Office of the Washington State Auditor
Pat McCarthy

December 7, 2017

Sunnyside Housing Authority
Sunnyside, Washington

Contracted CPA Firm's Audit Report on Financial Statements and the Federal Single Audit

We have reviewed the audit report issued by a certified public accounting (CPA) firm on the Sunnyside Housing Authority's financial statements and compliance with federal grant requirements for the fiscal year ended December 31, 2016. The Housing Authority contracted with the CPA firm for this audit under an agreement with the State Auditor's Office.

Based on this review, we have accepted this report in lieu of the audit required by RCW 43.09.260. The State Auditor's Office did not audit the accompanying financial statements or the compliance with federal grant agreements and, accordingly, we do not express an opinion on those financial statements or on compliance.

This report is being published on the State Auditor's Office website as a matter of public record.

Sincerely,

Pat McCarthy

State Auditor

Olympia, WA

Housing Authority of Sunnyside, Washington

(Sunnyside Housing Authority)

MCAG No. 1523

Annual Financial Report

For the Year Ended December 31, 2016

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The Housing Authority of Sunnyside, Washington
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INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Sunnyside, Washington

Report on the Financial Statements

We have audited the accompanying financial statements of the Housing Authority of Sunnyside, Washington (the Housing Authority) and the discretely presented component unit of the Housing Authority, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Housing Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity'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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Housing Authority and the discretely presented component unit of the Housing Authority, as of December 31, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3-7 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information (Financial Data Schedule) is presented for purposes of additional analysis as required by the *Uniform Financial Reporting Standards* issued by the U.S. Department of Housing and Urban Development, Office of the Inspector General, and is not a required part of the financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2017, 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.

Peterson CPAs & Advisors PLLC

September 27, 2017

The Housing Authority of Sunnyside, Washington's (the Housing Authority) Management's Discussion and Analysis (MD&A) is designed to:

- Assist the reader in focusing on significant financial issues;
- Provide an overview of the Housing Authority's financial activity;
- Identify changes in the Housing Authority's financial position;
- Provide information on challenges in the next and subsequent years; and
- Identify individual fund or program issues and concerns.

The financial performance discussed in the following analyses does not include the tax credit partnership. The tax credit partnership is owned by a separate limited partnership with the Housing Authority acting as the general partner. This separate legal entity is not carried directly on the books of the Housing Authority but is listed as a component unit in the Housing Authority's financial statements and is detailed in portions of the Notes to the Financial Statements. The tax credit partnership and its financial data are not included in the analysis that follows.

The MD&A is designed to focus on the current year's activities. Please read it in conjunction with the Housing Authority's financial statements.

Financial Statements

These financial statements are designed to display the financial position and activity of the Housing Authority as a whole. The Housing Authority consists exclusively of enterprise funds. Enterprise funds utilize the accrual basis of accounting, and are reported in the same method as that used in private sector accounting. These statements include:

1. Statement of Net Position (Balance Sheet). This reports all financial and capital resources of the Housing Authority. They are classified as "Current" and "Non-Current." Liabilities whose maturities are greater than one year are reported in two components – the amount due within one year and the amount due in more than one year. Over time, increases or decreases in the Housing Authority's net position are one indicator of its financial health. The focus of the Statement of Net Position is designed to represent the available liquid assets, net of liabilities, for the Housing Authority. Total net position is reported in three broad categories:

   Net Investment in Capital Assets – This component of net position consists of all capital assets, reduced by the outstanding balances of any bonds, mortgages, notes or other related borrowings that are attributable to the acquisition, construction or improvement of those capital assets.

   Restricted Net Position – This component of net position consists of restricted assets, on which creditors, grantors, laws or regulations have placed constraints.

   Unrestricted Net Position – This component of net position consists of all other net assets that don't meet the criteria for "Net Investment in Capital Assets" or "Restricted Net Position".

2. Statement of Revenues, Expenses and Changes in Fund Net Position – This statement is similar to an income statement and includes operating revenues, such as rental income and other tenant revenue, operating expenses, such as administrative expenses, utilities, maintenance and depreciation, and non-operating revenues and expenses, which includes grant revenue, investment income and interest expense. All changes in fund net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods.

The statements of revenues, expenses and changes in fund net position can be found elsewhere in this report.

The focus of the Statement of Revenues, Expenses and Changes in Fund Net Position is the "Change in Net Position". This is similar to Net Income or Loss.

3. Statement of Cash Flows – This statement shows net cash provided by, or used for, operating activities, non-capital financial activities and related financing activities and investing activities. The statement of cash flows presents the "change" in the Housing Authority's cash and cash equivalents during the most recent fiscal year. The statement of cash flows can be found elsewhere in this report.

4. Notes to the Basic Financial Statement – Provides financial statement disclosures that are an integral part of the basic financial statements. Such disclosures are essential to a comprehensive understanding of the information provided in the basic financial statements.

Financial Analysis of the Housing Authority

The Housing Authority's net position was $7,380,907 on December 31, 2016; this is an increase of $449,506 over the previous year. Of this amount, $3,532,981, or 48% was unrestricted and $3,157,539, or 43% was investment in capital assets (e.g., land, buildings, improvements, machinery, equipment and construction in progress.) The Housing Authority uses these capital assets to provide services to program participants; consequently, these assets are not available for future spending.

The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Fund Net Position report information about the Housing Authority's activities to help determine the overall financial health of the organization.

Economic conditions and new or changed government legislation would also need to be considered when analyzing the Housing Authority's activities.

An Overview of the Housing Authority-Wide Financial Position and Operations

The Housing Authority's overall financial position and operations for the past two years are summarized below based on the information included in the current and prior financial statements.

Table 1

Sunnyside Housing Authority, Net Position

	December 31, 2016	December 31, 2015
Current and other assets	$ 4,399,020	$ 4,198,608
Capital assets, net	4,163,359	4,059,716
Total assets	$ 8,562,379	$ 8,258,324
Current and other liabilities	$ 231,672	$ 307,780
Long-term liabilities	949,800	1,019,183
Total liabilities	1,181,472	1,326,963
Net Position		
Net investment in Capital Assets	3,157,539	2,980,657
Restricted net position	690,387	736,604
Unrestricted net position	3,532,981	3,214,100
Total net position	7,380,907	6,931,361
Total liabilities and net position	$ 8,562,379	$ 8,258,324

Total Assets

The Housing Authority's total assets at December 31, 2016, were $8.56 million, an increase of $304,000 from December 31, 2015.

Total Liabilities

The Housing Authority's total liabilities decreased by $150,089. This decrease relates to fluctuations in the timing of current payables and payments on long term debt.

Net Position

The Housing Authority's Net Position increased in total by $449,546 in 2016.

Table 2
Sunnyside Housing Authority, Changes in Fund Net Position

Changes in Fund Net Position

	December 31, 2016	December 31, 2015
Operating revenues		
Rental and other	1,438,576	$ 1,307,181
Operating expenses		
Administration	565,364	568,341
Tenant services	585	550
Utilities	226,812	233,887
Ordinary maintenance and operations	647,859	646,280
Protective services	3,297	3,483
Insurance	68,851	62,989
General expenses	31,527	30,481
Payments in lieu of taxes	4,212	4,212
Extraordinary maintenance	2,900	20,391
Depreciation	297,754	308,362
Total operating expenses	1,849,161	1,878,976
Non-operating Revenues (Expenses)		
HUD PHA Operating Grants	222,109	239,638
Other Government Grants	360,933	382,740
Investment Income	1,912	1,933
Gain (loss) on disposal of capital assets	0	289,696
Casualty Losses	0	0
Interest expense	(20,525)	(20,750)
Total Non-operating Rev (Exp)	564,429	893,257
Income before contributions	153,844	321,462
Capital Contributions		
HUD Capital Grant	295,702	135,165
Change in net position	449,546	456,627
Net position, beginning of year	$ 6,931,361	6,467,653
Capital Contribution		7,081
Net position, end of year	7,380,907	$ 6,931,361

Capital Assets and Long-Term Debt

CAPITAL ASSETS

The Housing Authority's investment in capital assets as of December 31, 2016 amounts to $4,163,359 (net of accumulated depreciation). This investment in capital assets includes land, buildings, building improvements, equipment and construction in progress.

