



**Office of the Washington State Auditor**  
**Pat McCarthy**

May 24, 2018

Board of Commissioners  
Housing Authority of the City of Kennewick  
Kennewick, Washington

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

We have reviewed the audit report issued by a certified public accounting (CPA) firm on the Housing Authority of the City of Kennewick's financial statements and compliance with federal grant requirements for the fiscal year ended June 30, 2016. The Housing Authority contracted with the CPA firm for these audits.

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 CITY OF KENNEWICK

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016



**Loveridge Hunt & Co., PLLC**  
CERTIFIED PUBLIC ACCOUNTANTS

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Housing Authority City of Kennewick  
Schedule of Findings and Questioned Costs

Year Ended June 30, 2016

SECTION 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 weaknesses \_\_\_\_\_ Yes      X   No

Noncompliance material to financial statements \_\_\_\_\_ 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 weaknesses \_\_\_\_\_ Yes      X   No

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

Any audit findings disclosed that are required  
to be reported in accordance with the Uniform Guidance \_\_\_\_\_ Yes      X   No

Identification of major program:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.871	Section 8 Housing Choice Vouchers
14.856	Section 8 Moderate Rehabilitation

Housing Authority City of Kennewick

Schedule of Findings and Questioned Costs - (Continued)

Year Ended June 30, 2016

SECTION I - SUMMARY OF AUDITOR'S RESULTS - (Continued)

Dollar threshold used to distinguish between  
Type A and Type B programs:

\$ 750,000

Auditee qualified as low-risk auditee:

\_\_\_\_\_ Yes      X   No

SECTION II - FINANCIAL STATEMENT FINDINGS

No findings were noted.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No findings were noted.



**Loveridge Hunt & Co., PLLC**  
CERTIFIED PUBLIC ACCOUNTANTS

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  
Housing Authority City of Kennewick  
Kennewick, 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 of the business-type activities of the Housing Authority City of Kennewick (the Authority) as of and for the year ended June 30, 2016, and the discretely presented component unit of the Housing Authority City of Kennewick (the Authority), as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated March 23, 2017.

Internal Control Over Financial Reporting

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

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 - (CONTINUED)

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 significant deficiencies or 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 Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters, 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 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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Bellevue, Washington  
March 23, 2017



**Loveridge Hunt & Co., PLLC**  
CERTIFIED PUBLIC ACCOUNTANTS

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

Board of Commissioners  
Housing Authority City of Kennewick  
Kennewick, Washington

Report on Compliance for Each Major Federal Program

We have audited the Housing Authority City of Kennewick's (the Authority) compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on the Authority's major federal programs for the year ended June 30, 2016. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the 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 (CFR) 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 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 of the major federal programs. However, our audit does not provide a legal determination of the Authority's compliance.



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE  
FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE - (CONTINUED)

Opinion on Each Major Federal Program

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended June 30, 2016.

Report on Internal Control Over Compliance

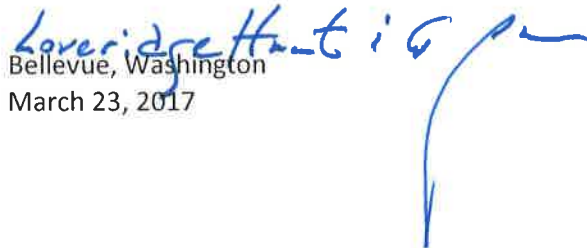
Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the 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 its major federal program and to test and report on internal control over compliance in accordance with 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 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.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE  
FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE - (CONTINUED)

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.

  
Bellevue, Washington  
March 23, 2017



**Loveridge Hunt & Co., PLLC**  
CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Board of Commissioners  
Housing Authority City of Kennewick  
Kennewick, Washington

### Report on Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Housing Authority City of Kennewick (the Authority), as of and for the year ended June 30, 2016, and the discretely presented component unit of the Housing Authority City of Kennewick (the Authority), as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Authority's 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.

### Auditor's Responsibility

Our responsibility is to express an opinion 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 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 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 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 opinion.

## INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS - (CONTINUED)

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Authority as of June 30, 2016, and the discretely presented component unit of the Housing Authority City of Kennewick (the Authority), as of and for the year ended December 31, 2015 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.

### Emphasis of Matter

#### Prior Period Adjustment

As described in Note 9 to the financial statements, during the year ended June 30, 2016, the Authority made a prior period adjustment for a change in accounting policy. Our opinion is not modified with respect to this matter.

### Other Matters

#### Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 11 to 18 and pension schedules on pages 44 to 45 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 the financial reporting for placing the basic financial statements in an appropriate operation, economic or historical context. We have applied certain limited procedures to the required supplemental 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 opinion on the financial statements that collectively comprise the 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)*, and is not a required part of the basic financial statements. The Actual Comprehensive Grant Cost Certificates are presented for the purpose of additional analysis as required by HUD, and are also not a required part of the basic financial statements.

## INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS - (CONTINUED)

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. Such 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 accepted in United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated March 23, 2017, on our consideration of the 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 for the year ended June 30, 2016. 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 Authority's internal control over financial reporting and compliance.

  
Bellevue, Washington  
March 23, 2017

## FINANCIAL SECTION

## **Housing Authority City of Kennewick Management's Discussion and Analysis For the fiscal year ended June 30, 2016**

As management of the Housing Authority City of Kennewick (the Housing Authority), we offer readers of the Housing Authority's basic financial statements this narrative overview and analysis of the financial activities of the Housing Authority for the fiscal year ended June 30, 2016. The intent of this discussion and analysis is to look at the Housing Authority's financial performance as a whole. Readers should also review the notes to the financial statements and the basic financial statements to enhance their understanding of the Housing Authority's financial performance.

### **Financial Highlights**

- The assets of the Housing Authority exceeded its liabilities at the close of the most recent fiscal year by \$7,363,603 (net position).
- The Housing Authority's total net position decreased by \$161,336 before prior period adjustments.
- The unrestricted category of net position is \$226,549 at June 30, 2016. Unrestricted net position represents the amount the authority can use to meet the ongoing obligations of the citizens and creditors.
- The Housing Authority continues to operate without the need for operating debt borrowings during the current fiscal year.

### **Overview of the Basic Financial Statements**

This discussion and analysis are intended to serve as an introduction to the Housing Authority's basic financial statements. The Housing Authority's basic financial statements are comprised of two components: 1) fund financial statements, and 2) notes to the financial statements. The Housing Authority is a special-purpose government agency engaged only in business-type activities. Accordingly, only fund financial statements are presented as the basic financial statements.

### **Fund Financial Statements**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Housing Authority, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Housing Authority are reported as proprietary funds.

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Housing Authority City of Kennewick, like other state and local governments, uses fund accounting for compliance with finance-related legal requirements. The single fund of the authority is reported as an enterprise fund. The financial statements consist of a statement of net position, statement of revenues, expenses and changes in fund net position and a statement of cash flows.

**Housing Authority City of Kennewick  
Management's Discussion and Analysis  
For the fiscal year ended June 30, 2016**

The statement of net position presents information on the Housing Authority's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Housing Authority is improving or deteriorating. The statement of net position can be found on page 19 of this report.

The statement of revenues and expenses combined with the statement of changes in fund net position presents information showing how the Housing Authority's net position changed during the most recent fiscal year. All changes in 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 on page 20 of this report.

