.00	
34. REAL ESTATE TAXES.....	0.00	0.00	0.00	
35. SPECIAL ASSESSMENTS	0.00	0.00	0.00	
36. OTHER TAXES, LICENSES& PERMITS.....	1,040.00	896.00	793.00	
37. PROPERTY & LIABILITY INSURANCE.....	4,100.00	3,867.00	4,428.00	
38. FIDELITY COVERAGE INSURANCE.....	0.00	0.00	0.00	
39. OTHER INSURANCE.....	0.00	0.00	0.00	
40. SUB-TOTAL TAXES& INSURANCE (34 thru 39).....	5,140.00	4,763.00	5,221.00	
41. TOTAL O&M EXPENSES (11 +18+33+40)	156,347.00	157,476.00	214,902.00	

PART III-ACCOUNT BUDGETING/STATUS

	CURRENT BUDGET	ACTUAL	PROPOSED BUDGET	COMMENTS or (YTD)
RESERVE ACCOUNT:				
1. BEGINNING BALANCE	143,568.00	143,574.00	168,352.00	
2. TRANSFER TO RESERVE	13,500.00	13,535.00	13,500.00	
TRANSFER FROM RESERVE				
3. OPERATING DEFICIT	0.00	0.00	0.00	
4. ANNUAL CAPITAL BUDGET (Part V - Reserve)	0.00	0.00	0.00	
5. BUILDING & EQUIPMENT REPAIR	0.00	0.00	0.00	
6. OTHER NON-OPERATING EXPENSES	0.00	0.00	0.00	
7. TOTAL (3 thru 6)	(0.00)	(0.00)	(0.00)	
8. ENDING BALANCE [(1 +2)-7]	157,068.00	157,109.00	181,852.00	

GENERAL OPERATING ACCOUNT:*

BEGINNING BALANCE	83,208.00	
ENDING BALANCE	84,102.00	

REAL ESTATE TAX AND INSURANCE ESCROW ACCOUNT:*

BEGINNING BALANCE	0.00	
ENDING BALANCE	0.00	

TENANT SECURITY DEPOSIT ACCOUNT:*

BEGINNING BALANCE	19,840.00	
ENDING BALANCE	17,695.00	

(*Complete upon submission of actual expenses.)

NUMBER OF APPLICANTS ON THE WAITING LIST		RESERVE ACCT. REQ. BALANCE	
NUMBER OF APPLICANTS NEEDING RA		AMOUNT AHEAD/BEHIND	

PART IV-RENT SCHEDULE AND UTILITY ALLOWANCE

A CURRENT APPROVED RENTS/ UTILITY ALLOWANCE

UNIT DESCRIPTION			RENTAL RATE S			POTENTIAL INCOME FROM EACH RATE			UTILITY ALLOWANCE
BR SIZE	UNIT TYPE	NUMBER	BASIC	NOTE RATE	HUD	BASIC	NOTE RATE	HUD	
1 bd		28	585.00	614.00		196,560.00	206,304.00		55.00
2 bd		8	685.00	757.00		65,760.00	72,672.00		82.00
CURRENT RENT TOTALS:						\$262,320.00	\$278,976	\$0.00	
						BASIC	NOTE	HUD	

B. PROPOSED RENTS - Effective Date: 07-01-2017

UNIT DESCRIPTION			RENTAL RATES			POTENTIAL INCOME FROM EACH RATE		
BR SIZE	UNIT TYPE	NUMBER	BASIC	NOTE RATE	HUD	BASIC	NOTE RATE	HUD
1 bd		28	585.00	614.00		196,560.00	206,304.00	0.00
2 bd		8	685.00	757.00		65,760.00	72,672.00	0.00
								0.00
								0.00
								0.00
								0.00
								0.00
								0.00
								0.00
PROPOSED RENT TOTALS:						262,320.00	278,976.00	0.00
						BASIC	NOTE	HUD