Capital Assets at Year-end

	December 31, 2016	December 31, 2015
Land	$ 669,644	$ 669,644
Construction in Progress	681,208	319,823
Total non-depreciable capital assets	1,350,852	989,467
Buildings	14,976,750	14,968,094
Furniture and Equipment	654,410	636,660
Site Improvements	1,416,059	1,416,059
	17,047,219	17,020,813
Accumulated Depreciation	(14,234,714)	(13,950,564)
Total depreciable capital assets, net	2,812,505	3,070,249
Net investment in Capital Assets	$ 4,163,359	$ 4,059,716

OUTSTANDING DEBT

At the end of 2016 Sunnyside Housing Authority had $1,005,819 in notes outstanding to the United States Department of Agriculture. Of that amount, $70,165 is due within one year. See Note 3 for more detailed debt information.

Economic Factors and Next Year's Budgets and Rates

The Housing Authority is primarily dependent upon HUD and USDA for the funding of operations; therefore, the Housing Authority is affected more by the federal budget than by local economic conditions.

Major factors affecting the Statement of Revenue and Expenses and Changes in Net Assets

Rental and Other revenues increased by $131,395, primarily due to an increase in other income.

The Housing Authority of Sunnyside, Washington
Statement of Net Position
December 31, 2016

	Primary Government	Discretely Presented Component Unit
ASSETS		
CURRENT ASSETS		
Cash - Unrestricted	$ 3,289,316	$ 465,380
Accounts Receivable - Miscellaneous	7,798	-
Accounts Receivable - Other Government	23,029	-
Accounts Receivable, Net - Tenants - Dwelling Rents	10,521	1,332
Prepaid Expenses	-	12
Inventories, Net	33,851	-
RESTRICTED ASSETS		
Restricted Cash - Reserves	690,387	100,043
Tenant Security Deposits	54,118	21,108
TOTAL CURRENT ASSETS	4,109,020	587,875
NONCURRENT ASSETS		
Receivable From Component Unit	290,000	-
Capital Assets		
Buildings	14,976,750	8,272,905
Furniture and Equipment	654,413	13,471
Site Improvements	1,416,059	-
	17,047,222	8,286,376
Less: Accumulated Depreciation	(14,234,715)	(179,146)
	2,812,507	8,107,230
Land	669,644	290,535
Construction in Progress	681,208	-
	4,163,359	8,397,765
TOTAL NONCURRENT ASSETS	4,453,359	8,397,765
TOTAL ASSETS	$ 8,562,379	$ 8,985,640

The Housing Authority of Sunnyside, Washington
Statement of Net Position
December 31, 2016

	Primary Government	Discretely Presented Component Unit
LIABILITIES		
CURRENT LIABILITIES		
Accounts Payable	$ 41,234	$ 635
Accrued Payroll Expenses	29,894	-
Accrued Compensated Absences	14,986	-
Accrued Interest	870	2,715
Accounts Payable to Other Government	4,212	-
Accrued Liabilities - Other	3,198	427,344
Current Portion, Long-Term Debt	70,165	-
Unearned Tenant Income	12,995	30
PAYABLES FROM RESTRICTED ASSETS		
Tenant Security Deposits	54,118	19,670
TOTAL CURRENT LIABILITIES	231,672	450,394
NONCURRENT LIABILITIES		
Payable to Primary Government	-	290,000
Accrued Compensated Absences	14,145	-
Long-Term Debt, net of current portion	935,655	2,167,087
Total NonCurrent Liabilities	949,800	2,457,087
TOTAL LIABILITIES	$ 1,181,472	$ 2,907,481
NET POSITION		
Net Investment in Capital Assets	$ 3,157,539	$ 5,940,678
Restricted Net Position	690,387	-
Unrestricted Net Position	3,532,981	137,481
TOTAL NET POSITION	$ 7,380,907	$ 6,078,159

The Housing Authority of Sunnyside, Washington
Statement of Revenue, Expenses, and Changes in Net Position
For the Year Ended December 31, 2016

	Primary Government	Discretely Presented Component Unit
OPERATING REVENUES		
Net Rental Revenue	$ 1,234,749	$ 170,827
Tenant Revenue - Other	24,137	13,479
Other Income	179,690	-
Total Operating Revenues	1,438,576	184,306
OPERATING EXPENSES		
Administrative Salaries	341,044	30,517
Auditing and Accounting Fees	22,581	-
Employee Benefits - Administration	108,005	-
Other Operating - Administration	93,032	105,935
Tenant Services	585	11,366
Water	94,868	-
Electricity	22,617	5,795
Gas	7,986	1,162
Sewer	101,341	23,067
Maintenance Labor	289,216	-
Materials & Other Maintenance Costs	115,277	7,155
Maintenance/Repair - Contract Costs	131,388	10,474
Employee Benefits Ordinary Maintenance	111,979	-
Protective Services	3,297	-
Insurance Premiums	68,851	-
Other General Expenses	25,695	-
Payments in Lieu of Taxes (PILOT)	4,212	-
Bad Debt - Tenant Rents	6,533	3,412
Extraordinary Maintenance	2,900	-
Depreciation Expense	297,754	179,146
Total Operating Expenses	1,849,161	378,029
OPERATING INCOME (LOSS)	(410,585)	(193,723)

The Housing Authority of Sunnyside, Washington
Statement of Revenue, Expenses, and Changes in Net Position
For the Year Ended December 31, 2016

	Primary Government	Discretely Presented Component Unit
OPERATING INCOME (LOSS)	$ (410,585)	$ (193,723)
NON OPERATING REVENUES (EXPENSES)		
HUD PHA Operating Grants	222,109	-
Other Government Grants	360,933	-
Investment Income - Unrestricted	1,496	4
Investment Income - Restricted	416	-
Interest Expense	(20,525)	(67,912)
Total Nonoperating Revenues (Expenses)	564,429	(67,908)
NET INCOME (LOSS) BEFORE CONTRIBUTIONS	153,844	(261,631)
CAPITAL CONTRIBUTIONS		
HUD Capital Grant	295,702	-
CHANGE IN NET POSITION	449,546	(261,631)
BEGINNING TOTAL NET POSITION, 01-01-2016	6,931,361	1,393,973
CAPITAL CONTRIBUTION	-	4,945,817
ENDING TOTAL NET POSITION, 12-31-2016	$ 7,380,907	$ 6,078,159

The Housing Authority of Sunnyside, Washington
Statement of Cash Flows
December 31, 2016

	Primary Government	Discretely Presented Component Unit
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Tenants	$ 1,248,070	$ 188,795
Cash Paid to Suppliers and Employees	(1,610,815)	(598,665)
Cash Received from Other Operating Activities	179,690	-
Net cash from operating activities	(183,055)	(409,870)
CASH FLOWS FROM NON-CAPITAL FINANCING		
Operating Grants Received	645,518	-
Net cash from non-capital financing activities	645,518	-
CASH FLOWS FROM CAPITAL FINANCING		
Purchase of Capital Assets	(401,397)	(1,364,335)
Principal Payments of Long-Term Debt	(73,238)	(2,542,368)
Proceeds From Long Term Debt	-	22,964
Interest Paid	(20,525)	(67,912)
Capital Grants Received	295,702	-
Capital Contribution	-	4,945,817
Proceeds (payments) from Related Party Receivable	-	-
Debt issuance costs	-	-
Net cash from capital financing activities	(199,458)	994,166
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received	1,912	4
Net cash from investing activities	1,912	4
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	264,917	584,300
CASH AND CASH EQUIVALENTS, 01-01-2016	3,768,904	2,231
CASH AND CASH EQUIVALENTS, 12-31-2016	$ 4,033,821	$ 586,531
CASH AND CASH EQUIVALENTS, consist of:		
Cash and cash equivalents - Unrestricted	$ 3,289,316	$ 465,380
Cash and cash equivalents - Restricted	690,387	100,043
Tenant security deposits	54,118	21,108
	$ 4,033,821	$ 586,531