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 on pages 21 and 22 of this report.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the fund financial statements. The notes to the financial statements can be found beginning on page 23 of this report.

## **Financial Analysis**

Our analysis below focuses on the net position and the change in net position of the Housing Authority as a whole.



**Housing Authority City of Kennewick  
Management's Discussion and Analysis  
For the fiscal year ended June 30, 2016**

**Table 1  
Housing Authority City of Kennewick, Net Position**

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Current and other assets	\$ 1,092,115	\$ 1,209,442
Capital assets, net	8,002,194	7,488,227
Total assets	<u>\$ 9,094,309</u>	<u>\$ 8,697,669</u>
 Deferred Outflows of Resources	 <u>\$ 129,844</u>	 <u>\$ 93,749</u>
 Current and other liabilities	 \$ 131,093	 \$ 223,046
Long-term liabilities	1,604,020	1,132,472
Total liabilities	<u>\$ 1,735,113</u>	<u>\$ 1,355,518</u>
 Deferred Inflows of Resources	 <u>\$ 125,437</u>	 <u>\$ 230,166</u>
 Net position		
Net investment in capital assets	\$ 7,071,776	\$ 6,964,195
Restricted	65,278	203,627
Unrestricted	226,549	37,912
Total net position	<u>\$ 7,363,603</u>	<u>\$ 7,205,734</u>

Total assets increased by \$396,640 or 5%. The majority of this increase represents a correction of capital assets. Low rent program added capital assets not capitalized in the prior year. Additionally, the Housing Authority has accumulated land for the future Nueva Vista Phase II project.

Liabilities increased \$379,595 or 28% over fiscal year 2015. This increase represents debt incurred during planning stages for the Nueva Vista Phase II project and increased net pension liabilities.

The Housing Authority's net position was \$7,363,603 at June 30, 2016. This is a increase of \$157,869 from the previous year. The largest portion of the Housing Authority's net position (\$7,071,776) reflects its investment in capital assets (e.g., land, buildings, improvements, machinery, and equipment), net of related debt. The Housing Authority uses these capital assets to provide services to program participants; consequently, these assets are not available for future spending.

**Housing Authority City of Kennewick  
Management's Discussion and Analysis  
For the fiscal year ended June 30, 2016**

Restricted net position continues to decrease as the Housing Authority is using its reserves for Housing Assistance Payments. HUD is now holding reserves available for housing assistance payments on behalf of the housing authority.

The overall financial position of the Housing Authority has increased over the previous year. The primary reason for this increase is a prior period adjustment necessary to correct capital asset balances.

Operating revenues increased 12% or \$876,182 from FY15 to FY16. This increase is within the HUD Subsidy received for housing assistance payments. Operating expenses increased about 1%, which most likely represents inflation.

**Housing Authority City of Kennewick  
Management's Discussion and Analysis  
For the fiscal year ended June 30, 2016**

**Table 2  
Housing Authority City of Kennewick, Changes in Net Position**

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Operating revenues		
Rental and other	\$ 555,817	\$ 546,692
HUD PHA operating grants	<u>7,342,829</u>	<u>6,475,772</u>
Total Operating Revenue	<u>7,898,646</u>	<u>7,022,464</u>
Non-operating revenues		
Fraud Recovery	20,703	14,197
Non Operating Income	155,426	132,146
Interest income	<u>927</u>	<u>832</u>
Total non-operating revenue	<u>177,056</u>	<u>147,175</u>
Total revenue	<u>8,075,702</u>	<u>7,169,639</u>
Operating expenses		
Administration	1,182,516	1,043,085
Utilities	159,392	174,123
Ordinary maintenance and operations	568,039	739,964
General expenses	23,555	66,107
Housing Assistance Payments	5,935,070	5,620,985
Depreciation	<u>350,205</u>	<u>503,856</u>
Total operating expenses	<u>8,218,777</u>	<u>8,148,120</u>
Non-operating expenses		
Interest expense	<u>18,261</u>	<u>11,911</u>
Total expenses	<u>8,237,038</u>	<u>8,160,031</u>
Changes in Net Position before contributions	(161,336)	(990,392)
Contributions	-	251,041
Net Position, beginning of year	7,205,734	8,686,230
Prior Period Adjustments	319,205	(741,145)
Net Position, end of year	<u><u>\$ 7,363,603</u></u>	<u><u>\$ 7,205,734</u></u>

**Housing Authority City of Kennewick  
Management's Discussion and Analysis  
For the fiscal year ended June 30, 2016**

## **Capital Assets and Long-Term Debt**

### ***CAPITAL ASSETS***

The Housing Authority's investment in capital assets as of June 30, 2016 amounts to \$7,071,776 (net of accumulated depreciation and related debt). This investment in capital assets includes land, buildings, building improvements and equipment. See Note 3 of the financial statements for additional information.

#### Capital Assets at Year-end

	June 30, 2016	June 30, 2015
Land	\$ 874,988	\$ 488,062
Construction in Progress	154,635	255,845
Total non-depreciable capital assets	<u>1,029,623</u>	<u>743,907</u>
Buildings	14,689,036	14,148,664
Equipment, Dwelling	220,944	182,860
Office/Maintenance Equipment	455,687	455,687
	<u>15,365,667</u>	<u>14,787,211</u>
Accumulated Depreciation	8,393,096	8,042,891
Total depreciable capital assets, net	<u>6,972,571</u>	<u>6,744,320</u>
Total Capital Assets, net	<u><u>\$ 8,002,194</u></u>	<u><u>\$ 7,488,227</u></u>

### ***LIABILITIES***

At June 30, 2016, the Housing Authority had debt outstanding of \$1,514,058 compared to \$1,046,379 at June 30, 2015. The increase represents debt proceeds received for the Nueva Vista Phase II project. This debt is made up of real estate mortgages (\$210,235), government loans (\$594,591), net pension liability (\$625,120), and other miscellaneous debt (\$84,112).

Additional information on the Housing Authority's long-term debt can be found in Note 6.

**Housing Authority City of Kennewick  
Management's Discussion and Analysis  
For the fiscal year ended June 30, 2016**

***ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES***

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

***REQUESTS FOR INFORMATION***

This financial report is designed to provide a general overview of the Housing Authority City of Kennewick's finances for all those with an interest in the authority's finances. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to Executive Director, Housing Authority City of Kennewick, 1915 W 4th Place, Kennewick, Washington, 99336.