C: PROPOSED UTILITY ALLOWANCE - Effective Date: 07-01-2017

MONTHLY DOLLAR ALLOWANCES

BR SIZE	UNIT TYPE	NUMBER	ELECTRIC	GAS	WATER	SEWER	TRASH	OTHER	TOTAL
1		28	55.00						55.00
2		8	82.00						82.00

PART V - ANNUAL CAPITAL BUDGET

	Proposed Number of Units/Items	Proposed from Reserve	Actual from Reserve	Proposed from Operating	Actual from Operating	Actual Total Cost	Total Actual Units/Items
Appliances:							
Range	1			500			
Refrigerator	2			1,000			
Range Hood							
Washers & Dryers							
Other:							
Carpet & Vinyl:							
1BR	3			3,750	4,005	4,005	
2BR							
3BR							
4BR							
Other:							
Cabinets:							
Kitchens							
Bathrooms							
Other:							
Doors:							
Exterior							
Interior							
Other:							
Window Coverings:							
List:							
Other:							
Heating & Air Conditioning:							
Heating							
Air Conditioning							
Other:							
Plumbing:							
Water Heater							
Bath Sinks							
Kitchen Sinks							
Faucets							
Toilets							
Other:							
Major Electrical:							
List:							
Other:							
Structures:							
Windows							
Screens							
Walls							
Roofing							
Siding							
Exterior Painting							
Other:				5,500	10,500	10,500	
Paving:							
Asphalt							
Concrete							
Seal & Stripe				10,000	12,000	12,000	
Other:							
Landscape & Grounds:							
Landscaping							
Lawn Equipment							
Fencing							
Recreation Area							
Signs							
Other:							
Accessibility Features:							
List:							
Other:							
Automation Equipment:							
Site Management							
Common Area							
Other:							
Other:							
List:							
List:							
List:							
TOTAL CAPITAL EXPENSES:				20,750	26,505	26,505	

PART VI -- SIGNATURES, DATES AND COMMENTS

Warning: Section 1001 of Title 18, United States Code provides: "Whoever, in any matter within the jurisdiction of any department or agency of the United States knowingly and willfully falsifies, conceals or covers up by any trick, scheme, or device a material fact, or makes any false, fictitious or fraudulent statements or representations, or makes or uses any false writing or document knowing the same to contain any false, fictitious or fraudulent statement or entry, shall be fined under this title or imprisoned not more than five years, or both.

I HAVE READ THE ABOVE WARNING STATEMENT AND I HEREBY CERTIFY THAT THE FOREGOING INFORMATION IS COMPLETE AND ACCURATE TO THE BEST OF MY KNOWLEDGE.

10-30-2017

(DATE)



(Signature of Borrower or Borrower's Representative)

Executive Director

(Title)

AGENCY APPROVAL (<i>Rural Development Approval Official</i>):	DATE:
--	-------

COMMENTS:

Part 1 Line 32 Accrual To Cash Adjustment- Accounts Receivable \$3,390; Prepaid Expenses \$160; Accounts Payable (\$4,946); Prepaid Rents (\$38); Misc Income \$82

Part 2 Line 32 Other Admin Expenses- Membership Dues \$57; Screening Fee \$215; Bank Charge \$10; Tenant Activities \$70; Bad Debts Tenants \$6,006

Position 3
**MULTI-FAMILY HOUSING
BORROWER BALANCE SHEET**
PART I - BALANCE SHEET

PROJECT NAME Finch Place	BORROWER NAME Kitsap County Consolidated HA	BORROWER ID AND PROJECT NO. 551170445-06-7
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	CURRENT YEAR (07-01-2016) (06-30-2017)	PRIOR YEAR (07-01-2015) (06-30-2016)	COMMENTS
--	--	--	----------

ASSETS

CURRENT ASSETS

	CURRENT YEAR	PRIOR YEAR	COMMENTS
1. GENERAL OPERATING ACCOUNT	127,486.37	\$114,272.05	
2. R.E. TAX & INSURANCE ACCOUNT			
3. RESERVE ACCOUNT	214,790.32	200,733.93	
4. SECURITY DEPOSIT ACCOUNT	16,373.00	17,324.31	
5. OTHER CASH (<i>identify</i>)	150.00	150.00	Petty Cash
6. OTHER (<i>identify</i>)			
7. TOTAL ACCOUNTS RECEIVABLE (<i>Attach list</i>)	12,962.00	12,331.00	
..... ACCTS RCVBL 0-30 DAYS \$ 6,625.00		6,823.00	
ACCTS RCVBL 30-60 DAYS \$		516.00	
ACCTS RCVBL 60-90 DAYS \$		41.00	
ACCTS RCVBL OVER 90 DAYS \$ 6,337.00		4,951.00	
8. LESS: ALLOWANCE FOR DOUBTFUL ACCOUNTS	(6,337.00)	(\$1.00)	
9. INVENTORIES (<i>supplies</i>)	()	()	
10. PREPAYMENTS	346.00	475.00	
11. _____			
12. TOTAL CURRENT ASSETS (Add 1 thru 11)	365,770.69	345,285.29	