The Housing Authority of Sunnyside, Washington
Statement of Cash Flows
December 31, 2016

	Primary Government	Discretely Presented Component Unit
RECONCILIATION OF NET INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES		
Operating Income (Loss)	$ (410,585)	$ (193,723)
Adjustments to reconcile net income (loss) to net cash from operating activities		
Depreciation and amortization	297,754	179,146
Bad Debts - Tenant Rents	6,533	3,412
Increase (decrease) in cash due to changes in assets and liabilities		
Receivables, net	(10,816)	4,489
Prepaid Expenses	12,477	(12)
Inventories	(6,164)	-
Accounts Payable	(71,207)	(361,824)
Accrued Payroll Taxes	1,872	-
Compensated Absences	(699)	-
Accrued Interest	(68)	(11,910)
Accrued Liabilities - Other	(47)	(49,148)
Tenant Security Deposits	3,585	19,670
Unearned Income	(5,690)	30
Net adjustments	227,530	(216,147)
NET CASH FROM OPERATING ACTIVITIES	$ (183,055)	$ (409,870)

NON-CASH INVESTING AND FINANCING ACTIVITIES:
During the year ended December 31, 2016 $412,252 of capital asset additions for the component unit were included in current liabilities.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Housing Authority of Sunnyside, Washington (the Housing Authority) conform to generally accepted accounting principles (GAAP) as applicable to proprietary funds of governments. 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:

A. Reporting entity

The Housing Authority, incorporated in 1943, is a municipal corporation governed by an appointed five member board. The Housing Authority's financial statements include the financial position and results of operations of all funds that are controlled by, or departments of, the Housing Authority.

In determining how to define the reporting entity, management has considered all potential component units. The determination to include a component unit in the reporting entity was made by applying the criteria set forth in Governmental Accounting and Financial Reporting Standards and GASB Statement No 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*. These criteria include: financial accountability; appointment of a voting majority; imposition of will; financial benefit to or burden on a primary organization; financial accountability as a result of fiscal dependency; potential for dual inclusion; and organizations included in the reporting entity although the primary organization is not financially accountable.

The Housing Authority entered into a limited partnership with NEF Assignment Corporation. SHA Sunnyside Family Housing, LLC (the LLC) is a 40 unit apartment complex currently under construction, and will be funded utilizing low-income tax credits and a forgivable loan from the State of Washington Department of Commerce. Under GASB Statement No. 61, the partnership is considered a discretely presented component unit of the Housing Authority because the Housing Authority does not have the ability to control the operations of the partnership.

B. Basis of accounting and presentation

The accounting records of the Housing Authority are maintained and reported in accordance with methods prescribed by the State Auditor under the authority of Chapter 43.09 RCW and the Federal Department of Housing and Urban Development. The Authority must report using generally accepted accounting principles (GAAP), however, it has the option to use either the single enterprise proprietary fund or special purpose governmental fund model.

The Authority has elected to report as a single-enterprise proprietary fund and uses the accrual basis of accounting. The measurement focus is on the flow of economic resources. The proprietary fund is composed of a number of programs. These programs are designed to provide low income housing and rental assistance to elderly, disabled and low-income families and individuals.

Proprietary funds are used to account for activities that are operated in a manner similar to private enterprise business. Under this method, revenues are recognized when earned and expenses are recognized when incurred. Capital asset purchases are capitalized and long-term liabilities are accounted for in the fund. For reporting purposes, the activities for all the Housing Authority's programs are combined, with all interfund balances and transactions eliminated.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of accounting and presentation… continued

The Housing Authority operates 140 units with funding from United States Department of Housing and Urban Development (HUD). This funding, along with rents and other fees collected from tenants, consists of an operating subsidy along with Capital Funds awarded to the Authority from HUD.

The Housing Authority constructed and operates 121 units on scattered sites using low interest mortgage loans from the United States Department of Agriculture (USDA).

The USDA Farm Labor Housing Loans consist of the following:

Sunshine Plaza – 24 units constructed in August, 1982

Roza Park – 20 units constructed in April, 1984

The Foothills – 10 units constructed in March, 1984, located in the neighboring City of Mabton

Harvest Homes – 16 units constructed in March, 1984, located in the neighboring City of Grandview

Plaza Del Sol – 46 units constructed in April, 1996

The USDA Rural Rental Housing Loan consists of the following:

Mabton Single Family Homes – 5 homes purchased and rehabilitated in August, 1989, located in the neighboring City of Mabton.

The Housing Authority owns and operates a total of 24 units that are non-subsidized housing units consisting of the following:

Rainier Court – 9 units

Rainier Development – 15 units

C. Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Housing Authority considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

D. Restricted Assets

In accordance with bond resolutions (and certain related agreements) separate restricted accounts are required to be established. The assets held in these accounts are restricted to meet major capital expenses of a project and other special reserve requirements. Restricted assets currently include the following:

USDA Project Reserves	$690,387

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Capital Assets

See Note 2.

F. Receivables

Accounts receivable include amounts due from tenants and other government entities. Tenant accounts receivable consist of amounts owed for rent, utilities, miscellaneous work orders and fees. Tenant accounts receivable of $12,545, net of allowance for doubtful accounts of $2,023 has been accrued as of December 31, 2016. Accounts receivable from other governments and miscellaneous sources has been accrued at $30,827 on December 31, 2016.

G. Inventories

Inventories consist of expendable supplies held for consumption and are valued by the first-in, first-out method which approximates the market value. As of December 31, 2016, inventories were valued at $33,851.

H. Investments

The Housing Authority had no investments on hand as of December 31, 2016.

I. Operating Revenues/Expenses

The Housing Authority reports operating revenues as defined in GASB Statement 9. Operating revenues result from fees and charges from providing services in connection with the ongoing operations of providing low income housing. Operating subsidies and grants are reported as non-operating revenues and are presented as cash flows from non-capital financing activities in the statement of cash flows. Operating expenses are those expenses that are directly incurred in the operation of providing low income housing.

J. Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation (and sick) leave. The authority records unpaid leave for compensated absences as an expense and liability when incurred. Vacation pay, which may be accumulated up to twenty days, is payable upon resignation, retirement or death. Sick leave may accumulate up to 120 days. Upon retirement or separation any unused sick leave is lost.

NOTE 2 - CAPITAL ASSETS

Capital asset purchases greater than $1,000 are capitalized and recorded at cost. Capitalized purchases may also include capital leases and major repairs that increase useful lives. In addition, Sunnyside Housing Authority Resolution 99-34, adopted December 15, 1999, provides that “ranges, refrigerators, washing machines, dryers, dishwashers, and appliances of like kind will be capitalized regardless of original cost.” Maintenance, repair and minor renewals are accounted for as expenditures when incurred.

The Housing Authority has acquired certain assets with funding provided by federal assistance programs. Depending on the terms of the agreements involved, the federal government could retain an equity interest in these assets. However, the Housing Authority has sufficient legal interest to accomplish the purposes for

NOTE 2 - CAPITAL ASSETS (continued)

which the assets were acquired and has included such assets within the applicable accounting group or fund. The Housing Authority has no donated capital assets.

