

Washington State Auditor's Office
Financial Statements and Federal Single Audit Report

Housing Authority City of Kennewick
Benton County

Audit Period
July 1, 2012 through June 30, 2013

Report No. 1011497

Issue Date
March 24, 2014



WASHINGTON
TROY KELLEY
STATE AUDITOR



Washington State Auditor Troy Kelley

March 24, 2014

Board of Commissioners
Housing Authority City of Kennewick
Kennewick, Washington

Report on Financial Statements and Federal Single Audit

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

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

Sincerely,

A handwritten signature in black ink that reads "Troy X. Kelley". The signature is written in a cursive style.

TROY KELLEY
STATE AUDITOR

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Benton County
July 1, 2012 through June 30, 2013**

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Federal Summary

Housing Authority City of Kennewick Benton County July 1, 2012 through June 30, 2013

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

FINANCIAL STATEMENTS

An unmodified opinion was issued on the basic financial statements.

Internal Control Over Financial Reporting:

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

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

FEDERAL AWARDS

Internal Control Over Major Programs:

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

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

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

Identification of Major Programs:

The following were major programs during the period under audit:

<u>CFDA No.</u>	<u>Program Title</u>
14.871	Housing Voucher Cluster - Section 8 Housing Choice Vouchers
14.856	Section 8 Project-Based Cluster – Lower Income Housing Assistance Program – Section 8 Moderate Rehabilitation

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

The Housing Authority qualified as a low-risk auditee under OMB Circular A-133.

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

**Housing Authority City of Kennewick
Benton County
July 1, 2012 through June 30, 2013**

Board of Commissioners
Housing Authority City of Kennewick
Kennewick, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Housing Authority City of Kennewick, Benton County, Washington, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Housing Authority's basic financial statements, and have issued our report thereon dated March 18, 2014. The Housing Authority has omitted the management's discussion and analysis information that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements. Our opinion on the basic financial statements is not affected by this missing information.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Housing Authority's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we 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.

In addition, we noted certain matters that we have reported to the management of the Housing Authority in a separate letter dated March 18, 2014.

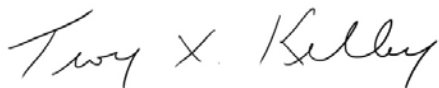
COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Housing Authority's financial statements are free from material misstatement, we performed tests of the Housing Authority's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PURPOSE OF THIS REPORT

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



TROY KELLEY
STATE AUDITOR

March 18, 2014

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

**Housing Authority City of Kennewick
Benton County
July 1, 2012 through June 30, 2013**

Board of Commissioners
Housing Authority City of Kennewick
Kennewick, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited the compliance of the Housing Authority City of Kennewick, Benton County, Washington, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013. The Housing Authority's major federal programs are identified in the accompanying Federal Summary.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Housing Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Housing Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the Housing Authority's compliance.

Opinion on Each Major Federal Program

In our opinion, the Housing Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the Housing Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Housing Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Housing Authority's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

PURPOSE OF THIS REPORT

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited.

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

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

TROY KELLEY
STATE AUDITOR

March 18, 2014

Independent Auditor's Report on Financial Statements

Housing Authority City of Kennewick Benton County July 1, 2012 through June 30, 2013

Board of Commissioners
Housing Authority City of Kennewick
Kennewick, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Housing Authority City of Kennewick, Benton County, Washington, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Housing Authority's basic financial statements as listed on page 11.

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 Housing Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Housing Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Housing Authority City of Kennewick, as of June 30, 2013, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis information that governmental accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.


Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Housing Authority's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The accompanying Financial Data Schedules are supplementary information required by HUD. These schedules are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated March 18, 2014 on our consideration of the Housing Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with

Government Auditing Standards in considering the Housing Authority's internal control over financial reporting and compliance.

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

TROY KELLEY
STATE AUDITOR

March 18, 2014

Financial Section

Housing Authority City of Kennewick Benton County July 1, 2012 through June 30, 2013