FIXED ASSETS

13. LAND	624,574.00	624,574.00	Incl Land Imprv.
14. BUILDINGS	1,304,869.00	1,304,869.00	
15. LESS: ACCUMULATED DEPRECIATION	(333,614.00)	(298,506.00)	
16. FURNITURE & EQUIPMENT	819.00	819.00	
17. LESS: ACCUMULATED DEPRECIATION	()	()	
18. _____			
19. TOTAL FIXED ASSETS (Add 13 thru 18)	\$1,596,648.00	\$1,631,756.00	

OTHER ASSETS

20. _____			
21. TOTAL ASSETS (Add 12, 19, and 20)	\$1,962,418.69	\$1,977,041.29	

LIABILITIES AND OWNERS EQUITY

CURRENT LIABILITIES

22. TOTAL ACCOUNTS PAYABLE (<i>Attach list</i>)	\$25,475.00	\$29,973.00	
..... ACCTS PAYABLE 0-30 DAYS \$ 10,678.00		15,177.00	
ACCTS PAYABLE 30-60 DAYS \$			
ACCTS PAYABLE 60-90 DAYS \$			
ACCTS PAYABLE OVER 90 DAYS \$ 14,796.00		14,796.00	FY12-15 NP Fee
23. NOTES PAYABLE (<i>Attach list</i>)			
24. SECURITY DEPOSITS	16,236.00	16,193.00	
25. TOTAL CURRENT LIABILITIES (Add 22 thru 24)	\$41,711.00	\$46,166.00	

According to the Paperwork Reduction Act of 1995, an agency may not conduct or sponsor, and a person is not required to respond to a collection of information unless it displays a valid OMB control number. The valid OMB control number for this information collection is 0575-0189. The time required to complete this information collection is estimated to average 2 hour per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information.

LONG-TERM LIABILITIES

26. NOTES PAYABLE RURAL DEVELOPMENT	\$931,900.00	\$937,819.00	
27. OTHER (Identify)	373,745.00	388,392.00	
28. TOTAL LONG-TERM LIABILITIES (Add 26 and 27)	1,305,645.00	1,326,211.00	
29. TOTAL LIABILITIES (Add 25 and 28)	1,347,356.00	1,372,377.00	
30. OWNER'S EQUITY (Net Worth) (21 minus 29)	(615,062.69)	(604,664.29)	
31. TOTAL LIABILITIES AND OWNER'S EQUITY (Add 29 and 30)	\$1,962,418.69	\$1,977,041.29	

Warning: Section 1001 of Title 18, United States Code provides: "Whoever, in any matter within the jurisdiction any of department or agency of the United States knowingly and willfully falsifies, conceals or covers up by any trick, scheme, or device a material fact, or makes any false, fictitious or fraudulent statements or representations, or makes or uses any false writing or document knowing the same to contain any false, fictitious or fraudulent statement or entry, shall be fined under this title or imprisoned not more than five years, or both."

I HAVE READ THE ABOVE WARNING STATEMENT AND I HEREBY CERTIFY THE FOREGOING INFORMATION IS COMPLETE AND ACCURATE TO THE BEST OF MY KNOWLEDGE.

10-30-2017

(Date)



(Signature of Borrower or Borrower' Representative)
Executive Director

(Title)

PART II - VERIFICATION OF REVIEW

I/We have reviewed the borrower's records. The accompanying balance sheet, and statement of actual budget and income on Form RD 1930-7, is a fair presentation of the borrower's records.

I/We certify that no identity of interest exists between me/us and any individual or organization doing business with the project or borrower.

(Date)

(Signature)

(Name and Title)

(Address)

In lieu of the above verification and signature, a review completed, dated and signed by a person or firm qualified by I license or certification is attached.