Capital assets are depreciated using the straight-line method over the useful lives of the assets as follows:

Computers	3 years
Vehicles	5 years
Equipment	7 years
Site Improvements	15 years
Buildings	30 years

Capital asset summary of the Housing Authority for the year ended December 31, 2016 is as follows:

	1/1/2016	Additions	Disposals	12/31/2016
Land	$ 669,644	$ -		$ 669,644
Construction in Progress	319,823	361,385		$ 681,208
Total non-depreciable capital assets	989,467	361,385	-	1,350,852
Buildings	14,968,094	8,656	-	$ 14,976,750
Furniture and Equipment	636,660	31,353	(13,603)	$ 654,410
Site Improvements	1,416,059	-	-	$ 1,416,059
	17,020,813	40,009	(13,603)	17,047,219
Accumulated Depreciation	(13,950,564)	(297,753)	13,603	$ (14,234,714)
Total depreciable capital assets, net	3,070,249	(257,744)	-	2,812,505
Total Capital Assets, net	$ 4,059,716	$ 103,641	$ -	$ 4,163,359

Capital asset summary of SHA Sunnyside Family Housing, LLC, for the year ended December 31, 2016, is as follows:

	1/1/2016	Additions	Disposals	12/31/2016
Land	$ 290,000	$ 535	$ -	$ 290,535
Construction in Progress	6,660,183	-	(6,660,183)	-
Total non-depreciable capital assets	6,950,183	535	(6,660,183)	290,535
Buildings	-	8,272,905	-	8,272,905
Furniture and Equipment	-	13,471	-	13,471
	-	8,286,376	-	8,286,376
Accumulated Depreciation	-	(179,146)	-	(179,146)
Total depreciable capital assets, net	-	8,107,230	-	8,107,230
Total Capital Assets, net	$ 6,950,183	$ 8,107,765	$ (6,660,183)	$ 8,397,765

NOTE 3 – LONG-TERM DEBT AND LIABILITIES

The following is a description of the long-term liabilities of the Housing Authority that are due to the US Department of Agriculture. The total outstanding is $1,005,819, with $70,165 being due within one year.

Note payable to US Department of Agriculture for $333,660 due in monthly installments, including interest at 1%. The note was re-amortized in May, 2016. The final payment is due November, 2035. The note is collateralized by property known as Sunshine Plaza. The balance outstanding at December 31, 2016 was $1,157.

Note payable to US Department of Agriculture for $86,670 due in monthly installments, including interest at 1%. The final payment is due April, 2017. The note is collateralized by property known as Roza Park. The balance outstanding at December 31, 2016 was $684.

Note payable to US Department of Agriculture for $43,960 due in monthly installments, including interest at 1%. The final payment is due March, 2017. The note is collateralized by property known as The Foothills. The balance outstanding at December 31, 2016 was $26.

Note payable to US Department of Agriculture for $70,340 due in monthly installments, including interest at 1%. The final payment is due March, 2017. The note is collateralized by property known as Harvest Homes. The balance outstanding at December 31, 2016 was $91.

Note payable to US Department of Agriculture for $2,060,681 due in monthly installments including interest at 1%. The final payment is due in May, 2029. The note is collateralized by property known as Plaza Del Sol. The balance outstanding at December 31, 2016 was $876,958.

Note payable to US Department of Agriculture for $51,248 due in monthly installments, including interest at 1%. The final payment is due August, 2039. The note is collateralized by property known as Mabton Single Family Homes. The balance outstanding at December 31, 2016 was $19,141.

Five notes payable to US Department of Agriculture for $24,520 due in monthly installments, including interest at 9%. The final payment is due August, 2039. The note is collateralized by property known as Mabton Single Family Homes. The balance outstanding at December 31, 2016 was $107,762.

Service Requirements to maturity for mortgages:

	Principal	Interest
2017	70,165	10,740
2018	70,241	9,860
2019	71,145	8,960
2020	72,076	8,030
2021	73,037	7,100
2022-2026	380,799	20,170
2027-2031	206,429	2,100
2032-2036	35,500	5
2037-2039	26,427	0
	1,005,819	66,965
Short Term	70,165	
Long Term	935,654	

NOTE 3 – LONG-TERM DEBT AND LIABILITIES (continued)

During the year ended 12-31-2016, the following changes occurred in Long Term Debt

	Balance 1/01/2016	Additions	Reductions	Balance 12/31/2016	Due Within One Year
Sunshine Plaza	$ 1,213		$ 56	$ 1,157	$ 57
Roza Park	2,721		2,037	684	684
The Foothills	131		105	26	26
Harvest Home	454		363	91	91
Plaza Del Sol	943,438		66,479	876,958	67,147
Mabton Single Family Homes	131,101		4,198	126,903	2,160
Total Real Estate Mortages	*1,079,058*		*73,238*	*1,005,819*	*70,165*
Compensated Absences	29,830		699	29,131	14,986
To	$ 1,108,888	$ -	$ 73,937	$ 1,034,950	$ 85,151

SHA Sunnyside Family Housing, LLC:

During the year ended December 31, 2016 SHA Sunnyside Family Housing, LLC, had borrowed $2,167,087 from the State of Washington Department of Commerce for the construction of Rainier Park. The note accrues interest of 1% commencing October 1, 2016, and matures September 30, 2055, with a lump sum payment due of $3,192,307.

During the year-ended December 31, 2016 Sunnyside Family Housing, LLC repaid the construction bridge loan due to Wells Fargo.

Activity in long-term debt for SHA Sunnyside Family Housing, LLC is as follows:

	1/1/2016	Additions	Disposals	12/31/2016
Wells Fargo	$ 2,542,368		$ (2,542,368)	$ -
State of Washington Dept. of Commerce	2,144,123	22,964	-	2,167,087
Total non-depreciable capital assets	4,686,491	22,964	(2,542,368)	2,167,087

NOTE 4 – RISK MANAGEMENT

The Housing Authority is not facing any type of risk and has no settlements that exceeded the insurance coverage traditionally insured with property and casualty insurance. We are unaware of any loss exposures that may need specialized coverage traditionally excluded in property and casualty insurance.

The Housing Authority of Sunnyside, Washington is a member of the Housing Authorities Risk Retention Pool (HARRP). Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Inter-local Cooperation Act), fifty-five public housing authorities in the states of Washington, Oregon and California originally formed HARRP in March 1987.

NOTE 4 – RISK MANAGEMENT (continued)

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 is a U.S. Department of Housing and Urban Development (HUD) approved self-insurance entity for utilization by public housing authorities. HARRP currently has a total of eighty seven member/owner housing authorities in the states of Washington, Oregon, California and Nevada. Thirty-six of the eighty seven members are Washington State public housing entities.

New members are underwritten at their original membership and thereafter automatically renew on an annual basis. Members may quit upon giving notice to HARRP prior to their renewal date. Members terminating membership are not eligible to rejoin HARRP for three years. 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 coverage is 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 10% of the incurred costs of the claims. Property coverage offered by HARRP is on a replacement cost basis with deductibles ranging from $2,500 to $25,000. (Due to special underwriting circumstances, some members may be subject to greater deductibles and E & O co-payments). Fidelity coverage is also offered, with limits of $100,000 (with options up to $500,000) for employee dishonesty, forgery or alteration and $10,000 for theft with deductibles similar to the retention of Property.

Coverage limits for General Liability, as well as Errors & Omissions are $2,000,000 per occurrence with no annual aggregate. Property limits are offered on an agreed amount, based on each structure's value. Limits for Automobile Liability are covered at $2,000,000, with no aggregate. HARRP self-insures $2 million of coverage for liability lines. For property, HARRP retains the first $2,000,000 and purchases an additional $45 million of excess insurance from Munich Reinsurance for a combined total of $47,000,000. The HARRP Board of Directors determines the limits and coverage terms, at its sole discretion.