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2013

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

Statement of Cash Flows – 2013

Notes to Financial Statements – 2013

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2013

Notes to the Schedule of Expenditures of Federal Awards – 2013

Financial Data Schedule – Entity Wide Balance Sheet Summary – 2013

Financial Data Schedule – Entity Wide Revenue and Expense Summary – 2013

HOUSING AUTHORITY CITY OF KENNEWICK
STATEMENT OF NET POSITION
June 30, 2013

	TOTAL
<u>ASSETS</u>	
Current Assets	
Cash & Cash Equivalents	\$645,395
Cash & Cash Equivalents - Restricted	\$245,876
Cash & Cash Equivalents - Restricted FSS Escrow	\$32,852
Cash & Cash Equivalents - Restricted Security Deposit	\$35,825
Accounts Receivable, net	\$4,982
Accounts Receivable, Other Government	\$8,194
Accounts Receivable, HUD	\$93,371
Prepays	\$0
TOTAL CURRENT ASSETS	<u>\$1,066,495</u>
Non-Current Assets:	
Land	\$65,218
Building and Improvements	\$14,539,489
Furniture, Equipment & Machinery - Dwellings	\$301,974
Furniture, Equipment & Machinery - Admin.	\$440,348
Accumulated Depreciation	(\$7,966,416)
Construction in Progress	\$781,688
Total Capital Assets (Net)	\$8,162,301
TOTAL NONCURRENT ASSETS	<u>\$8,162,301</u>
TOTAL ASSETS	<u>\$9,228,796</u>
<u>LIABILITIES</u>	
Current Liabilities:	
Accounts Payable	\$21,704
Accounts Payable, Other	\$8,194
Compensated Absences - Short Term	\$19,589
Tenant Security Deposits	\$36,170
Current portion of LT Debt-Mortgage Revenue	\$7,205
Other current Liabilities	\$6,029
TOTAL CURRENT LIABILITIES	<u>\$98,891</u>
NonCurrent Liabilities:	
LT Debt, Net of Current-Capital Projects/Mortgage	\$120,219
LT Debt - Housing Trust Fund Recoverable Grant	\$268,183
LT Debt - Home Loan Forgivable Loan	\$53,213
Compensated Absences NonCurrent	\$29,382
Noncurrent Liabilities-Other	\$40,651
TOTAL NONCURRENT LIABILITIES	<u>\$511,648</u>
TOTAL LIABILITIES	<u>\$610,539</u>
<u>NET POSITION</u>	
Invested in Capital Assets, Net of Related Debt	\$7,713,481
Restricted Net Position	
FSS Program Restricted	\$7,093
Mitchell Manor Operating Reserve	\$8,238
Mitchell Manor Replacement Reserve	\$38,499
HCV Program Restricted Cash	\$144,249
Unrestricted Net Position	\$706,697
TOTAL NET POSITION	<u>\$8,618,257</u>

The notes to the financial statements are an integral part of this statement

HOUSING AUTHORITY CITY OF KENNEWICK
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
FOR THE YEAR ENDED JUNE 30, 2013

OPERATING REVENUES:	
Tenant Rent Revenue	\$412,110
Other Operating Revenue	<u>\$37,580</u>
Total Operating Revenues	<u>\$449,690</u>
OPERATING EXPENSES:	
Administrative Salaries	\$499,937
Compensated Absences	\$29,702
Auditing Fees	\$20,717
Employee Benefits Contribution	\$188,457
Other Operating - Administrative	\$249,105
Tenant Services - Other	\$16,438
Water	\$83,127
Electricity	\$30,242
Gas	\$2,137
Other Utilities Expense	\$46,243
Ordinary Maint & Oper - Labor	\$198,165
Ordinary Maint & Oper - Material/other	\$76,401
Ordinary Maint & Oper - Contract Costs	\$97,992
Ordinary Maint & Oper - Employee Benefits	\$86,611
Insurance Premiums	\$30,450
Protective Services Contracts	\$1,819
Other General Expense	\$11,032
Interest Expense	\$8,523
Depreciation	\$397,825
Housing Assistance Payments Housing Choice Vouchers	\$5,681,409
Total operating expenses	<u>\$7,756,332</u>
OPERATING INCOME (LOSS)	<u>(\$7,306,642)</u>
NONOPERATING REVENUES (EXPENSES):	
HUD Operating Subsidies	\$6,640,090
Other Government Grants	\$69,726
Interest and Dividend Income Non-restricted	\$1,198
Fraud Recovery	\$6,045
Gains (Losses) on Capital Asset Disposition	\$0
Other Nonoperating Revenue	\$70,554
Interest and Dividend Income Restricted	<u>\$405</u>
Total Nonoperating Revenues (Expenses)	<u>\$6,788,018</u>
Income Before Contributions, Transfers, Extraordinary and Special Items	(\$518,624) \$0
Capital Contributions	\$0
HUD Capital Grant	\$285,246
Extraordinary/Special Items	\$0
	<u>\$0</u>
CHANGE IN NET POSITION	<u>(\$233,378)</u>
Prior Period Adjustments	\$259,110
BEGINNING TOTAL NET POSITION, 6/30/12	<u>\$8,592,525</u>
ENDING TOTAL NET POSITION, 6/30/13	<u>\$8,618,257</u>

The notes to the financial statements are an integral part of this statement

MCAG # 1497 Housing Authority City of Kennewick
Statement of Cash Flow-Addendum
For the Year Ended June 30, 2013

NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES

Home Loan reduction of Long Term Liability Forgivable Loan	\$4,837
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Housing Authority City of Kennewick
Statement of Cash Flows
For the Year Ended June 30, 2013

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from tenants	\$447,430
Payments to suppliers	(\$648,878)
Payments to employees	(\$987,603)
Payments for Housing Assistance	(\$5,681,409)
Net cash provided/(used) by operating activities	(\$6,870,460)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Operating subsidies and grants	\$6,640,090
Other government grants	\$69,726
Other	\$94,440
Net cash provided/(used) from noncapital finance activities	\$6,804,256

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Capital grants received	\$285,246
Purchases of capital assets	-\$674,048
Principal/Interest paid on capital debt	-\$10,733
Net cash provided /(used) from capital financing activities	-\$399,535