Position 3
**MULTIPLE FAMILY HOUSING PROJECT BUDGET/
UTILITY ALLOWANCE**

PROJECT NAME Finch Place		BORROWER NAME Kitsap County Consolidated HA		BORROWER ID AND PROJECT NO. 551170445 06-7	
Loan/Transfer Amount \$		Note Rate Payment \$		IC Payment \$	
Reporting Period <input checked="" type="checkbox"/> Annual <input type="checkbox"/> Quarterly <input type="checkbox"/> Monthly	Budget Type <input type="checkbox"/> Initial <input checked="" type="checkbox"/> Regular Report <input type="checkbox"/> Rent Change <input type="checkbox"/> SMR <input type="checkbox"/> Other Servicing	Project Rental Type <input type="checkbox"/> Family <input checked="" type="checkbox"/> Elderly <input type="checkbox"/> Congregate <input type="checkbox"/> Group Home <input type="checkbox"/> Mixed <input type="checkbox"/> LH	Profit Type <input type="checkbox"/> Full Profit <input type="checkbox"/> Limited Profit <input checked="" type="checkbox"/> Non-Profit	The following utilities are master metered: <input type="checkbox"/> Electricity <input type="checkbox"/> Gas <input checked="" type="checkbox"/> Water <input checked="" type="checkbox"/> Sewer <input checked="" type="checkbox"/> Trash <input type="checkbox"/> Other _____	
					<input checked="" type="checkbox"/> I hereby request 9 units of RA. Current number of RA units 20 Borrower Accounting Method <input type="checkbox"/> Cash <input checked="" type="checkbox"/> Accrual

PART I-CASH FLOW STATEMENT

	CURRENT BUDGET	ACTUAL	PROPOSED BUDGET	COMMENTS or (YTD)
BEGINNING DATES>	07-01-2016	07-01-2016	07-01-2017	
ENDING DATES>	06-30-2017	06-30-2017	06-30-2018	
OPERATIONAL CASH SOURCES				
1. RENTAL INCOME	219,588.00	127,232.00	135,048.00	
2. RHS RENTAL ASSISTANCE RECEIVED		78,004.00		
3. APPLICATION FEES RECEIVED		0.00		
4. LAUNDRY AND VENDING	2,100.00	2,475.00	2,600.00	
5. INTEREST INCOME	100.00	96.00	100.00	
6. TENANT CHARGES	500.00	311.00	450.00	
7. OTHER -PROJECT SOURCES	0.00	0.00	400.00	
8. LESS (Vacancy and Contingency Allowance)	(7,686.00)		(7,744.00)	
9. LESS (Agency Approved Incentive Allowance)	(0.00)		(0.00)	
10. SUB-TOTAL [(1 thru 7) - (8 & 9)]	214,602.00	208,118.00	130,854.00	
NON-OPERATIONAL CASH SOURCES				
11. CASH-NON PROJECT	0.00	0.00	0.00	
12. AUTHORIZED LOAN (Non-RHS)	0.00	0.00	0.00	
13. TRANSFER FROM RESERVE	0.00		0.00	
14. SUB-TOTAL (11 thru 13)	0.00	0.00	0.00	
15. TOTAL CASH SOURCES (10+14)	214,602.00	208,118.00	130,854.00	
OPERATIONAL CASH USES				
16. TOTAL O&M EXPENSES (From Part II)	209,973.00	129,207.00	287,244.00	
17. RHS DEBT PAYMENT	24,916.00	24,916.00	24,916.00	
18. RHS PAYMENT (Overage)		3,013.00		
19. RHS PAYMENT (Late Fee)		0.00		
20. REDUCTION IN PRIOR YEAR PAYABLES		0.00		
21. TENANT UTILITY PAYMENTS		0.00		
22. TRANSFER TO RESERVE	14,000.00	14,056.00	14,000.00	
23. RETURN TO OWNER/NP ASSET MANAGEMENT FEE	1,420.00	0.00	1,420.00	
24. SUB-TOTAL (16 thru 23)	250,309.00	171,192.00	327,580.00	
NON-OPERATIONAL CASH USES				
25. AUTHORIZED DEBT PAYMENT (Non-RHS)	26,135.00	26,135.00	26,135.00	
26. ANNUAL CAPITAL BUDGET (From Part III, Lines 4-6)	0.00	0.00	0.00	
27. MISCELLANEOUS	0.00	0.00	0.00	
28. SUB-TOTAL (25 thru 27)	26,135.00	26,135.00	26,135.00	
29. TOTAL CASH USES (24+28)	276,444.00	197,327.00	353,715.00	
30. NET CASH (DEFICIT) (15- 29)	(61,842.00)	10,791.00	(222,861.00)	
CASH BALANCE				
31. BEGINNING CASH BALANCE	114,422.00	114,422.00	171,663.00	
32. ACCRUAL TO CASH ADJUSTMENT		2,423.00	0.00	
33. ENDING CASH BALANCE (30+31+32)	52,580.00	127,636.00	(51,198.00)	