HARRP provides loss control and claim services with in-house staff and retained third party contractors.

HARRP is fully funded by member contributions that are adjusted by the HARRP Board on the basis of independent actuarial studies. These assessments cover loss, loss adjustment expenses, excess insurance, 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.

The Housing Authority has opted to have the $1,000,000 excess auto liability insurance and has chosen the $1,000 per occurrence deductible in the property insurance option. In the past three years, the Housing Authority has not had any insurance settlements which exceed this coverage.

NOTE 5 – CONTINGENCIES AND LITIGATION

The Housing Authority participates in federally assisted programs. These programs are subject to audit by the grantors or their representatives. Such audits could result in disallowed requests for expenditure reimbursement to grantor agencies, under the terms of the grants. Management believes that such disallowances, if any, are immaterial

NOTE 6 – DEFINED CONTRIBUTION PLAN

All Housing Authority full-time employees participate in the Housing Authority's Defined Contribution Retirement Plan. The plan is a noncontributory employee retirement plan established by authority of the Employee Retirement Income Security Act of 1974, established January 1, 1982 and last amended March 24, 2010.

Housing Authority employees are eligible to receive a contribution of 6.5% of gross wages after three months of employment. Employees are 100% vested after five years of employment.

As of December 31, 2016 there were 21 participants in the Defined Contribution Plan, 13 active employees and 8 former employees. The covered payroll for employees in the plan was $603,260 on December 31, 2016, resulting in contributions of $38,942.60

The Defined Contribution Plan uses the accrual basis of accounting. Investments are directed by individual plan participants, and holdings are reported at fair value, based on quoted market prices.

The plan is not subject to ERISA reporting requirements, and separate financial statements have not been prepared for the plan. The plan is administered by Billings and Company, Inc. Employees are entitled to 100% of the value of their account after five years employment or upon separation. Including earnings, the Net Position available for benefits at December 31, 2016, was $ 677,565.36.

NOTE 7 - DEPOSITS AND INVESTMENTS

The Sunnyside Housing Authority's deposits are entirely covered by federal depository insurance (FDIC).

NOTE 8 – HEALTH AND WELFARE

The Sunnyside Housing Authority is a member of the Association of Washington Cities Employee Benefit Trust Health Care Program (AWC Trust HCP). Chapter 48.62 RCW provides that two or more local government entities may, by Inter-local agreement under Chapter 39.34 RCW, form together or join a pool or organization for the joint purchasing of insurance, and/or joint self-insurance, to the same extent that they may individually purchase insurance, or self-insure.

An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Inter-local Cooperation Act. The AWC Trust HCP was formed on January 1, 2014 when participating cities, towns, and non-city entities of the AWC Employee Benefit Trust in the State of Washington joined together by signing an Inter-local Governmental Agreement to jointly self-insure certain health benefit plans and programs for participating employees, their covered dependents and other beneficiaries through a designated account within the Trust.

As of December 31, 2016, 258 cities/towns/non-city entities participate in the AWC Trust HCP.

The AWC Trust HCP allows members to establish a program of joint insurance and provides health and welfare services to all participating members. The AWC Trust HCP pools claims without regard to individual member experience. The pool is actuarially rated each year with the assumption of projected claims run-out for all current members. The AWC Trust HCP includes medical insurance through Group Health Cooperative/Group Health Options, Inc., Regence BlueShield and Asuris Northwest Health, Delta Dental of Washington, and Vision Service Plan. Eligible members are cities and towns within the state of Washington. Non-City Entities (public agency, public corporation, intergovernmental agency, or political subdivision

NOTE 8 – HEALTH AND WELFARE (continued)

within the state of Washington) are eligible to apply for coverage into the AWC Trust HCP, submitting application to the Board of Trustees for review as required in the Trust Agreement.

Participating employers pay monthly premiums to the AWC Trust HCP. The AWC Trust HCP is responsible for payment of all covered claims. The AWC Trust HCP purchases stop loss insurance for Regence/Asuris plans at an Individual Stop Loss (ISL) of $1.5 million through Life Map, and Group Health ISL at $750,000 through Sun Life. The aggregate policy is for 200% of expected medical claims.

Participating employers contract to remain in the AWC HCP for a minimum of three years. Participating employers with over 250 employees must provide written notice of termination of all coverage a minimum of 12 months in advance of the termination date, and participating employers with fewer than 250 employees must provide written notice of termination of all coverage a minimum of 6 months in advance of termination date. When all coverage is being terminated, termination will only occur on December 31. Participating employers terminating a group or line of coverage must notify the HCP a minimum of 60 days prior to termination. A participating employer's termination will not obligate that member to past debts, or further contributions to the HCP. Similarly, the terminating member forfeits all rights and interest to the HCP Account.

The operations of the Health Care Program are managed by the Board of Trustees or its delegates. The Board of Trustees is comprised of four regionally elected officials from Trust member cities or towns, the Employee Benefit Advisory Committee Chair and Vice Chair, and two appointed individuals from the AWC Board of Directors, who are from Trust member cities or towns. The Trustees or its appointed delegates review and analyze Health Care Program related matters and make operational decisions regarding premium contributions, reserves, plan options and benefits in compliance with Chapter 48.62 RCW. The Board of Trustees has decision authority consistent with the Trust Agreement, Health Care Program policies, Chapter 48.62 RCW and Chapter 200-110-WAC.

The accounting records of the Trust HCP are maintained in accordance with methods prescribed by the State Auditor's office under the authority of Chapter 43.09 RCW. The Trust HCP also follows applicable accounting standards established by the Governmental Accounting Standards Board ("GASB"). Year-end financial reporting is done on an accrual basis and submitted to the Office of the State Auditor as required by Chapter 200-110 WAC. The audit report for the AWC Trust HCP is available from the Washington State Auditor's office.

NOTE 9 – RELATED PARTY TRANSACTIONS

In July of 2014, SHA Sunnyside Family Housing, LLC signed a credit reservation and carryover allocation contract with the Washington State Housing Finance Commission for the reservation and award of $738,477 of credit awarded under Section 42 of the Internal Revenue Code. This award is expected to provide approximately $6.7 million dollars of equity contributions from the LLC's limited partner.

Property management fee – The Housing Authority owns a 0.01% interest in SHA Sunnyside Family Housing, LLC (the LLC), which was formed in April of 2014. The Housing Authority is the Managing Member, which provides for a maximum management fee of 8% of the annual gross effective income.

The Housing Authority has contracted with an unrelated party to manage the property. For the period ended December 31, 2016 $11,366 was recorded as a management fee expense.

NOTE 9 – RELATED PARTY TRANSACTIONS (continued)

Asset management fee – SHA Sunnyside Family Housing, LLC pays an annual asset management fee to the Limited Partner in the amount of $4,000 per annum, increased by 3% per annum. For the period ended December 31, 2016, $3,014 was recorded as management fee expense.

Development agreement – SHA Sunnyside Family Housing, LLC entered into a Development Agreement with the Housing Authority and an unrelated party for services in connection with the development and construction of the project. In consideration for such services, $471,250 is payable to SHA, of which $253,750 is paid to an unrelated party contracted to perform development services for the LLC. At December 31, 2016, $412,252 of the developer fee is outstanding. Payment of the remaining balance is contingent upon meeting requirements in the developer fee agreement, and available cash flows.

SINGLE AUDIT SECTION

MATHEW D. PETERSEN
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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*

Board of Commissioners
Sunnyside Housing Authority
Sunnyside, Washington

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements and the discretely presented component unit of the Housing Authority of Sunnyside, Washington (the Housing Authority) for the year ended December 31, 2016, 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 September 27, 2017.