CASH FLOWS FROM INVESTING ACTIVITIES

Tenant Security Deposit Increase	\$560
Interest on deposits	\$1,603
Other	\$0
Net cash provided (used) from investing activities	\$2,163

Net increase (decrease) in cash and cash equivalents (\$463,576)

Cash & cash equivalents at beginning of year \$1,423,524
Cash & cash equivalents at end of year \$959,948

Reconciliation of operating income to net cash provided by operating activities:

Adjustment to reconcile operating income to net cash provided by operating activities:

Operating income/(loss)	-\$7,300,451
Cash Provided (used) by operating activities:	
Depreciation expense	\$391,634
Changes in assets and liabilities:	
Accounts receivable Net of Allowance Doubtful Acct	\$2,260
Accounts Payable	\$651
Prepays/Deferred Revenue	\$48,789
Compensated Absences	-\$15,269
Other	\$1,926
Net cash provided by operating activities:	-\$6,870,460

The notes to the financial statements are an integral part of this statement

Housing Authority City of Kennewick
Notes to the Financial Statements
For the Year Ended June 30, 2013

These notes are an integral part of the accompanying financial statements.

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Housing Authority City of Kennewick 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):

a. Reporting Entity

The Housing Authority City of Kennewick is a municipal corporation governed by an appointed six-member board. As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity. (The Housing Authority City of Kennewick has no component units.)

b. Basis Of Accounting And Presentation

The accounting records of the Housing Authority are maintained and reported in accordance with methods prescribed by the State Auditor under the authority of Chapter 43.09 RCW and the Federal Department of Housing and Urban Development. The authority must report using GAAP; however, it has the option to use either the single enterprise proprietary fund or special purpose governmental fund model. One exception to GAAP reporting is the Schedule of Expenditures of Federal Awards (SEFA). Housing Authorities must report US Dept of Housing & Urban Development (HUD) ACC budget authority received during the Fiscal Year instead of expenditures on all programs except the Section 8 HCV program which report actual expenditures in the Fiscal Year according to HUD Accounting Issue #10.

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 is composed of a number of programs. These programs are designed to provide low income individuals with housing.

The Housing Authority has elected to not present a Management's Discussion & Analysis (MD&A)

Programs

The Housing Authority reports the following major enterprise programs:

The Low Income Housing program is comprised of 190 HUD subsidized public housing units.

The Capital Fund Program is an annual fund for modernization of selected public housing units and other capital and operating needs for public housing.

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

The Section 8 program has an ACC contract with the Dept of Housing & Urban Development for a maximum of 975 Housing Choice Vouchers.

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

Proprietary funds are used to account for activities that are operated in a manner similar to private enterprise business. Under this method revenues are recognized when earned and expenses are recognized when incurred. Capital asset purchases are capitalized and long-term liabilities are accounted for in the fund.

The Housing Authority City of Kennewick applies GASB pronouncements and has not elected to apply Financial Accounting Standard Board (FASB) statements and Accounting Principles Board (APB) pronouncements issued after November 30, 1989.

c. Cash and Cash Equivalents

It is the Housing Authority's policy to invest all temporary cash surpluses. At June 30, 2013, the Housing Authority was holding \$652,487 temporary unrestricted cash surplus. This amount is classified on the statement of net assets as cash and cash equivalents - Unrestricted. At June 30, 2013 the Housing Authority was holding \$307,461 in temporary Restricted surplus cash. This amount is classified on the statement of Net Assets as cash and cash equivalents-Restricted.

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

d. Capital Assets and Depreciation See Note 4

e. Restricted Assets

In accordance with bond resolutions (and certain related agreements) separate restricted accounts are required to be established. The assets held in these accounts are restricted for specific uses, including (construction,) debt service and other reserve requirements. Restricted resources currently include the following:

	Ending Balance
Cash and Investments - Section 8 HCV Program	\$192,046
Cash and Investments - Section 8 HCV Program-FSS Escrow	\$32,852
Cash and Investments - Tenant Security Deposits	\$35,825
Mitchell Manor Operating Reserve	\$8,238
Mitchell Manor Replacement Reserves	\$38,499
Total	\$307,460

f. Receivables

Tenant accounts receivable consist of amounts owed from tenants for housing services including amounts owed for which billings have not been prepared and an accounts receivable allowance amount creating a credit balance this fiscal year. 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.

g. Inventories

Inventories are valued by the FIFO method which approximates the market value.

h. Investments - See Note 3

i. Operating Revenues/Expenses

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

Compensated Absences

Compensated absences are absences for which Exempt employees may be paid vacation 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.

Vacation pay accumulates according to the following schedule:

Exempt & Non-exempt employee	1-5 years	10 hrs./mo.	(to maximum of 160 hrs.)
	6-10 years	12 hrs./mo.	(to maximum of 240 hrs.)
	11-15 years	14 hrs./mo.	(to maximum of 240 hrs.)
	15+ years	16 hrs./mo.	(to maximum of 240 hrs.)

Accumulated Vacation leave is payable on termination of employment. Accumulated Sick Leave is payable at 25% on termination of employment.

Note 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

There were no violations of finance-related, legal or contractual provisions.