According to the Paperwork Reduction Act of 1995, an agency may not conduct sponsor and a person is not required to respond to a collection of information unless it displays a valid OMB control number. The valid OMB control number for this information collection is 0575-0189. The time required to complete this information collection is estimated to average 2 1/2 hours per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information.

PART II-OPERATING AND MAINTENANCE EXPENSE SCHEDULE

	CURRENT BUDGET	ACTUAL	PROPOSED BUDGET	COMMENTS or (YTD)
1. MAINTENANCE AND REPAIRS PAYROLL	10,405.00	7,331.00	20,040.00	
2. MAINTENANCE AND REPAIRS SUPPLY	8,000.00	3,774.00	4,000.00	
3. MAINTENANCE AND REPAIRS CONTRACT	3,350.00	140.00	0.00	
4. PAINTING	0.00	0.00	0.00	
5. SNOW REMOVAL	150.00	0.00	150.00	
6. ELEVATOR MAINTENANCE/CONTRACT	5,500.00	3,626.00	5,500.00	
7. GROUNDS	5,000.00	2,000.00	5,500.00	
8. SERVICES	7,800.00	7,981.00	5,000.00	
9. ANNUAL CAPITAL BUDGET (From Part V- Operating)	64,750.00	1,298.00	121,250.00	
10. OTHER OPERATING EXPENSES (Itemize)	0.00	0.00	0.00	
11. SUB-TOTAL MAINT. & OPERATING (1 thru 10)	104,955.00	26,150.00	161,440.00	
12. ELECTRICITY	7,035.00	9,889.00	6,700.00	
13. WATER	2,985.00	2,620.00	2,985.00	
14. SEWER	22,410.00	14,522.00	20,460.00	
15. FUEL (Oil/Coal/Gas).....	0.00	0.00	0.00	
16. GARBAGE & TRASH REMOVAL.....	5,000.00	4,157.00	5,000.00	
17. OTHER UTILITIES.....	0.00	0.00	1,950.00	
18. SUB-TOTAL UTILITIES (12 Thru 17).....	37,430.00	31,188.00	37,095.00	
19. SITE MANAGEMENT PAYROLL.....	16,665.00	22,661.00	32,804.00	
20. MANAGEMENT FEE.....	19,488.00	16,855.00	20,532.00	
21. PROJECT AUDITING EXPENSE	3,010.00	2,575.00	3,010.00	
22. PROJECT BOOKKEEPING/ACCOUNTING.....	0.00	0.00	0.00	
23. LEGAL EXPENSES.....	500.00	0.00	500.00	
24. ADVERTISING	350.00	937.00	350.00	
25. TELEPHONE & ANSWERING SERVICE.....	3,500.00	3,247.00	3,500.00	
26. OFFICE SUPPLIES.....	650.00	1,074.00	250.00	
27. OFFICE FURNITURE & EQUIPMENT.....	2,750.00	0.00	2,800.00	
28. TRAINING EXPENSE	515.00	1,314.00	900.00	
29. HEALTH INS. & OTHER EMP. BENEFITS.....	12,070.00	11,000.00	15,831.00	
30. PAYROLL TAXES	805.00	750.00	1,092.00	
31. WORKMAN'S COMPENSATION	815.00	694.00	1,274.00	
32. OTHER ADMINISTRATIVE EXPENSES (Itemize).....	2,095.00	6,799.00	1,590.00	
33. SUB-TOTAL ADMINISTRATIVE (19 thru 32).....	63,213.00	67,906.00	84,433.00	
34. REAL ESTATE TAXES.....	0.00	0.00	0.00	
35. SPECIAL ASSESSMENTS	0.00	0.00	0.00	
36. OTHER TAXES, LICENSES& PERMITS.....	965.00	722.00	593.00	
37. PROPERTY & LIABILITY INSURANCE.....	3,410.00	3,241.00	3,683.00	
38. FIDELITY COVERAGE INSURANCE.....	0.00	0.00	0.00	
39. OTHER INSURANCE.....	0.00	0.00	0.00	
40. SUB-TOTAL TAXES& INSURANCE (34 thru 39).....	4,375.00	3,963.00	4,276.00	
41. TOTAL O&M EXPENSES (11 +18+33+40)	209,973.00	129,207.00	287,244.00	