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 opinion 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we 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 its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

September 27, 2017

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY UNIFORM GUIDANCE

Board of Commissioners
Sunnyside Housing Authority
Sunnyside, Washington

Report on Compliance for the Major Federal Program

We have audited Housing Authority of Sunnyside, Washington's (the Housing Authority) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Housing Authority's major federal program for the year ended December 31, 2016. The Housing Authority's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the Housing Authority's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 the major federal program. However, our audit does not provide a legal determination of the Housing Authority's compliance.

Opinion on the 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 the major federal program for the year ended December 31, 2016.

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 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.

Peterson CPAs & Advisors PLLC

September 27, 2017

Housing Authority of Sunnyside Washington
Schedule of Findings and Questioned Costs
For the year ended December 31, 2016

I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued	*Unmodified*		
Internal control over financial reporting			
Material weakness(es) identified?	____ yes	X no	
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	____ yes	X none reported	
Noncompliance material to financial statements noted	____ yes	X no	

Federal Awards

Internal control over major programs:			
Material weakness(es) identified?	____ yes	X no	
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	____ yes	X none reported	
Type of auditors' report issued on compliance for major program	*Unmodified*		
Any audit findings disclosed that are required to be reported in accordance with *Uniform Guidance?*	____ yes	X no	

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
10.405	Farm Labor Housing Loans and Grants

Dollar threshold used to distinguish between type A and type B programs:	$ 750,000		
Auditee qualifed as low-risk auditee?	X yes	____ no	

Housing Authority of Sunnyside Washington
Schedule of Expenditures of Federal Awards
For the year ended December 31, 2016

MCAG 1523

Federal Agency Name/Federal Program Name	CFDA Number	Other Award Number	Expenditures	Footnote Reference
U.S. Department of Agriculture, Rural Housing Service - Direct Awards				
Farm Labor Housing Loans/Grants - Sunshine Plaza	10.405	56-39-59845033201-0	$ 1,213	1,2,4
Farm Labor Housing Loans/Grants - Roza Park	10.405	56-39-59845033202-1	2,721	1,2,4
Farm Labor Housing Loan/Grants - Foothills	10.405	56-39-59845033203-2	131	1,2,4
Farm Labor Housing Loans/Grants - Harvest Homes	10.405	56-39-59845033204-9	454	1,2,4
Farm Labor Housing Loans/Grants- Plaza Del Sol	10.405	56-39-59845033206-8	943,438	1,2,4
		Total CFDA 10.405	*947,957*	
Rural Rental Housing Loans - Subsidy Credit Mabton Single Family Homes	10.415	56-39-59845033205-6	11,401	1,2
Rural Rental Housing Loans - Mabton Single Family Homes	10.415	56-39-59845033205-6	131,101	1,2,4
		Total CFDA 10.415	*142,502*	
TOTAL U.S. DEPARTMENT OF AGRICULTURE			**1,090,459**	
U.S. Department of Housing and Urban Development - Direct Awards				
Public and Indian Housing	14.850	WA035-000101	222,109	1,2
		Total CFDA 14.850	*222,109*	
Public Housing Capital Fund	14.872	WA19P035501-13	11,717	1,2
Public Housing Capital Fund	14.872	WA19P035501-14	182,321	1,2
Public Housing Capital Fund	14.872	WA19P035501-15	101,665	1,2
		Total CFDA 14.872	*295,702*	
TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			**517,811**	
TOTAL FEDERAL AWARDS EXPENDED			**$ 1,608,270**	

NOTE 1 – BASIS OF ACCOUNTING

The Schedule of Expenditures of Federal Awards is prepared on the same basis of accounting as the Housing Authority of Sunnyside, Washington (the Housing Authority) financial statements. The Housing Authority uses the accrual basis of accounting. The Housing Authority's accounting records are maintained in accordance with the methods prescribed by the State Auditor under the authority of Washington State law, Chapter 43.09 RCW. The Housing Authority uses the revenue and expenditure classifications contained in the Financial and Accounting Handbooks prescribed by the Department of Housing and Urban Development (HUD).

NOTE 2 – PROGRAM COSTS

The amounts shown as current year expenditures represent only the federal grant portion of the program costs for FY 2016. Entire program costs, including the Housing Authority's portion, may be more than shown.

NOTE 3 – PROGRAM INCOME

Not applicable.

NOTE 4 – FEDERAL LOANS

The Housing Authority has federal loans totaling $1,005,819 as of December 31, 2016. The loans are reported on the Housing Authority's Schedule of Long-Term Debt included in Note 3 of the Notes to the Financial Statements.

NOTE 5 – NONCASH AWARDS

Not applicable.

NOTE 6 – OTHER

The Housing Authority has not elected to utilize the deminimis indirect rate.

The Housing Authority of Sunnyside, Washington
Labor Relations Consultants
For the year ended December 31, 2016

MCAG 1523

Has your government engaged labor relations consultants? ___ Yes _X_ No

HUD REQUIRED SCHEDULES

	Project Total	10.415 Rural Rental Housing Loans	6.1 Component Unit - Discretely Presented	10.405 Farm Labor Housing Loans and Grants	2 State/Local	Subtotal	ELIM	Total
111 Cash - Unrestricted	$461,775	$7,041	$465,380	$469,814	$2,350,686	$3,754,696		$3,754,696
112 Cash - Restricted - Modernization and Development	$0					$0		$0
113 Cash - Other Restricted	$0	$17,891	$100,043	$672,496		$790,430		$790,430
114 Cash - Tenant Security Deposits	$29,519	$750	$21,108	$16,350	$7,499	$75,226		$75,226
115 Cash - Restricted for Payment of Current Liabilities	$0					$0		$0
100 Total Cash	$491,294	$25,682	$586,531	$1,158,660	$2,358,185	$4,620,352	$0	$4,620,352
121 Accounts Receivable - PHA Projects	$0					$0		$0
122 Accounts Receivable - HUD Other Projects	$0					$0		$0
124 Accounts Receivable - Other Government	$0	$996		$21,738		$22,734		$22,734
125 Accounts Receivable - Miscellaneous	$7,798				$0	$7,798		$7,798
126 Accounts Receivable - Tenants	$8,890	$395	$1,332	$5,012	$0	$15,629		$15,629
126.1 Allowance for Doubtful Accounts -Tenants	-$394	$0	$0	-$1,629	$0	-$2,023		-$2,023
126.2 Allowance for Doubtful Accounts - Other	$0	$0	$0	$0	-$1,753	-$1,753		-$1,753
127 Notes, Loans, & Mortgages Receivable - Current	$255			$40		$295		$295
128 Fraud Recovery	$0					$0		$0
128.1 Allowance for Doubtful Accounts - Fraud	$0					$0		$0
129 Accrued Interest Receivable	$0					$0		$0
120 Total Receivables, Net of Allowances for Doubtful Accounts	$16,549	$1,391	$1,332	$25,161	-$1,753	$42,680	$0	$42,680
131 Investments - Unrestricted	$0					$0		$0
132 Investments - Restricted	$0					$0		$0
135 Investments - Restricted for Payment of Current Liability	$0					$0		$0
142 Prepaid Expenses and Other Assets	$0		$12			$12		$12
143 Inventories	$17,808	$601		$15,169	$2,054	$35,632		$35,632
143.1 Allowance for Obsolete Inventories	-$890	-$30		-$758	-$103	-$1,781		-$1,781
144 Inter Program Due From	$0					$0		$0
145 Assets Held for Sale	$0					$0		$0
150 Total Current Assets	$524,761	$27,644	$587,875	$1,198,232	$2,358,383	$4,696,895	$0	$4,696,895
161 Land	$113,302	$11,255	$290,535	$484,198	$60,889	$960,179		$960,179
162 Buildings	$7,350,328	$182,916	$8,272,905	$6,467,640	$975,866	$23,249,655		$23,249,655
163 Furniture, Equipment & Machinery - Dwellings	$114,984	$5,202	$13,471	$135,654	$45,482	$314,793		$314,793
164 Furniture, Equipment & Machinery - Administration	$74,892			$2,813	$275,386	$353,091		$353,091
165 Leasehold Improvements	$1,109,596			$278,017	$28,446	$1,416,059		$1,416,059
166 Accumulated Depreciation	-$7,384,146	-$170,133	-$179,146	-$5,478,316	-$1,202,120	-$14,413,861		-$14,413,861
167 Construction in Progress	$587,168			$94,040		$681,208		$681,208
168 Infrastructure	$0					$0		$0
160 Total Capital Assets, Net of Accumulated Depreciation	$1,966,124	$29,240	$8,397,765	$1,984,046	$183,949	$12,561,124	$0	$12,561,124