Note 3 - DEPOSITS AND INVESTMENTS

A. 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).

B. Investments

The Housing Authority's investments are recorded at fair market value, which approximates historical cost.

The Housing Authority's savings 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). Per HUD directives, there is an executed general depository agreement (HUD form -51999 kept on file for each banking institution the Housing Authority has funds on deposit.

As of the year ended June 30, 2013, the Housing Authority had no funds considered investments.

Note 4 - CAPITAL ASSETS AND DEPRECIATION

A.

Major expenses for capital assets, including capital leases and major repairs that increase useful lives, are capitalized. Board Resolution #865 (10/26/2004) established a capitalization policy amount of \$3,000. Maintenance repairs and minor renewals are accounted for as expenses when incurred. Obligations under capital leases are disclosed in Note 7.

All capital assets are valued at historical cost or estimated historical cost, where historical cost is not known assets are recorded at estimated historical cost. Donations are recorded at fair market value at the recorded at fair market value at the time of donation or the appraised value.

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

Depreciation expense 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.

B. Capital asset activity for the year ended June 30, 2013 was as follows.

	Beginning Balance 7/1/2012	Increases	Decreases	Ending Balance 6/30/2013
Capital assets, not being depreciated:				
Land	\$65,218	0	0	\$65,218
Construction in Progress	\$427,451	\$354,237	0	\$781,688
Total capital assets, not being depreciated	\$492,669	\$354,237	\$0	\$846,906
Capital assets, being depreciated:				
Buildings and Improvements	\$14,263,420	\$276,069	0	\$14,539,489
Furn, Equip & Mach-Dwellings	\$258,233	\$43,741		\$301,974
Furn, Equip & Mach-Administration	\$471,734	\$0	31,386	\$440,348
Total capital assets being depreciated	\$14,993,387	\$319,810	31,386	\$15,281,811
Less accumulated depreciation for:				
Buildings				0
Furn, Equip & Mach	-\$7,748,556	-\$391,634	179,964	-\$7,960,225
Total accumulated depreciation	-\$7,748,556	-\$391,634	\$179,964	-\$7,960,225
Total capital assets, being depreciated, net	\$7,244,832	-\$71,824	-\$148,578	\$7,321,586
				0
TOTAL CAPITAL ASSETS, NET	\$7,737,500	\$282,414	-\$148,578	\$8,168,492

Note 5 - CONSTRUCTION IN PROGRESS

Construction in progress represents expenses to date on Public Housing Capital Fund projects whose authorizations total \$781,688. Of the committed balance of \$781,688, the authority will be required to raise \$0 in future financing.

Note 6 - SHORT TERM DEBT

During the year ended June 30, 2013, the following changes occurred in short-term liabilities:

	Beg Bal 7/1/2012	Additions 2012-2013	Reductions 2012-2013	End Balance 6/30/2013
Accounts Payable	\$12,361	\$17,537	\$0	\$29,898
Compensated Absences S	\$21,079	\$0	\$1,490	\$19,589
Tenant Security Deposits	\$35,610	\$560	\$0	\$36,170
Current Portion LT Debt	\$7,048	\$157	\$0	\$7,205
Other Current Liabilities	\$17,572	\$0	\$11,543	\$6,029
Total	\$93,670	\$18,254	\$13,033	\$98,891

Note 7 - LEASE COMMITMENTS

The Housing Authority of Kennewick is committed under various leases for 2013. These leases are considered operating leases for accounting purposes. Lease expenses for the year ended 6/30/2013 amounted to \$44,436. Future minimum rental commitments for these leases are as follows:

<u>Fiscal year ending</u>	
2014	\$45,223
2015	\$16,555
2016	\$0
Total	\$61,778

Note 8 - LONG-TERM DEBT AND LIABILITIESA. Long-Term Debt

- a.) \$268,183 - WA Housing Trust recoverable Grant
(WA Housing Trust 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 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 forty years.)
- b.) The Housing Authority has the following Other Non Current Liabilities:
- \$29,382 LT Compensated Absences
\$37,318 Section 8 FSS Escrow Program
\$46,737 Mitchell Manor Reserves

(A capital contribution, in the form of a recoverable grant, was received from Federal Home Loan Bank of Cincinnati, in the amount of \$84,000 contingent on the Mitchell Manor providing low-income households with a disabled person in the household and who at the initial occupancy have gross annual income at or below the Tri Cities, WA, MSA adjusted for family size, as estimated by HUD, for a commitment period of fifteen (15) years.)

- c.) Real Estate Mortgages

The Authority has long term loans secured by capital assets. These loans were used to acquire capital assets that provide low income housing. They are being repaid from revenues generated by the authority.

Purpose	Original Amt	Issue Date	Interest Rate	Amount Outstanding
120 S Benton St	\$122,586	7/1/2004	5.495	\$120,219
Home Forgivable	\$58,051	01/21/04	0.00	\$53,213
Total	\$180,637			\$173,432

The \$96,750 Home Loan is forgivable at a rate of 5% (\$4,837) per year, contingent on KHA to provide housing to low-income households who have 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 twenty (20) years.