PART III-ACCOUNT BUDGETING/STATUS

	CURRENT BUDGET	ACTUAL	PROPOSED BUDGET	COMMENTS or (YTD)
RESERVE ACCOUNT:				
1. BEGINNING BALANCE	200,728.00	200,734.00	211,273.00	
2. TRANSFER TO RESERVE	14,000.00	14,056.00	14,000.00	
TRANSFER FROM RESERVE				
3. OPERATING DEFICIT	0.00	0.00	0.00	
4. ANNUAL CAPITAL BUDGET (Part V - Reserve)	0.00	0.00	0.00	
5. BUILDING & EQUIPMENT REPAIR	0.00	0.00	0.00	
6. OTHER NON-OPERATING EXPENSES	0.00		0.00	
7. TOTAL (3 thru 6)	(0.00)	(0.00)	(0.00)	
8. ENDING BALANCE [(1 +2)-7]	214,728.00	214,790.00	225,273.00	

GENERAL OPERATING ACCOUNT:*

BEGINNING BALANCE	114,422.00	
ENDING BALANCE	127,636.00	

**REAL ESTATE TAX AND INSURANCE ESCROW
ACCOUNT:***

BEGINNING BALANCE	0.00	
ENDING BALANCE	0.00	

TENANT SECURITY DEPOSIT ACCOUNT:*

BEGINNING BALANCE	17,324.00	
ENDING BALANCE	16,373.00	

(*Complete upon submission of actual expenses.)

NUMBER OF APPLICANTS ON THE WAITING LIST		RESERVE ACCT. REQ. BALANCE	
NUMBER OF APPLICANTS NEEDING RA		AMOUNT AHEAD/BEHIND	

PART IV-RENT SCHEDULE AND UTILITY ALLOWANCE

A CURRENT APPROVED RENTS/ UTILITY ALLOWANCE

UNIT DESCRIPTION			RENTAL RATE S			POTENTIAL INCOME FROM EACH RATE			UTILITY ALLOWANCE
BR SIZE	UNIT TYPE	NUMBER	BASIC	NOTE RATE	HUD	BASIC	NOTE RATE	HUD	
1 bd		29	631.00	710.00		219,588.00	247,080.00		49.00
CURRENT RENT TOTALS:						\$219,588.00	\$247,080.00	\$0.00	
						BASIC	NOTE	HUD	

B. PROPOSED RENTS - Effective Date: 07-01-2017

UNIT DESCRIPTION			RENTAL RATES			POTENTIAL INCOME FROM EACH RATE		
BR SIZE	UNIT TYPE	NUMBER	BASIC	NOTE RATE	HUD	BASIC	NOTE RATE	HUD
1 bd		29	631.00	710.00		219,588.00	247,080.00	0.00
								0.00
								0.00
								0.00
								0.00
								0.00
								0.00
								0.00
PROPOSED RENT TOTALS:						219,588.00	247,080.00	0.00
						BASIC	NOTE	HUD