171 Notes, Loans and Mortgages Receivable - Non-Current	$0					$0		$0
172 Notes, Loans, & Mortgages Receivable - Non Current - Past Due	$0					$0		$0
173 Grants Receivable - Non Current	$0					$0		$0
174 Other Assets	$0				$290,000	$290,000	-$290,000	$0
176 Investments in Joint Ventures	$0					$0		$0
180 Total Non-Current Assets	$1,966,124	$29,240	$8,397,765	$1,984,046	$473,949	$12,851,124	-$290,000	$12,561,124
200 Deferred Outflow of Resources	$0					$0		$0
290 Total Assets and Deferred Outflow of Resources	$2,490,885	$56,884	$8,985,640	$3,182,278	$2,832,332	$17,548,019	-$290,000	$17,258,019
311 Bank Overdraft	$0					$0		$0
312 Accounts Payable <= 90 Days	$13,919	$816	$635	$22,201	$4,298	$41,869		$41,869
313 Accounts Payable >90 Days Past Due	$0					$0		$0
321 Accrued Wage/Payroll Taxes Payable	$25,050	$119		$5,413		$30,582		$30,582
322 Accrued Compensated Absences - Current Portion	$7,377	$306		$6,401	$215	$14,299		$14,299
324 Accrued Contingency Liability	$0					$0		$0
325 Accrued Interest Payable	$0	$138	$2,715	$732		$3,585		$3,585
331 Accounts Payable - HUD PHA Programs	$0					$0		$0
332 Account Payable - PHA Projects	$0					$0		$0
333 Accounts Payable - Other Government	$0	$490		$954	$2,768	$4,212		$4,212
341 Tenant Security Deposits	$29,519	$750	$19,670	$16,350	$7,499	$73,788		$73,788
342 Unearned Revenue	$6,607	$207	$30	$6,175	$6	$13,025		$13,025
343 Current Portion of Long-term Debt - Capital Projects/Mortgage Revenue	$0	$2,160		$68,005		$70,165		$70,165
344 Current Portion of Long-term Debt - Operating Borrowings	$0					$0		$0
345 Other Current Liabilities	$1,886		$412,252		$1,312	$415,450		$415,450
346 Accrued Liabilities - Other	$0		$15,092			$15,092		$15,092
347 Inter Program - Due To	$0					$0		$0
348 Loan Liability - Current	$0					$0		$0
310 Total Current Liabilities	$84,358	$4,986	$450,394	$126,231	$16,098	$682,067	$0	$682,067
351 Long-term Debt, Net of Current - Capital Projects/Mortgage Revenue	$0	$124,743	$2,167,087	$810,912		$3,102,742		$3,102,742
352 Long-term Debt, Net of Current - Operating Borrowings	$0					$0		$0
353 Non-current Liabilities - Other	$0		$290,000			$290,000	-$290,000	$0
354 Accrued Compensated Absences - Non Current	$7,543	$260		$5,745	$597	$14,145		$14,145
355 Loan Liability - Non Current	$0					$0		$0
356 FASB 5 Liabilities	$0					$0		$0
357 Accrued Pension and OPEB Liabilities	$0					$0		$0
350 Total Non-Current Liabilities	$7,543	$125,003	$2,457,087	$816,657	$597	$3,406,887	-$290,000	$3,116,887
300 Total Liabilities	$91,901	$129,989	$2,907,481	$942,888	$16,695	$4,088,954	-$290,000	$3,798,954

400 Deferred Inflow of Resources	$0					$0		$0
508.4 Net Investment in Capital Assets	$1,966,123	-$97,664	$5,940,678	$1,105,128	$183,948	$9,098,213		$9,098,213
511.4 Restricted Net Position	$0	$17,891		$672,496		$690,387		$690,387
512.4 Unrestricted Net Position	$432,861	$6,668	$137,481	$461,766	$2,631,689	$3,670,465		$3,670,465
513 Total Equity - Net Assets / Position	$2,398,984	-$73,105	$6,078,159	$2,239,390	$2,815,637	$13,459,065	$0	$13,459,065
600 Total Liabilities, Deferred Inflows of Resources and Equity - Net	$2,490,885	$56,884	$8,985,640	$3,182,278	$2,832,332	$17,548,019	-$290,000	$17,258,019

	Project Total	10.415 Rural Rental Housing Loans	6.1 Component Unit - Discretely Presented	10.405 Farm Labor Housing Loans and Grants	2 State/Local	Subtotal	ELIM	Total
70300 Net Tenant Rental Revenue	$507,220	$17,085	$170,827	$602,120	$108,324	$1,405,576		$1,405,576
70400 Tenant Revenue - Other	$14,101	$442	$13,479	$9,331	$263	$37,616		$37,616
70500 Total Tenant Revenue	$521,321	$17,527	$184,306	$611,451	$108,587	$1,443,192	$0	$1,443,192
70600 HUD PHA Operating Grants	$222,109					$222,109		$222,109
70610 Capital Grants	$295,702					$295,702		$295,702
70710 Management Fee								
70720 Asset Management Fee								
70730 Book Keeping Fee								
70740 Front Line Service Fee								
70750 Other Fees								
70700 Total Fee Revenue						$0	$0	$0
70800 Other Government Grants	$0	$33,667		$327,266		$360,933		$360,933
71100 Investment Income - Unrestricted	$329	$13	$4	$26	$1,128	$1,500		$1,500
71200 Mortgage Interest Income	$0					$0		$0
71300 Proceeds from Disposition of Assets Held for Sale	$0					$0		$0
71310 Cost of Sale of Assets	$0					$0		$0
71400 Fraud Recovery	$0					$0		$0
71500 Other Revenue	$7,754	$126		$10,408	$161,402	$179,690	-$293,546	-$113,856
71600 Gain or Loss on Sale of Capital Assets	$0					$0		$0
72000 Investment Income - Restricted	$0	$5		$411		$416		$416
70000 Total Revenue	$1,047,215	$51,338	$184,310	$949,562	$271,117	$2,503,542	-$293,546	$2,209,996
91100 Administrative Salaries	$178,319	$6,018	$30,517	$137,420	$19,288	$371,562		$371,562
91200 Auditing Fees	$11,275	$402		$10,261	$643	$22,581		$22,581
91300 Management Fee	$0					$0		$0
91310 Book-keeping Fee	$0					$0		$0
91400 Advertising and Marketing	$380	$117		$378		$875		$875
91500 Employee Benefit contributions - Administrative	$56,582	$1,923		$43,911	$5,589	$108,005		$108,005
91600 Office Expenses	$25,717	$920	$21,633	$21,031	$1,463	$70,764	-$36,457	$34,307
91700 Legal Expense	$4,030	$26		$4,179	$42	$8,277		$8,277
91800 Travel	$267	$61		$720	$14	$1,062		$1,062
91810 Allocated Overhead	$0					$0		$0
91900 Other	$11,063	$243	$74,205	$10,310	$12,773	$108,594	-$216,602	-$108,008
91000 Total Operating - Administrative	$287,633	$9,710	$126,355	$228,210	$39,812	$691,720	-$253,059	$438,661
92000 Asset Management Fee	$0		$21,463			$21,463		$21,463
92100 Tenant Services - Salaries	$0					$0		$0