- d.) Service Requirements to maturity for mortgages are as follows:

Year Ending June 30	Principal	Interest
2014	7,373	8,197
2015	7,532	8,040
2016	7,744	7,826
2017	7,951	7,620
2018-2023	39,001	34,114
2024-2029	40,335	24,386
2030-2035	43,500	18,987
2036-2036	19,996	10,112
Total	173,432	119,282

(Arbitrage does not apply)

- f.) Changes in Long Term Liabilities

During the year ended June 30, 2013, the following changes occurred in long-term liabilities:

	Beg Bal 7/1/12	Additions 2012-2013	Reductions 2012-2013	Ending Balance	Due Within One Year
Home-Forgivable loan	\$58,051	\$0	\$4,838	\$53,213	\$4,837
Mitchell Manor Mortgage	\$124,797	\$0	\$4,578	\$120,219	\$2,368
Compensated Absences	\$26,786	\$2,596	\$0	\$29,382	\$0
Total	\$209,634	\$2,596	\$9,416	\$202,814	\$7,205

Note 9 - PENSION PLANS

Substantially all Housing Authority 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 retirement plans.¹ 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: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380; or it may be downloaded from the DRS website at www.drs.wa.gov. The following disclosures are made pursuant to GASB Statements 27, *Accounting for Pensions by State and Local Government Employers* and 50, *Pension Disclosures, an Amendment of GASB Statements 25 and 27*.

Public Employees' Retirement System (PERS) Plans 1, 2, and 3

Plan Description

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts; employees of legislative committees; employees of district and municipal courts; and employees of local governments. Membership also includes higher education employees not participating in higher education retirement programs. Approximately 49 percent of PERS salaries are accounted for by state employment. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a defined benefit plan with a defined contribution component.

PERS members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercised an option to transfer their membership to Plan 3. PERS members joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or Plan 3. The option must be exercised within 90 days of employment. Employees who fail to choose within 90 days default to Plan 3.

PERS is comprised of and reported as three separate plans for accounting purposes: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members, and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

PERS Plan 1 and Plan 2 retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2013, the rate was five and one-half percent compounded quarterly. Members in PERS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon, in lieu of any retirement benefit, upon separation from PERS-covered employment.

PERS Plan 1 members are vested after the completion of five years of eligible service.

PERS Plan 1 members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with 25 years of service, or at age 60 with at least 10 years of service. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits.

The monthly benefit is 2 percent of the average final compensation (AFC) per year of service, but the benefit may not exceed 60 percent of the AFC. The AFC is the monthly average of the 24 consecutive highest-paid service credit months.

PERS Plan 1 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity. The benefit amount is \$350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60, at which time the benefit is converted to the member's service retirement amount.

A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the benefit amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. Plan 1 members may elect to receive an optional COLA amount (based on the Consumer Price Index), capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is 2 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

PERS Plan 2 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 reduced benefit. The benefit is reduced by an early retirement factor (ERF) that varies according to age, for each year before age 65.

PERS Plan 2 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions, if hired prior to May 1, 2013:

- With a benefit that is reduced by 3 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 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of 5 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.

PERS Plan 2 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. As established by Chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 percent to 15 percent of salaries, based on member choice. Members who do not choose a contribution rate default to a 5 percent rate. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

PERS Plan 3 defined contribution retirement benefits are dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member's self-direction, PERS Plan 3 contributions are invested in the Retirement Strategy Fund that assumes the member will retire at age 65.

For DRS' Fiscal Year 2013, PERS Plan 3 employee contributions were \$99.0 million, and plan refunds paid out were \$69.4 million.

The defined benefit portion of PERS Plan 3 provides members a monthly benefit that is 1 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit, and Plan 3 provides the same cost-of-living allowance as Plan 2.

The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion. The Plan 3 employee contribution rates range from 5 percent to 15 percent.

Effective June 7, 2006, PERS 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 twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 by June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan.

Vested Plan 3 members are eligible for normal retirement at age 65, or they may retire early with the following conditions and benefits:

If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65.

If they have 30 service credit years and are at least 55 years old, and were hired before May 1, 2013, they have the choice of a benefit that is reduced by 3 percent for each year before age 65; or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.

If they have 30 service credit years, are at least 55 years old, and were hired after May 1, 2013, they have the option to retire early by accepting a reduction of 5 percent for each year before age 65.

PERS Plan 3 benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is 2 percent of the AFC per year of service. For Plan 3, the monthly benefit amount is 1 percent of the AFC per year of service. These disability benefit amounts are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option. There is no cap on years of service credit, and a cost-of-living allowance is granted (based on the Consumer Price Index) capped at 3 percent annually.

PERS members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.

A one-time duty-related death benefit is provided to the beneficiary or the estate of a PERS member who dies as a result of injuries sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

From January 1, 2007 through December 31, 2007, judicial members of PERS were given the choice to elect participation in the Judicial Benefit Multiplier (JBM) Program enacted in 2006. Justices and judges in PERS Plan 1 and Plan 2 were able to make an irrevocable election to pay increased contributions that would fund a retirement benefit with a 3.5 percent multiplier. The benefit would be capped at 75 percent of AFC. Judges in PERS Plan 3 could elect a 1.6 percent of pay per year of service benefit, capped at 37.5 percent of AFC.