**Housing Authority City of Kennewick**  
**Statement of Net Position**  
**June 30, 2016**

	<b>Business Type Activities</b>	<b>Component Unit</b>
<b><u>ASSETS</u></b>		
Current Assets		
Cash - Unrestricted	\$ 652,168	\$ 81,077
Accounts Receivable - Tenants - Dwelling Rents	10,796	-
Accounts Receivable - Fraud Recovery	11,018	-
Accounts Receivable - Miscellaneous	-	100
Related Party Receivables - due from component unit	112,538	-
Accounts Receivable - HUD	115,219	-
Prepaid Expenses	73,534	-
Restricted Assets		
Cash - Restricted	65,273	-
FSS Escrow	14,653	-
Tenant Security Deposits	36,916	-
<b>TOTAL CURRENT ASSETS</b>	<b>1,092,115</b>	<b>81,177</b>
Noncurrent Assets		
Capital Assets, at cost		
Land	874,988	138,601
Buildings and Improvements	14,689,036	4,780,768
Equipment, Dwelling	220,944	488,551
Office/Maintenance Equipment	455,687	-
Construction in Progress	154,635	21,804
Less: Accumulated Depreciation	(8,393,096)	(21,022)
Total Capital Assets, net	8,002,194	5,408,702
Other Long Term Assets	-	219,143
<b>TOTAL NONCURRENT ASSETS</b>	<b>8,002,194</b>	<b>5,627,845</b>
<b>TOTAL ASSETS</b>	<b>\$ 9,094,309</b>	<b>\$ 5,709,022</b>
<b><u>DEFERRED OUTFLOWS OF RESOURCES</u></b>		
Amounts Related to Pension	129,844	-
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 129,844</b>	<b>\$ -</b>
<b><u>LIABILITIES</u></b>		
Current Liabilities		
Accounts Payable	29,491	145,571
Accrued Payroll Taxes	21,620	-
Current Portion, Compensated Absences	27,785	-
Interest Payable	6,155	-
Unearned Revenues	-	1,000
Current Portion, Long-Term Debt	7,845	3,578,469
Related Party Payables - due to primary government	-	138,358
Tenant Security Deposits	38,197	-
<b>TOTAL CURRENT LIABILITIES</b>	<b>131,093</b>	<b>3,863,398</b>
Noncurrent Liabilities		
Long-Term Debt, net of current portion	796,981	1,475,668
Long-Term, Compensated Absences	41,679	-
Net Pension Liability	625,120	-
Other Long-Term Liabilities	140,240	-
<b>TOTAL NONCURRENT LIABILITIES</b>	<b>1,604,020</b>	<b>1,475,668</b>
<b>TOTAL LIABILITIES</b>	<b>\$ 1,735,113</b>	<b>\$ 5,339,066</b>
<b><u>DEFERRED INFLOWS OF RESOURCES</u></b>		
Amounts Related to Pension	125,437	-
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>\$ 125,437</b>	<b>\$ -</b>
<b><u>NET POSITION</u></b>		
Net Investment in Capital Assets	7,071,776	354,565
Restricted Net Position	65,278	-
Unrestricted Net Position	226,549	15,391
<b>TOTAL NET POSITION</b>	<b>\$ 7,363,603</b>	<b>\$ 369,956</b>

**Housing Authority City of Kennewick**  
**Statement of Revenue, Expenses and Changes in Fund Net Position**  
**For the Fiscal Year Ended June 30, 2016**

	<b>Business Type Activities</b>	<b>Component Unit</b>
OPERATING REVENUE		
Net Rental Revenue	\$ 524,632	\$ -
Tenant Revenue - Other	26,797	-
HUD PHA Operating Grants	7,342,829	-
Other Income	4,388	22
TOTAL OPERATING REVENUE	<u>7,898,646</u>	<u>22</u>
OPERATING EXPENSES		
Administrative	1,175,966	11,037
Tenant Services	6,550	-
Utilities	159,392	-
Maintenance	568,039	-
Protective Services	15,971	-
Insurance Premiums	46,275	12,781
Other General Expenses	(38,690)	-
Housing Assistance Payments	5,935,070	-
Depreciation and Amortization	350,205	23,888
TOTAL OPERATING EXPENSES	<u>8,218,778</u>	<u>47,706</u>
OPERATING INCOME (LOSS)	(320,132)	(47,684)
NON OPERATING REVENUES (EXPENSES)		
Investment Income	927	-
Fraud Recovery	20,703	-
Other Nonoperating Income	155,426	-
Interest Expense	(18,261)	(3,555)
TOTAL NON OPERATING REVENUE (EXPENSES)	<u>158,795</u>	<u>(3,555)</u>
CHANGE IN NET POSITION	(161,337)	(51,239)
NET POSITION, beginning of year	7,205,735	482,245
Syndication costs		(61,050)
Prior Period Adjustments	319,205	
NET POSITION, end of year	<u>\$ 7,363,603</u>	<u>\$ 369,956</u>

**Housing Authority City of Kennewick  
Statement of Cash Flows  
For the Fiscal Year Ended June 30, 2016**

	<b>Business Type Activities</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash Received from Tenants	\$ 550,894
Cash Received from Other Activities	72,330
Cash Received from HUD Operating Grants	7,316,785
Cash Paid to Suppliers	(826,530)
Cash Paid to Employees	(1,281,047)
Cash Paid to Landlords	(5,935,070)
Net cash used by operating activities	<u>(102,638)</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>	
Related Party Payments	<u>(2,137)</u>
Net cash used for non-capital financing activities	<u>(2,137)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Purchase of Capital Assets	(403,182)
Proceeds from Issuance of Long-Term Debt	376,560
Principal Paid on Capital Debt	(7,531)
Interest Paid	(11,341)
Net cash used by capital and related financing activities	<u>(45,494)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest Received	<u>852</u>
Net cash provided by investing activities	<u>852</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(149,417)</b>
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<b><u>918,427</u></b>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<b><u>\$ 769,010</u></b>
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET POSITION</b>	
Cash and cash equivalents, unrestricted	\$ 652,168
Cash and cash equivalents, restricted	79,926
Tenant security deposits	36,916
<b>CASH AND CASH EQUIVALENTS, TOTAL</b>	<b><u>\$ 769,010</u></b>



**Housing Authority City of Kennewick  
Statement of Cash Flows (continued)  
For the Fiscal Year Ended June 30, 2016**

	<u><b>Business Type Activities</b></u>
RECONCILIATION OF NET INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES	
Net income (loss)	<u>\$ (320,132)</u>
Adjustments to reconcile net income (loss) to net cash from operating activities	
Depreciation and amortization	350,205
Increase (decrease) in cash due to changes in assets and liabilities	
Miscellaneous Receivables	(54,165)
Tenant Rents Receivables	(985)
Non-Operating Revenues	101,272
Prepaid Expenses	(69,087)
Accounts Payable	(107,367)
Change in Pension Activities	(34,673)
Accrued Liabilities - Other	26,484
Tenant Security Deposits	5,810
Net adjustments	<u>217,494</u>
NET CASH USED BY OPERATING ACTIVITIES	<u><u>\$ (102,638)</u></u>

# **Housing Authority City of Kennewick, Washington**

## **Notes to the Financial Statements**

### **June 30, 2016**

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#### **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Housing Authority City of Kennewick (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 (including identification of those policies which result in departures from generally accepted accounting principles):

##### **Reporting Entity**

The Housing Authority is a municipal corporation governed by a six member board. Five of the members are appointed by the Mayor of the City of Kennewick and one of the members is a resident assisted commissioner appointed by the Housing Authority Commissioners. As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity. These financial statements present the Authority (the Primary Government) and its discretely presented Component Unit. The component unit is included in the Authority's reporting entity because of the significance of their operational or financial relationships with the Authority.