C: PROPOSED UTILITY ALLOWANCE - Effective Date: 07-01-2017

MONTHLY DOLLAR ALLOWANCES

BR SIZE	UNIT TYPE	NUMBER	ELECTRIC	GAS	WATER	SEWER	TRASH	OTHER	TOTAL
1		29	49.00						49.00

PART V - ANNUAL CAPITAL BUDGET

	Proposed Number of Units/Items	Proposed from Reserve	Actual from Reserve	Proposed from Operating	Actual from Operating	Actual Total Cost	Total Actual Units/Items
Appliances:							
Range				1,500			
Refrigerator				1,000	510		
Range Hood							
Washers & Dryers							
Other:							
Carpet & Vinyl:							
1BR				3,750	788		
2BR							
3BR							
4BR							
Other:							
Cabinets:							
Kitchens							
Bathrooms							
Other:							
Doors:							
Exterior							
Interior							
Other:							
Window Coverings:							
List:							
Other:				8,500			
Heating & Air Conditioning:							
Heating							
Air Conditioning							
Other:							
Plumbing:							
Water Heater							
Bath Sinks							
Kitchen Sinks							
Faucets							
Toilets							
Other:							
Major Electrical:							
List:							
Other:							
Structures:							
Windows							
Screens							
Walls							
Roofing							
Siding							
Exterior Painting				48,000			
Other:				2,000			
Paving:							
Asphalt							
Concrete							
Seal & Stripe							
Other:							
Landscape & Grounds:							
Landscaping							
Lawn Equipment							
Fencing							
Recreation Area							
Signs							
Other:							
Accessibility Features:							
List:							
Other:							
Automation Equipment:							
Site Management							
Common Area							
Other:							
Other:							
List:							
List:							
List:							
TOTAL CAPITAL EXPENSES:				64,750	1,298		

PART VI -- SIGNATURES, DATES AND COMMENTS

Warning: Section 1001 of Title 18, United States Code provides: "Whoever, in any matter within the jurisdiction of any department or agency of the United States knowingly and willfully falsifies, conceals or covers up by any trick, scheme, or device a material fact, or makes any false, fictitious or fraudulent statements or representations, or makes or uses any false writing or document knowing the same to contain any false, fictitious or fraudulent statement or entry, shall be fined under this title or imprisoned not more than five years, or both.

I HAVE READ THE ABOVE WARNING STATEMENT AND I HEREBY CERTIFY THAT THE FOREGOING INFORMATION IS COMPLETE AND ACCURATE TO THE BEST OF MY KNOWLEDGE.

10-30-2017

(DATE)



(Signature of Borrower or Borrower's Representative)

Executive Director

(Title)

AGENCY APPROVAL (<i>Rural Development Approval Official</i>):	DATE:
--	-------

COMMENTS:

Part 1 Line 32 Accrual To Cash Adjustment- Security Deposits \$994; Accounts Receivable \$5,705; Prepaid Expenses \$129; Accounts Payable (\$5,800); Prepaid Rents (\$1,395)

Part 2 Line 32 Other Admin Expenses- Membership Dues \$102; Screening Fee \$291; Bank Charge \$10; Tenant Activities \$50; Bad Debts Tenants \$6,336; Other Professional Fees \$10



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TDD (360) 535.6106

<http://www.housingkitsap.org>

CORRECTIVE ACTION PLAN FOR FINDINGS REPORTED UNDER UNIFORM GUIDANCE

Kitsap County Consolidated Housing Authority (Housing Kitsap) July 1, 2016 through June 30, 2017

This schedule presents the corrective action planned by the Authority for the finding reported in this report in accordance with Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Finding ref number: 2017-001	Finding caption: The Housing Authority did not have adequate internal controls to ensure compliance with allowable costs/cost principles requirements for its Rural Self-Help Technical Assistance Program.
Name, address, and telephone of Authority contact person: Wendy Dutenhoeffer, Chief Financial Officer 2244 Northwest Bucklin Hill Road Silverdale, WA 98383 (360) 535-6137	
Corrective action the auditee plans to take in response to the finding: <i>Prior to the audit, our office had identified the indirect overhead cost pool and allocation process as problematic. Corrective action was taken which includes the following:</i> <ul style="list-style-type: none"> • <i>Worked with RCAC, as directed by USDA, to identify and analyze solutions that meet USDA and 523 TA grant requirements.</i> • <i>Determined that the agency meets the conditions of 200.414 (f) for a 10% De Minimis indirect cost rate by: <ul style="list-style-type: none"> • <i>Never having received a negotiated indirect cost rate</i> • <i>State or local governmental department agency that receives less than \$35 million in direct federal funding</i> • <i>A Cost Allocation Plan is not required by the Department of Housing and Urban Development (HUD)</i> </i> 	

- *Documented the process and elected to use the 10% De Minimis indirect cost rate as allowed by 200.415 (f) to pay for overhead costs that are not directly charged to federal awards. Per 2 CFR Section 200.403 costs will be consistently charged as either direct or indirect costs.*

Eliminated the indirect overhead cost pool and cost allocation process.

Anticipated date to complete the corrective action:

Corrective action completed in September 2017.

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