Newly elected or appointed justices and judges who chose to become PERS members on or after January 1, 2007, or who had not previously opted into PERS membership, were required to participate in the JBM Program.

There are 1,176 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2012¹:

Retirees and Beneficiaries Receiving Benefits	82,242
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	30,515
Active Plan Members Vested	106,317
Active Plan Members Nonvested	44,273
Total	263,347

Funding Policy

Each biennium, the state Pension Funding Council adopts PERS Plan 1 employer contribution rates, PERS Plan 2 employer and employee contribution rates, and PERS Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion. The Plan 3 employee contribution rates range from 5 percent to 15 percent.

As a result of the implementation of the Judicial Benefit Multiplier Program in January 2007, a second tier of employer and employee rates was developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program.

The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.40 and 41.45 RCW.

Both the Housing Authority City of Kennewick and the employees made the required contributions. The Housing Authority's required contributions for the years indicated were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
6/30/2013	\$0.00	\$40,530.07	\$7,838.63
6/30/2012	\$0.00	\$41,924.28	\$7,788.90
6/30/2011	\$782.90	\$33,380.84	\$4,333.25

Note 10 - MAJOR COMPONENT UNIT INFORMATION

There were no major component units.

Note 11 - MATERIAL RELATED PARTY TRANSACTIONS

There were no related party transactions for the year.

Note 12 - ACCOUNTING CHANGES

No significant changes.

Note 13 - PRIOR PERIOD ADJUSTMENTS And CORRECTION OF ERRORS

There were prior period adjustments made for overstated & understated depreciation of assets and OPEB contributions from prior years.

Note 14 - CONTINGENCIES AND LITIGATION

The Housing Authority participates in a number of federal-assisted programs. These grants are subject to audit by the grantors or their representatives. Such audits could result in requests for reimbursement to grantor agencies for expenditures disallowed under the terms of the grants. Housing Authority management believes that such a disallowances, if any, will be immaterial.

A former employee of the Housing Authority alleges discrimination and retaliation in connection with her employment and the termination thereof, and litigation of this matter is possible.

Note 15 - SUBSEQUENT EVENTS

The Housing Authority purchased land in November 2013 made possible by Grants awarded from Benton/Franklin County Human Services 2060 & 2163 funds and a Low Impact Capital loan for the construction of 32 units for homeless/disabled households. In December 2013, the WA State Housing Trust Fund awarded \$1,107,270 for partial funding of the project. In January 2013 the Housing Authority applied for LIHTC (Low Income Tax Credits) from the WA State Housing Finance Commission. The balance of the project will be funded with a financial institution mortgage. The Housing Authority is considering applying to HUD to project base a portion of the units though the Section 8 Housing Choice Voucher program.

Note 16 - JOINT VENTURES

None.

Note 17 - RISK MANAGEMENT**A. HARRP (Housing Authorities Risk Retention Pool)**

The Housing Authority of the City Kennewick is a member of the Housing Authorities Risk Retention Pool (HARRP).

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

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

General and Automobile Liability coverages are written on an occurrence basis, without member deductibles. Errors & Omissions coverage (which includes Employment Practices Liability) is written on a claims made basis, and the members are responsible for 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 \$1,000 to \$25,000. Fidelity coverage, with limits of \$100,000 (with options up to \$500,000) for employee dishonesty and forgery or alteration and \$10,000 for theft are also provided with deductibles the same as for Property.

Coverage limits for General Liability, Errors & Omissions and Property are \$2,000,000 per occurrence and \$2,000,000 annual aggregate. There is no purchased reinsurance above this limit. For property, HARRP retains \$2,000,000 and \$63,000,000 if reinsurance from St Paul/Travelers Insurance Company for a combined total of \$65,000,000. The HARRP Board of Directors determines the limits and coverage terms, at its sole discretion.

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

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

The Housing Authority has coverage limits for general liability & Property at \$2,000,000 per occurrence and \$ 2,000,000 aggregate. Errors & Omissions at \$2,000,000 per occurrence and \$50% copay. Automobile has full coverage including medical, bodily injury and property damage (in accordance with state law) and \$2,000,000 per occurrence.

UNPAID CLAIM LIABILITY

The pool establishes a liability for both reported and unreported insured events at undiscounted amounts, which includes estimates of both future payment of losses and related claims adjustment expenses. The following represents changes in liabilities for the Pool during the years ended December 31:

	2012	2011
Losses and loss adjustment expense reserves, at Beginning of Year	\$ 3,183,856	\$ 2,692,103
Incurred losses and loss Adjustment Expenses:		
Provision for covered Events of the Current Year	5,386,896	3,580,591
Increase (Decrease) in Provision for Covered Events of Prior Years	806,423	710,333
Total Incurred losses and loss Adjustment Expenses	6,193,319	4,290,924
Payments:		
losses and loss Adjustment Expenses Attributable to covered Events of the Current Year	1,380,908	1,148,261
Losses and loss adjustment Expenses Attributable to covered Events of Prior Years	2,490,222	2,650,910
Total Payments	3,871,130	3,799,171
Loss and loss adjustment expense reserves, end of year	\$ 5,506,045	\$ 3,183,856
Detail of Losses and loss adjustment expense reserves		
Current Portion	\$ 3,854,232	\$ 2,228,699
Long Term Portion	1,651,813	955,157
	\$ 5,506,045	\$ 3,183,856