##### ***Discretely Presented Component Unit:***

Kennewick Affordable Housing Limited Liability Partnership (Partnership) was formed as a limited partnership under the laws of the state of Washington on January 1, 2014 and was syndicated on December 22, 2014, for the purpose of constructing and operating an affordable rental housing project located at 386 North Union in the City of Kennewick. The partnership consists of one general partner, Housing Authority City of Kennewick (The General Partner) and two investment limited partners, PNC Real Estate Tax Credit Capital Institutional Fund 47 Limited Partnership and Columbia Housing SLP Corporation. Per the partnership agreement, covenants exist between the general partner and the Investment Limited Partners related to the delivery of tax credits, partnership operations, and other business matters. The project is eligible for the Affordable Housing Tax Credits established under the program described in Section 42 of the Internal Revenue Code. The construction of this project was completed at the end of December 2015 and units were leased in January, 2016.

The Component Unit is presented with balances as of December 31, 2015, its fiscal year end. In the prior financial statements, the Component Unit presented a June 30, 2015 fiscal year end, therefore, the operating activity will show six months. This presentation results in accounts receivable and accounts payable between component units and the primary government to not be equal as they are being presented at different dates.

##### **Basis of Accounting**

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

# **Housing Authority City of Kennewick, Washington**

## **Notes to the Financial Statements**

### **June 30, 2016**

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The Housing 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 comprises of a number of programs. These programs are designed to provide low income individuals with affordable housing.

For the most part, the authority reports operating revenues as defined in GASB 9. Enterprise funds distinguish operating revenues and expenses from nonoperating items. Operating revenues include fees and charges from providing services in connection with the ongoing operations of providing low income housing. Operating revenues also include operating subsidies and grants provided by the U.S. Department of Housing and Urban Development (HUD). The use of this classification is based on guidance from HUD, the primary user of the financial statements and is a departure from GAAP. Operating expenses are those expenses that are directly incurred while in the operation of providing low income housing. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

This presentation results in an operating income that is higher than a nonoperating revenue presentation by the amount of the subsidies and grants. Overall, it does not affect presentation of net income or the change in net position in the statement of revenues, expenses and changes in fund net position, or the presentation of cash and cash equivalents in the statement of cash flows.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

Another exception to GAAP reporting is the Schedule of Expenditures of Federal Awards (SEFA). Housing authorities must report U S Department of Housing and Urban Development (HUD) ACC budget authority received during the fiscal year instead of expenditures on all programs as prescribed in the HUD Accounting Issue # 10.

The Housing Authority business activities column contains the following programs:

Low-Income housing program is comprised of 190 HUD subsidized Public Housing Units.

Capital Fund program is an annual fund for capital and other operating needs of selected Public Housing.

Business Activities is comprised of the 6-unit Mitchell Manor project, Delafield DVS duplex, and other business activities of the Housing Authority.

Section 8 Housing Choice Voucher (HCV) program has an ACC contract with the Federal Department of Housing & Urban Development for a maximum of 975 vouchers.

Moderate Rehabilitation program is comprised of Columbia Park Apartments, a 138-unit property owned by Intercoastal Group.

# **Housing Authority City of Kennewick, Washington**

## **Notes to the Financial Statements**

### **June 30, 2016**

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#### **Budgeting**

The Housing Authority follows the guidelines set forth in the Low Rent Housing Financial Management Handbook (RHA 7475.1) issued by HUD. The Housing Authority budgets using the accrual basis which is in accordance with Generally Accepted Accounting Principles (GAAP).

#### **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. There were no cash equivalents as of June 30, 2016.

#### **Restricted Assets**

In accordance with loan agreements separate restricted accounts are required to be established. The assets held in these accounts are restricted for specific uses, including construction, debt service and other special reserve requirements.

The Housing Authority has several types of restricted and unrestricted funds related to a specific project. Each related project is to use its own unrestricted funds for all operating expenses. Restricted funds are used for payment assistance or for capital improvements only; there are cases that unrestricted funds can be used to pay for payment assistance and capital improvements if restricted funds are exhausted.

Restricted Assets	2016
Replacement Reserves	\$ 54,780
Operating Reserves	\$ 5,002
Scholarship	\$ 5,491
FSS Escrow	14,653
Tenant Security Deposits	36,916
	<u>\$ 116,842</u>

#### **Receivables**

Accounts receivable, net consist of amount owed from tenants for housing services including repayment agreements, move out charges, rent and miscellaneous charges. When all efforts to collect directly from the tenant fail, the account is turned over to a collection agency and the account is charged to collection loss.

Receivables from component units represent amounts due for developer activity as well as normal operating receivables.

#### **Inventories and Prepaid Expenses**

Inventories are valued at average cost, which approximates the market value.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses in the Authority's financial statements.

#### **Capital Assets**

Capital asset purchases greater than \$3,000 are capitalized and recorded at cost. Donations are recorded at fair market value at the time of donation or the appraised value. Capitalized purchases

# **Housing Authority City of Kennewick, Washington**

## **Notes to the Financial Statements**

### **June 30, 2016**

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may also include capital leases and major repairs that increase useful lives. Maintenance, repair and minor renewals are accounted for as expenditures when incurred.

The original cost of disposed property, less salvage, is removed from the capital asset accounts, accumulated depreciation is charged with the accumulated depreciation related to the property disposed, and the net gain or loss on disposition is credited or charged to income.

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 which the assets were acquired and has included such assets within the applicable accounting group or fund.

Depreciation is charged to operations to allocate the cost of capital assets over their estimated useful lives, using the straight-line method with useful lives of 3 to 40 years.

See Note 3 – Capital Assets for further detail.

#### **Accounts Payable**

Accounts payable consists of invoices less than 90 days old which the Housing Authority has accrued as of June 30, 2016.

#### **Accrued Payroll Taxes**

These amounts consist of the amounts owing for the June 2016 payroll and 2nd quarter 2016 payroll taxes.

#### **Accrued Compensated Absences**

Compensated Absences are absences which employees may be paid vacation/and or sick leave. The Housing Authority records unpaid leave for compensated absences as an expense when incurred and a liability at year end for accrued compensated absences due.

Paid leave accumulates according to the following schedule:

Exempt and Non-Exempt employees' annual vacation leave per years of service:

1 – 5 years	10 hours/month (to maximum of 320 hours)
6 – 10 years	12 hours/month (to maximum of 320 hours)
11 – 15 years	14 hours/month (to maximum of 320 hours)
16 + years	16 hours/month (to maximum of 320 hours)

Exempt and Non-Exempt Employees annual sick leave:

8 hours/month (to maximum of 560 hours)

Part-time employees accrue leave on a pro-rated basis.

# Housing Authority City of Kennewick, Washington

## Notes to the Financial Statements

### June 30, 2016

Vacation leave is 100% payable and sick leave is payable at 25% on termination of employment unless terminated for gross misconduct or without giving at least a two (2) week notice prior to terminating employment.

#### 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.

### NOTE 2 – DEPOSITS INVESTMENTS

#### Deposits

The Housing Authority's deposits and certificates of deposits are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institutions collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

#### Investments

The Housing Authority records investments at market value, which approximates historical cost. As of the year ended June 30, 2016, the Housing Authority had no funds that were considered investments.