92200 Relocation Costs	$0					$0		$0
92300 Employee Benefit Contributions - Tenant Services	$0					$0		$0
92400 Tenant Services - Other	$585					$585		$585
92500 Total Tenant Services	$585	$0	$0	$0	$0	$585	$0	$585
93100 Water	$32,711	$4,471		$46,685	$11,001	$94,868	-$3,227	$91,641
93200 Electricity	$6,787	-$4	$5,795	$9,487	$6,347	$28,412		$28,412
93300 Gas	$3,527			$2,053	$2,406	$7,986		$7,986
93400 Fuel	$0					$0		$0
93500 Labor	$0					$0		$0
93600 Sewer	$30,886	$4,054	$23,067	$55,616	$10,785	$124,408		$124,408
93700 Employee Benefit Contributions - Utilities	$0					$0		$0
93800 Other Utilities Expense	$0		$1,162			$1,162		$1,162
93000 Total Utilities	$73,911	$8,521	$30,024	$113,841	$30,539	$256,836	-$3,227	$253,609
94100 Ordinary Maintenance and Operations - Labor	$115,377	$4,020		$153,561	$16,258	$289,216		$289,216
94200 Ordinary Maintenance and Operations - Materials and Other	$53,808	$1,428	$7,155	$53,257	$6,784	$122,432		$122,432
94300 Ordinary Maintenance and Operations Contracts	$48,774	$2,233	$10,474	$67,359	$13,022	$141,862	-$37,260	$104,602
94500 Employee Benefit Contributions - Ordinary Maintenance	$43,205	$2,097		$60,131	$6,545	$111,978		$111,978
94000 Total Maintenance	$261,164	$9,778	$17,629	$334,308	$42,609	$665,488	-$37,260	$628,228
95100 Protective Services - Labor	$0					$0		$0
95200 Protective Services - Other Contract Costs	$2,359	$21		$750	$167	$3,297		$3,297
95300 Protective Services - Other	$0					$0		$0
95500 Employee Benefit Contributions - Protective Services	$0					$0		$0
95000 Total Protective Services	$2,359	$21	$0	$750	$167	$3,297	$0	$3,297
96110 Property Insurance	$11,955	$1,023		$18,005	$3,860	$34,843		$34,843
96120 Liability Insurance	$5,775	$202		$4,766	$1,050	$11,793		$11,793
96130 Workmen's Compensation	$7,806	$418		$9,217	$763	$18,204		$18,204
96140 All Other Insurance	$1,964	$69		$1,621	$357	$4,011		$4,011
96100 Total insurance Premiums	$27,500	$1,712	$0	$33,609	$6,030	$68,851	$0	$68,851
96200 Other General Expenses	$14,076			$8,942	$2,677	$25,695		$25,695
96210 Compensated Absences	-$181	-$22		-$364	-$134	-$701		-$701
96300 Payments in Lieu of Taxes	$0	$490		$954	$2,768	$4,212		$4,212
96400 Bad debt - Tenant Rents	$1,225		$3,412	$5,308		$9,945		$9,945
96500 Bad debt - Mortgages	$0					$0		$0
96600 Bad debt - Other	$0					$0		$0
96800 Severance Expense	$0					$0		$0
96000 Total Other General Expenses	$15,120	$468	$3,412	$14,840	$5,311	$39,151	$0	$39,151
96710 Interest of Mortgage (or Bonds) Payable	$0	$11,419	$67,912	$9,106		$88,437		$88,437
96720 Interest on Notes Payable (Short and Long Term)	$0					$0		$0
96730 Amortization of Bond Issue Costs	$0					$0		$0
96700 Total Interest Expense and Amortization Cost	$0	$11,419	$67,912	$9,106	$0	$88,437	$0	$88,437

96900 Total Operating Expenses	$668,272	$41,629	$266,795	$734,664	$124,468	$1,835,828	-$293,546	$1,542,282
97000 Excess of Operating Revenue over Operating Expenses	$378,943	$9,709	-$82,485	$214,898	$146,649	$667,714	$0	$667,714
97100 Extraordinary Maintenance	$185			$2,715		$2,900		$2,900
97200 Casualty Losses - Non-capitalized	$0					$0		$0
97300 Housing Assistance Payments	$0					$0		$0
97350 HAP Portability-In	$0					$0		$0
97400 Depreciation Expense	$125,066	$5,230	$179,146	$138,997	$28,461	$476,900		$476,900
97500 Fraud Losses	$0					$0		$0
97600 Capital Outlays - Governmental Funds								
97700 Debt Principal Payment - Governmental Funds								
97800 Dwelling Units Rent Expense	$0					$0		$0
90000 Total Expenses	$793,523	$46,859	$445,941	$876,376	$152,929	$2,315,628	-$293,546	$2,022,082
10010 Operating Transfer In	$0		$0			$0		$0
10020 Operating transfer Out	$0		$0			$0		$0
10030 Operating Transfers from/to Primary Government	$0					$0		$0
10040 Operating Transfers from/to Component Unit	$0					$0		$0
10050 Proceeds from Notes, Loans and Bonds								
10060 Proceeds from Property Sales								
10070 Extraordinary Items, Net Gain/Loss	$0					$0		$0
10080 Special Items (Net Gain/Loss)	$0					$0		$0
10091 Inter Project Excess Cash Transfer In	$0					$0		$0
10092 Inter Project Excess Cash Transfer Out	$0					$0		$0
10093 Transfers between Program and Project - In	$0					$0		$0
10094 Transfers between Project and Program - Out	$0					$0		$0
10100 Total Other financing Sources (Uses)	$0	$0	$0	$0	$0	$0	$0	$0
10000 Excess (Deficiency) of Total Revenue Over (Under) Total Expenses	$253,692	$4,479	-$261,631	$73,186	$118,188	$187,914	$0	$187,914
11020 Required Annual Debt Principal Payments	$0	$2,160	$0	$68,005	$0	$70,165		$70,165
11030 Beginning Equity	$2,145,292	-$77,584	$1,393,973	$2,166,204	$2,697,449	$8,325,334		$8,325,334
11040 Prior Period Adjustments, Equity Transfers and Correction of Errors	$0	$0	$4,945,817	$0	$0	$4,945,817		$4,945,817
11050 Changes in Compensated Absence Balance								
11060 Changes in Contingent Liability Balance								
11070 Changes in Unrecognized Pension Transition Liability								
11080 Changes in Special Term/Severance Benefits Liability								
11090 Changes in Allowance for Doubtful Accounts - Dwelling Rents								
11100 Changes in Allowance for Doubtful Accounts - Other								
11170 Administrative Fee Equity								
11180 Housing Assistance Payments Equity								
11190 Unit Months Available	1680					1680		1680
11210 Number of Unit Months Leased	1650					1650		1650

11270 Excess Cash	$367,996					$367,996		$367,996
11610 Land Purchases	$0					$0		$0
11620 Building Purchases	$0					$0		$0
11630 Furniture & Equipment - Dwelling Purchases	$12,863					$12,863		$12,863
11640 Furniture & Equipment - Administrative Purchases	$0					$0		$0
11650 Leasehold Improvements Purchases	$282,839					$282,839		$282,839
11660 Infrastructure Purchases	$0					$0		$0
13510 CFFP Debt Service Payments	$0					$0		$0
13901 Replacement Housing Factor Funds	$0					$0		$0