* From HAARPS (Housing Authority Risk Retention Pool and Subsidiary) 2012 Annual Report

MCAG # 1497**HOUSING AUTHORITY CITY OF KENNEWICK****SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

For the Year Ended June 30, 2013

1	2	3	4	5	
Federal Agency Name/Pass-through Agency Name	Federal Program Name	CFDA Number	Other Identification Number	From Pass-Through Awards	From Direct Awards
	US Dept of HUD Direct Awards:				
	Public & Indian Housing	14.850	WA01200112D		\$117,012
	Public & Indian Housing	14.850	WA01200113D		\$189,450
	Section 8 HCV	14.871	WA012VO		\$5,186,189
	Section 8 HCV - Moderate Rehabilitation	14.856	WA012MR0001		\$1,019,088
	Public Housing Capital Fund Program	14.872	WA19P012501-09		\$120,838
	Public Housing Capital Fund Program	14.872	WA19P012501-10		\$84,585
	Public Housing Capital Fund Program	14.872	WA19P012501-11		\$132,506
	Public Housing Capital Fund Program	14.872	WA19P012501-12		\$46,058
	Total Public Housing Capital Fund Program				\$383,987
	Total US Dept of HUD Awards:				\$6,895,726
	Total Expenditures of Federal Awards				\$6,895,726

The accompanying Notes to the Schedule of Expenditures of Federal Awards is an integral part of this statement

MCAG # 1497

Housing Authority City of Kennewick

Notes to the Schedule of Expenditures of Federal Awards
July 1, 2012 through June 30, 2013

NOTE 1 - BASIS OF ACCOUNTING

The Schedule of Expenditures of Federal Awards is prepared on the same basis of accounting as the Housing Authority's financial statements.

In accordance with generally accepted accounting principles the Housing Authority uses the full-accrual basis of accounting: revenues are recognized when earned; and expenses are recognized when incurred.

NOTE 2 – PROGRAM COSTS

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

NOTE 4 - GAAP REPORTING EXCEPTION - Schedule of Expenditures of Federal Awards (SEFA).

On the Schedule of Expenditures of Federal Awards (SEFA) a departure from GAAP reporting: Housing Authorities must report US Dept of Housing & Urban Development (HUD) ACC budget authority received during the Fiscal Year instead of expenditures on all programs except the Section 8 HCV program which report actual expenditures in the Fiscal Year according to HUD Accounting Issue #10.

HA City of Kennewick (WA012)
KENNEWICK, WA

Entity Wide Balance Sheet Summary

Submission Type: Audited/A-133

Fiscal Year End: 06/30/2013

	PH	14,871 Housing Choice Vouchers	1 Business Activities	9 Other Federal Program 2	Subtotal	Total
111 Cash - Unrestricted	\$288,887	\$67,855	\$92,537	\$196,116	\$645,395	\$645,395
112 Cash - Restricted - Modernization and Development						
113 Cash - Other Restricted		\$224,898	\$53,830		\$278,728	\$278,728
114 Cash - Tenant Security Deposits	\$34,469		\$1,356		\$35,825	\$35,825
115 Cash - Restricted for Payment of Current Liabilities						
100 Total Cash	\$323,356	\$292,753	\$147,723	\$196,116	\$959,948	\$959,948
121 Accounts Receivable - PHA Projects	\$8,194				\$8,194	\$8,194
122 Accounts Receivable - HUD Other Projects	\$93,371				\$93,371	\$93,371
124 Accounts Receivable - Other Government						
125 Accounts Receivable - Miscellaneous						
126 Accounts Receivable - Tenants	\$5,082				\$5,082	\$5,082
126.1 Allowance for Doubtful Accounts - Tenants	-\$100				-\$100	-\$100
126.2 Allowance for Doubtful Accounts - Other	\$0		\$0		\$0	\$0
127 Notes, Loans, & Mortgages Receivable - Current						
128 Fraud Recovery						
128.1 Allowance for Doubtful Accounts - Fraud						
129 Accrued Interest Receivable						
120 Total Receivables, Net of Allowances for Doubtful Accounts	\$106,547	\$0	\$0	\$0	\$106,547	\$106,547
131 Investments - Unrestricted						
132 Investments - Restricted						
135 Investments - Restricted for Payment of Current Liability						
142 Prepaid Expenses and Other Assets						
143 Inventories						
143.1 Allowance for Obsolete Inventories						
144 Inter Program Due From						
145 Assets Held for Sale						