### NOTE 3 – CAPITAL ASSETS

Capital asset summary for the years ended June 30, 2016 is as follows:

	7/1/2015	Restatements	7/1/2015 Restated	Additions	6/30/2016
Land	\$ 488,062	\$ -	\$ 488,062	\$ 386,926	\$ 874,988
Construction in Progress	255,845	(117,465)	138,380	16,255	154,635
Total non-depreciable capital assets	743,907	(117,465)	626,442	403,181	1,029,623
Buildings	14,088,716	341,069	14,429,785	259,251	14,689,036
Equipment, Dwelling	242,808	(21,864)	220,944	-	220,944
Office/Maintenance Equipment	455,687		455,687	-	455,687
Total depreciable capital assets	14,787,211	319,205	15,106,416	259,251	15,365,667
Accumulated Depreciation	(8,042,891)	-	(8,042,891)	(350,205)	(8,393,096)
Total depreciable capital assets, net	6,744,320	319,205	7,063,525	(90,954)	6,972,571
Total Capital Assets, net	\$ 7,488,227	\$ 201,740	\$ 7,689,967	\$ 312,227	\$ 8,002,194

The Construction in Progress restatements (\$117,465) is not shown as prior period adjustments on the financial statements because it is offset to a receivable account. The remaining \$319,205 from public housing as disclosed in Note 9 – Prior Period Adjustments.

Construction in progress represents costs to date on capital housing projects whose remaining authorizations total \$167,914 for the year ended June 30, 2016. The Housing Authority will not raise any future funding for these projects.

**Housing Authority City of Kennewick, Washington**  
**Notes to the Financial Statements**  
**June 30, 2016**

Capital asset activity for the Component Unit for the year ended December 31, 2015 was as follows:

	7/1/2015	Restatement	7/1/2015 Restated	Additions	Disposals	12/31/2015
Land	\$ 126,860	\$ -	\$ 126,860	\$ 11,741	\$ -	\$ 138,601
Construction in Progress	2,549,722		2,549,722	3,372,860	5,900,778	\$ 21,804
Total non-depreciable capital assets	2,676,582	-	2,676,582	3,384,601	5,900,778	160,405
Buildings	-	-	-	4,780,768	-	4,780,768
Equipment, Dwelling	-	-	-	488,551	-	488,551
Total depreciable capital assets	-	-	-	5,269,319	-	5,269,319
Accumulated Depreciation	-	-	-	(21,022)	-	(21,022)
Total depreciable capital assets, net	-	-	-	5,248,297	-	5,248,297
Total Capital Assets, net	\$ 2,676,582	\$ -	\$ 2,676,582	\$ 8,632,898	\$ 5,900,778	\$ 5,408,702

**NOTE 4 – PENSION PLANS**

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, Accounting and Financial Reporting for Pensions for the fiscal year ended June 30, 2016:

<b>Aggregate Pension Amounts – All Plans</b>	
Pension liabilities	\$625,120
Pension assets	\$0
Deferred outflows of resources	\$129,844
Deferred inflows of resources	\$125,437
Pension expense/expenditures	(\$34,673)

**State Sponsored Pension Plans**

Substantially all the Housing Authority's 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 Authority City of Kennewick, Washington

## Notes to the Financial Statements

### June 30, 2016

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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](http://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 2015 were as follows:

<b>PERS Plan 1</b>		
Actual Contribution Rates:	Employer	Employee
July 2015 through June 2016	11.18%	6.00%

The Housing Authority's actual contributions to the plan were \$0 for the year ended June 30, 2016.

**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



# **Housing Authority City of Kennewick, Washington**

## **Notes to the Financial Statements**

### **June 30, 2016**

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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.

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 2015 were as follows:

<b>PERS Plan 2/3</b>		
Actual Contribution Rates:	Employer 2/3	Employee 2
July 2015 through June 2016	11.18%	6.12%
Employee PERS Plan 3	varies	

The Housing Authority's actual contributions to the plan were \$98,231 for the year ended June 30, 2016.

# **Housing Authority City of Kennewick, Washington**

## **Notes to the Financial Statements**

### **June 30, 2016**

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#### **Actuarial Assumptions**

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2015 with a valuation date of June 30, 2014. 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 2014 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2015. Plan liabilities were rolled forward from June 30, 2014, to June 30, 2015, 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. The OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent 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.

There were minor changes in methods and assumptions since the last valuation.

- The OSA updated demographic assumptions, consistent with the changes from the 2007-2012 Experience Study Report, used when valuing the PERS 1 and TERS 1 Basic Minimum COLA.
- The OSA corrected how valuation software calculates a member's entry age under the entry age normal actuarial cost method. Previously, the funding age was rounded, resulting in an entry age one year higher in some cases.
- For purposes of calculating the Plan 2/3 Entry Age Normal Cost contribution rates, the OSA now uses the current blend of Plan 2 and Plan 3 salaries rather than using a long-term membership assumption of two-thirds Plan 2 members and one-third Plan 3 members.
- The OSA changed the way it applies salary limits, as described in the 2007-2012 Experience Study Report.

#### **Discount Rate**

The discount rate used to measure the total pension liability for all DRS plans was 7.5 percent. To determine that rate, an asset sufficiency test included an assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.7 percent except LEOFF 2, which has assumed 7.5 percent). Consistent with the long-term expected rate of return, a 7.5 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue

# Housing Authority City of Kennewick, Washington

## Notes to the Financial Statements

### June 30, 2016

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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 percent was used to determine the total liability.

#### Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.5 percent 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. The 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 percent 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, 2015, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the 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%
	<b>100%</b>	

#### Sensitivity of NPL

The table below presents the Authority's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the Authority'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 percent) or 1-percentage point higher (8.5 percent) than the current rate.

	6.50% 1% Decrease	7.50% Current Rate	8.50% 1% Increase
PERS 1	\$ 404,411	\$ 332,164	\$ 270,039
PERS 2/3	856,615	292,956	(138,619)

**Housing Authority City of Kennewick, Washington**  
**Notes to the Financial Statements**  
**June 30, 2016**

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**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.

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

At June 30, 2016, the Housing Authority reported a total pension liability of \$625,120 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	\$332,164
PERS 2/3	\$292,956

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

	Proportionate Share 6/30/14	Proportionate Share 6/30/15	Change in Proportion
PERS 1	0.006793%	0.006350%	-0.000443%
PERS 2/3	0.008745%	0.008199%	-0.000546%

Employer contribution transmittals received and processed by the 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 the 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, 2015, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2014, with update procedures used to roll forward the total pension liability to the measurement date.

**Housing Authority City of Kennewick, Washington**  
**Notes to the Financial Statements**  
**June 30, 2016**

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**Pension Expense**

For the year ended June 30, 2016, the Housing Authority recognized pension expense as follows:

	Pension Expense
PERS 1	\$ (48,940)
PERS 2/3	14,267
TOTAL	\$ (34,673)

**Deferred Outflows of Resources and Deferred Inflows of Resources**

At June 30, 2016, the Housing Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

**Housing Authority City of Kennewick, Washington**  
**Notes to the Financial Statements**  
**June 30, 2016**

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<b>PERS 1</b>	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings on pension plan investments	-	\$ 15,382
Contributions subsequent to the measurement date	43,629	-
<b>TOTAL</b>	<b>\$ 43,629</b>	<b>\$ 15,382</b>

<b>PERS 2/3</b>	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 31,141	-
Net difference between projected and actual investment earnings on pension plan investments	-	78,206
Changes of assumptions	472	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	31,849
Contributions subsequent to the measurement date	54,602	-
<b>TOTAL</b>	<b>\$ 86,215</b>	<b>\$ 110,055</b>

Deferred outflows of resources related to pensions resulting from the Housing Authority's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

**Housing Authority City of Kennewick, Washington**  
**Notes to the Financial Statements**  
**June 30, 2016**

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Year ended December 31:	PERS 1	PERS 2/3
2016	\$ (7,043)	\$ (29,321)
2017	\$ (7,043)	\$ (32,112)
2018	\$ (7,043)	\$ (29,256)
2019	\$ 2,956	\$ 15,038
2020	\$ -	\$ -
Thereafter	\$ -	\$ -

**NOTE 5 – LEASE COMMITMENTS**

The Housing Authority is committed under various equipment leases for 2016. These leases are considered operating leases for accounting purposes. Lease expense for the year ended June 30, 2016 was \$24,895. Future rental commitments for these leases are as follows:

2017	\$	27,383
2018		30,122
2019		33,134
2020		36,447

**NOTE 6 – LONG TERM DEBT AND SUBSEQUENT EVENTS**

The Housing Authority obtained real estate mortgages and governmental loans to finance the construction of capital assets. The description of these loans is as follow:

**Mitchell Manor Bank Loan** payable for 120 Benton St for Mitchell Manor Project with monthly payments of \$894.46 including interest at 6.79%, this loan is secured by the real estate, and is due on September 1, 2035. The original loan amount was \$136,000. The balance at June 30, 2016 is \$115,331.

**Mitchell Manor HOME Loan** was for construction of the apartment project and is forgivable at a rate of 5% (\$4,837) per year, contingent on the Housing Authority will provide housing to low-income household who has a disabled person in the household, who at initial occupancy have gross annual incomes at or below 50% of the local area median income for the Tri Cities MSA adjusted for family size as estimated from time to time by HUD for a commitment period of 20 (twenty) years ending April 1, 2025. January 21, 2004, the original amount was \$96,750. This note is secured by a Deed of Trust Rider. The balance at June 30, 2016 is \$43,988.

**Mitchell Manor WA Housing Trust Fund** recoverable grant is conditional on Mitchell Manor project providing low-income households with physically disabled individuals who at the time of initial occupancy have gross annual incomes at or below 50% of the median

**Housing Authority City of Kennewick, Washington**  
**Notes to the Financial Statements**  
**June 30, 2016**

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income for the Tri Cities MSA, as adjusted annually by HUD. Rents charged to tenants may not exceed 30% of the monthly income of the target population. The length of commitment to serve the target population will be 40 (forty) years ending February 28, 2045. The recoverable grant is secured by the Mitchell Manor property. This is a 0% interest grant and no annual payments are due for a commitment of forty years. The balance at June 30, 2016 is \$268,183.

**Impact Capital Nueva Vista Phase II Predevelopment** no-interest loan is approved up to \$85,000; at December 31, 2015 no draws had been made on this loan. The loan is secured by a deed of trust, assignment of leases and rents, security agreement and fixture filing on the Property. The principal will be due and payable in full upon the earlier of the close of first available construction, bridge or permanent financing, or August 1, 2019; subject to extension at the lender's option.

**Impact Capital Nueva Vista Phase II loan** in the amount of \$94,140 was obtained to fund the purchase of property; interest rate 5.5%, with monthly interest only payments commencing September 1, 2015; the full amount of principle is due at maturity, August 30, 2020 or at close of construction financing. The loan is secured by a deed of trust, assignment of leases and rents, security agreement and fixture filing on the Property.

**WA State Housing Finance Commission** recoverable loan in the amount of \$282,420 is for the purpose of construction of Nueva Vista Phase II, and is secured by related real property. This covenant runs with the land for 30 years following the date of the certificate of occupancy and August 31, 2050 and is conditioned upon the property housing tenants with gross annual household incomes at or below 80% of the local area median income. This is a 1% interest loan, due at maturity date August 31, 2023.

Principal payments due over the next five years and thereafter for the real estate mortgages are as follows:

	Principal	Interest	Total
2017	\$ 7,845	\$ 12,790	\$ 20,635
2018	8,057	12,579	20,636
2019	8,283	12,352	20,635
2020	8,505	12,130	20,635
2021	102,923	4,632	107,555
2022-2026	44,083	29,388	73,471
2027-2031	34,097	19,571	53,668
2032-2036	39,136	5,990	45,126
2037-2041	530	-	530
2042-2045	551,367	-	551,367
	<u>\$ 804,826</u>	<u>\$ 109,432</u>	<u>\$ 914,258</u>
Short-Term Portion	(7,845)	(12,790)	(20,635)
Long-Term Portion	<u>\$ 796,981</u>	<u>\$ 96,642</u>	<u>\$ 893,623</u>



# Housing Authority City of Kennewick, Washington

## Notes to the Financial Statements

### June 30, 2016

Changes in long-term liabilities for the year ended June 30, 2016 are as follows:

	Balance 6/30/2015	Additions	Payments	Balance 6/30/2016	Due Within One Year
<i>Primary Government</i>					
Real Estate Mortgages	\$ 118,025	\$ 94,140	\$ 1,930	\$ 210,235	\$ 3,008
Governmental Loans	317,008	282,420	4,837	594,591	4,837
Compensated Absences	83,089	-	13,625	69,464	27,785
Net Pension Liability	518,969	106,151	-	625,120	-
FSS Escrow Deposits	9,288	5,360	-	14,648	-
Total Primary Government	<u>\$ 1,046,379</u>	<u>\$ 488,071</u>	<u>\$ 20,392</u>	<u>\$ 1,514,058</u>	<u>\$ 35,630</u>

#### Component Unit Long-Term Debt

The Component Unit has a short-term bridge loan in the amount of \$3,578,469 at December 31, 2015, with a maximum loan amount of \$4,100,000, with an interest rate of 2.75%. The loan will be converted to equity and a long-term mortgage loan once the construction of the project is complete and units are leased. Subsequent to December 31, 2015, the bridge loan was paid off with proceeds from the investor's second capital installment.

**PNC Bank Mortgage** is secured by leasehold improvements and property, current and future rents, tax credits and partnership rights and interests. The original loan amount of \$368,620 with an interest rate of 5.5% was converted to a permanent loan in November 2016, with monthly payments of interest and principal of \$2,093 beginning January 2017 and maturing in November 2031.

**Second Mortgage Loan** from the Washington State Department of Commerce is non-recourse with a maximum principal of \$1,107,270 to be secured by a mortgage or deed of trust. At December 31, 2015 the balance was \$1,107,270. Upon completion of construction and leasing of units, the loan will bear interest at a fixed rate not to exceed 1%. No payments are due under the loan until December 31, 2047, at which time annual payments of principal and interest in the amount of \$157,355 will be due each December 31<sup>st</sup> through December 31, 2056, on which date the loan is fully due and payable.

**Housing Authority City of Kennewick, Washington**  
**Notes to the Financial Statements**  
**June 30, 2016**

Component Unit 12/31/2015

	Principal	Interest	Total
2016		\$ 20,262	20,262
2017	4,788	20,328	25,116
2018	5,236	19,880	25,116
2019	5,531	19,585	25,116
2020	5,843	19,272	25,115
2021-2025	34,547	91,032	125,579
2026-2030	45,453	80,125	125,578
2031-2035	267,222	13,251	280,473
2036-2040	-	-	-
2041-2045	-	-	-
2046-2050	579,216	51,080	630,296
2051-2055	757,202	30,668	787,870
2056	155,792	1,560	157,352
	<u>\$ 1,860,830</u>	<u>\$ 367,043</u>	<u>\$ 2,227,873</u>
Less interest accrued to principal:	(385,162)	-	(385,162)
Long-Term Portion	<u><u>\$ 1,475,668</u></u>	<u><u>\$ 367,043</u></u>	<u><u>\$ 1,842,711</u></u>

Changes in long-term liabilities for the six month period ended December 31, 2015 are as follows:

<i>Component Unit</i>	Balance 6/30/2015	Additions	Payments	Balance 12/31/2015	Due Within One Year
Real Estate Mortgages	\$ 1,285,191	\$ 2,661,676	\$ -	\$ 3,946,867	\$ 3,578,469
Governmental Loans	933,049	174,221	-	1,107,270	-
Total Component Unit	<u>\$ 2,218,240</u>	<u>\$ 2,835,897</u>	<u>\$ -</u>	<u>\$ 5,054,137</u>	<u>\$ 3,578,469</u>

**NOTE 7 – CONTINGENCIES AND LITIGATION**

In the opinion of management, the Housing Authority's insurance policies are adequate to pay all known or pending claims.

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. The Housing Authority's management believes that such disallowances, if any, are immaterial.

**NOTE 8 – PARTICIPATION IN HOUSING AUTHORITY RISK RETENTION POOL**

The Housing Authority 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

# **Housing Authority City of Kennewick, Washington**

## **Notes to the Financial Statements**

### **June 30, 2016**

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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 10% 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 \$2,500 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.

Coverage limits for General Liability, as well as Errors and 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 the first \$1million of coverage for liability lines and purchases an additional \$1 million in reinsurance for a total of \$2 million. For property, HARRP retains the first \$1,000,000 and purchases an additional \$1million reinsurance policy and then purchases \$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.

# **Housing Authority City of Kennewick, Washington**

## **Notes to the Financial Statements**

### **June 30, 2016**

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The Authority self-insures for unemployment compensation as an alternative to the State program. During the period ending June 30, 2016, the Authority paid no claims under this program. Any future costs to the Authority, including expected annual level of claims relating to this self-insurance program, are not readily estimable and are not expected to be material. The Authority has not set aside any reserves for potential losses related to this program.

In the past three years, no settlements exceeded insurance coverage.

#### **NOTE 9 – PRIOR PERIOD ADJUSTMENTS**

There were prior period adjustments and/or corrections for business type activities in the amount of \$319,205. This is made up of the following items:

- \$282,472 – This represents assets placed in service under capital grants that were not capitalized. The practice of capitalizing assets at the close out of the grant was changed to capitalizing assets at the time of completion.
- \$36,733 - This represents capital expenditures that were expensed in previous years in error.

#### **NOTE 11 – COMMITMENTS**

General Partner Commitments Regarding the Component Unit:

The General Partner shall be obligated, without the requirement of notice or demand, to advance all funds necessary during the ODG Period up to the ODG Cap (exclusive of any amounts funded from the Operating Reserve Account) in order to enable the Partnership to pay and satisfy Operating Deficits.

General Partner, for the period commencing on the Closing Date and ending upon the termination of the Compliance Period, agrees and guarantees to advance, without the requirement of notice or demand by the Partnership, any Partner or other party, an amount equal to the lesser of (i) the funds that would have been received under the HAP Contract with respect to the period of the Operating Deficit but for such loss or reduction of the rental assistance; and (ii) the amount of the operating Deficit.

From the Closing Date continuously through the ODG Period End Date, the General Partner has and shall maintain an aggregate net worth exclusive of the General Partner's interest in the Partnership or any sums owed to the General Partner by the Partnership equal to at least \$2,000,000, of which at least \$500,000 shall be liquid assets. Liquid Assets shall mean unrestricted cash and unencumbered marketable securities held solely in the name of the General Partner.

Development Duties, Covenants and Obligations: The General Partner shall promptly take all action which may be necessary or appropriate for the timely and proper development, construction and/or rehabilitation as applicable, maintenance and operation of the Project in accordance with the provisions of this Agreement, the Project Documents and all applicable laws and regulations.

Furthermore, the General Partner and Developer hereby unconditionally jointly and severally agree to promptly pay any Development Costs to the extent available Development Funds are insufficient

# **Housing Authority City of Kennewick, Washington**

## **Notes to the Financial Statements**

### **June 30, 2016**

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to pay (such Development Costs when due (such obligations are referred to herein as the “Development Completion Obligation”).

#### **NOTE 12 – SUBSEQUENT EVENTS**

The Housing Authority was granted 2060 funds for the amount of \$150,000 from Benton County and an additional \$170,000 in 2163 funds to support Nueva Vista Phase II project. Additionally, the Housing Authority will be submitting Housing Trust Fund State II application for the Nueva Vista Phase II Project. If Housing Trust Funds are awarded, then the Housing Authority will apply for allocation of tax credits for this project.

#### **NOTE 13 – DATE OF MANAGERIAL REVIEW**

Management of the Housing Authority has evaluated events and transactions occurring after June 30, 2016 through March 23, 2017; the date the financials were available for issuance, for recognition or disclosure in the financial statements. Besides those events disclosed in Note 12, there were not events or transactions that require recognition or disclosure in the financial statements.

#### **NOTE 14 – COMPONENT UNIT**

Kennewick Affordable Housing Limited Partnership (Partnership) was formed as a limited Partnership under the laws of the state of Washington on January 1, 2014, for the purpose of constructing and operating an affordable rental housing project located at 386 North Union in the City of Kennewick. The partnership consists of one general partner, Housing Authority City of Kennewick (The General Partner) and two investment limited partners, PNC Real Estate Tax Credit Capital Institutional Fund 47 Limited Partnership and Columbia Housing SLP Corporation. Per the partnership agreement, covenants exist between the general partner and the Investment Limited Partners related to the delivery of tax credits, partnership operations, and other business matters. The project is eligible for the Affordable Housing Tax Credits established under the program described in Section 42 of the Internal Revenue Code. The Partnership completed construction at the end of December 2015 and units were ready for lease in January 2016. The discretely presented component unit has a December 31, 2015 year end.

#### **NOTE 15 – RELATED PARTY RECEIVABLE FROM COMPONENT UNIT**

Per the Partnership agreement between the Housing Authority and the Component Unit, The Housing Authority is expecting to receive \$112,538 in Developer fees from the Tax Credit property in the near future.

#### **NOTE 16 – OTHER LONG TERM LIABILITIES**

The Housing Authority has a lease agreement with the Component Unit where the Authority is leasing the land where the Tax Credit property was built to the Component Unit. The Component unit has paid \$126,860 for a lease that is to expire December 31, 2114. The Housing Authority has recorded this amount as unearned income and will amortize it over the course of the lease.

**SUPPLEMENTARY INFORMATION**

**Housing Authority City of Kennewick**  
**Required Supplementary Information Related to Pensions**  
**As of June 30, 2015**  
**Last 10 Fiscal Years\***

**MCAG NO. 1497**

**Schedule of Proportionate Share of the Net Pension Liability**

<b><u>PERS # 1</u></b>	2015	2014	2013
Housing Authority's proportion of the net pension liability (asset)	0.006350%	0.006793%	0.008783%
Housing Authority's proportionate share of the net pension liability (asset)	332,164	342,201	513,213
Housing Authority's covered-employee payroll	-	-	-
Housing Authority's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	N/A	H/A	N/A
Plan fiduciary net position as a percentage of the total pension liability	59.10%	61.19%	
<b><u>PERS # 2/3</u></b>	2015	2014	2013
Housing Authority's proportion of the net pension liability (asset)	0.008199%	0.008745%	0.008631%
Housing Authority's proportionate share of the net pension liability (asset)	292,956	176,768	368,545
Housing Authority's covered-employee payroll	800,831	702,587	670,211
Housing Authority's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	36.58%	25.16%	54.99%
Plan fiduciary net position as a percentage of the total pension liability	89.20%	93.29%	

**Housing Authority City of Kennewick**  
**Required Supplementary Information Related to Pensions**  
**As of June 30, 2015**  
**Last 10 Fiscal Years\***

**MCAG NO. 1497**

**Schedule of Contributions**

Pension Plans  
Last 10 Fiscal Years\*

<b><u>PERS # 1</u></b>	2015	2014	2013
Contractually required contribution	29,184	30,066	15,858
Contributions in relation to the contractually required contribution	<u>(29,184)</u>	<u>(30,066)</u>	<u>(15,858)</u>
Contribution deficiency (excess)	<u>-</u>	<u>-</u>	<u>-</u>
Housing Authority's covered-employee payroll	-	-	-
Contributions as a percentage of covered-employee payroll	N/A	N/A	N/A
<b><u>PERS # 2/3</u></b>	2015	2014	2013
Contractually required contribution	36,524	36,944	31,601
Contributions in relation to the contractually required contribution	<u>(36,524)</u>	<u>(36,944)</u>	<u>(31,601)</u>
Contribution deficiency (excess)	<u>-</u>	<u>-</u>	<u>-</u>
Housing Authority's covered-employee payroll	800,831	702,587	670,211
Contributions as a percentage of covered-employee payroll	4.56%	5.26%	4.72%



**Housing Authority City of Kennewick**  
**Notes to the Required Supplementary Information**  
**For the fiscal year ended June 30, 2016**

**MCAG NO. 1497**

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**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.

**Last 10 Fiscal Years \*:** The Housing Authority implemented GASB 68 for the year ended June 30, 2015. There is not data available for periods prior to June 30, 2013.

**Housing Authority City of Kennewick**  
**Schedule 16 -Schedule of Federal Expenditures and Awards**  
**MCAG NO. 1497** **For the fiscal year ended June 30, 2016**

Federal Agency Name	Federal Program Name	CFDA Number	Other Identification Number	From Direct Awards
<b>US Dept of HUD Direct Awards:</b>				
	Public & Indian Housing	14.850	WA01200113D	\$146,732
	Public & Indian Housing	14.850	WA01200114D	\$272,501
	<b>Total Public and Indian Housing</b>			<b>\$419,233</b>
	Section 8 HCV	14.871	WA012VO	\$5,466,684
	Lower Income Housing Assistance Program - Section 8 Moderate Rehab	14.856	WA012MR0001	\$1,330,206
	<b>Total Section 8</b>			<b>\$6,796,890</b>
	<b>Total US Department of Housing and Urban Development Direct</b>			<b>\$7,216,123</b>
<b>Capital Funds Direct Programs</b>				
	Public Housing Capital Fund Program	14.872	WA19P012501-12	\$12,797
	Public Housing Capital Fund Program	14.872	WA19P012501-13	\$48,498
	Public Housing Capital Fund Program	14.872	WA19P012501-14	\$52,449
	Public Housing Capital Fund Program	14.872	WA19P012501-15	\$12,962
	<b>Total Capital Funds</b>			<b>\$126,706</b>
<b>Total US Dept of HUD Awards:</b>				<b>\$7,342,829</b>
<b>Total Expenditures of Federal Awards</b>				<b>\$7,342,829</b>

**NOTE 1 – BASIS OF ACCOUNTING**

The Schedule of Expenditures of Federal Awards is prepared on the same basis of accounting as the Housing Authority City of Kennewick (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 – INDIRECT COSTS**

The Housing Authority has elected not to use the ten percent de minimis indirect cost rate as allowed under the Uniform Guidance.

# Actual Modernization Cost Certificate

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

OMB Approval No. 2577-0157 (exp. 1/31/2017)

## Comprehensive Improvement Assistance Program (CIAP) Comprehensive Grant Program (CGP)

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.

HA Name: <u>Housing Authority City of Kennewick</u>	Modernization Project Number: <u>WA 19P012501-11</u>
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The HA 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. Original Funds Approved	\$ <u>254,470<sup>00</sup></u>
B. Funds Disbursed	\$ <u>254,470<sup>00</sup></u>
C. Funds Expended (Actual Modernization Cost)	\$ <u>254,470<sup>00</sup></u>
D. Amount to be Recaptured (A-C)	\$
E. Excess of Funds Disbursed (B-C)	\$

2. That all modernization work in connection with the Modernization Grant has been completed;

3. That the entire Actual Modernization Cost or liabilities therefor incurred by the HA have been fully paid;

4. 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; and

5. That the time in which such liens could be filed has expired.

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)

Signature of Executive Director & Date:

X Lma Hamner 2/11/15

### For HUD Use Only

The Cost Certificate is approved for audit:

Approved for Audit (Director, Office of Public Housing / ONAP Administrator)

Date:

X [Signature]

03-04-2015

The audited costs agree with the costs shown above:

Verified: (Designated HUD Official)

Date:

X

Approved: (Director, Office of Public Housing / ONAP Administrator)

Date:

X

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U.S. Department of Housing and Urban Development

form HUD-53001 (1/2014)

# Actual Modernization Cost Certificate

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

OMB Approval No. 2577-0157 (exp. 1/31/2017)

Comprehensive Improvement Assistance Program (CIAP)  
Comprehensive Grant Program (CGP)

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.

HA Name:

Modernization Project Number:

*Housing Authority City of Kennewick*

*WA19PM120112*

The HA 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. Original Funds Approved

\$ *224,060*

B. Funds Disbursed

\$ *224,060*

C. Funds Expended (Actual Modernization Cost)

\$ *224,060*

D. Amount to be Recaptured (A-C)

\$

E. Excess of Funds Disbursed (B-C)

\$

2. That all modernization work in connection with the Modernization Grant has been completed;

3. That the entire Actual Modernization Cost or liabilities therefor incurred by the HA have been fully paid;

4. 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; and

5. That the time in which such liens could be filed has expired.

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)

Signature of Executive Director & Date:

X

*For HUD Use Only*

*7.25.16*

For HUD Use Only

The Cost Certificate is approved for audit:

Approved for Audit (Director, Office of Public Housing / ONAP Administrator)

Date:

*For Harlan Stewart*

*7/27/16*

The audited costs agree with the costs shown above:

Verified: (Designated HUD Official)

Date:

X

Approved: (Director, Office of Public Housing / ONAP Administrator)

Date:

X

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