150 Total Current Assets	\$429,903	\$292,753	\$147,723	\$196,116	\$1,066,495	\$1,066,495
161 Land	\$50,247		\$14,971		\$65,218	\$65,218
162 Buildings	\$13,774,056		\$765,433		\$14,539,489	\$14,539,489
163 Furniture, Equipment & Machinery - Dwellings	\$301,974				\$301,974	\$301,974
164 Furniture, Equipment & Machinery - Administration	\$430,747		\$9,601		\$440,348	\$440,348
165 Leasehold Improvements						
166 Accumulated Depreciation	-\$7,743,147		-\$223,269		-\$7,966,416	-\$7,966,416
167 Construction in Progress	\$709,711		\$71,977		\$781,688	\$781,688
168 Infrastructure						
160 Total Capital Assets, Net of Accumulated Depreciation	\$7,523,588	\$0	\$638,713	\$0	\$8,162,301	\$8,162,301
171 Notes, Loans and Mortgages Receivable - Non-Current						
172 Notes, Loans, & Mortgages Receivable - Non Current - Past Due						
173 Grants Receivable - Non Current						
174 Other Assets						
176 Investments in Joint Ventures						
180 Total Non-Current Assets	\$7,523,588	\$0	\$638,713	\$0	\$8,162,301	\$8,162,301
190 Total Assets	\$7,953,491	\$292,753	\$786,436	\$196,116	\$9,228,796	\$9,228,796
311 Bank Overdraft						
312 Accounts Payable <= 90 Days	\$11,298	\$3,765	\$651	\$1,785	\$17,499	\$17,499
313 Accounts Payable >90 Days Past Due						
321 Accrued Wage/Payroll Taxes Payable	\$1,344	\$4,205	\$1,081	\$2,911	\$9,541	\$9,541
322 Accrued Compensated Absences - Current Portion	\$12,483	\$6,056	\$297	\$753	\$19,589	\$19,589
324 Accrued Contingency Liability						
325 Accrued Interest Payable			\$693		\$693	\$693
331 Accounts Payable - HUD PHA Programs						
332 Account Payable - PHA Projects		\$8,194			\$8,194	\$8,194
333 Accounts Payable - Other Government						
341 Tenant Security Deposits	\$34,970		\$1,200		\$36,170	\$36,170
342 Deferred Revenues						
343 Current Portion of Long-term Debt - Capital Projects/Mortgage Revenue			\$7,205		\$7,205	\$7,205
344 Current Portion of Long-term Debt - Operating Borrowings						
345 Other Current Liabilities						
346 Accrued Liabilities - Other						

HA City of Kennewick (WA012)
KENNEWICK, WA

Entity Wide Revenue and Expense Summary

Submission Type: Audited/A-133

Fiscal Year End: 06/30/2013

	PH	14,871 Housing Choice Vouchers	1 Business Activities	9 Other Federal Program 2	Subtotal	Total
70300 Net Tenant Rental Revenue	\$401,834		\$10,276		\$412,110	\$412,110
70400 Tenant Revenue - Other	\$35,546		\$2,034		\$37,580	\$37,580
70500 Total Tenant Revenue	\$437,380	\$0	\$12,310	\$0	\$449,690	\$449,690
70600 HUD PHA Operating Grants	\$405,203	\$5,215,879		\$1,019,008	\$6,640,090	\$6,640,090
70610 Capital Grants	\$285,246				\$285,246	\$285,246
70710 Management Fee						
70720 Asset Management Fee						
70730 Book Keeping Fee						
70740 Front Line Service Fee						
70750 Other Fees						
70700 Total Fee Revenue						
70800 Other Government Grants	\$40,150		\$29,576		\$69,726	\$69,726
71100 Investment Income - Unrestricted	\$978	\$52	\$168		\$1,198	\$1,198
71200 Mortgage Interest Income						
71300 Proceeds from Disposition of Assets Held for Sale						
71310 Cost of Sale of Assets						
71400 Fraud Recovery		\$4,022		\$2,023	\$6,045	\$6,045
71500 Other Revenue	\$34,568	\$30,210	\$4,837	\$939	\$70,554	\$70,554
71600 Gain or Loss on Sale of Capital Assets						
72000 Investment Income - Restricted		\$405			\$405	\$405
70000 Total Revenue	\$1,203,525	\$5,250,568	\$46,891	\$1,021,970	\$7,522,954	\$7,522,954
91100 Administrative Salaries	\$187,027	\$256,819	\$2,510	\$53,581	\$499,937	\$499,937
91200 Auditing Fees	\$10,773	\$8,494	\$207	\$1,243	\$20,717	\$20,717
91300 Management Fee						
91310 Book-keeping Fee						

96110	Property Insurance	\$7,053		\$604		\$7,657	\$7,657
96120	Liability Insurance	\$12,559	\$2,601		\$975	\$16,135	\$16,135
96130	Workmen's Compensation						
96140	All Other Insurance	\$3,547	\$2,596	\$130	\$386	\$6,659	\$6,659
96100	Total Insurance Premiums	\$23,159	\$5,197	\$734	\$1,361	\$30,451	\$30,451
96200	Other General Expenses		\$1,889			\$1,889	\$1,889
96210	Compensated Absences	\$20,545	\$8,415	\$742		\$29,702	\$29,702
96300	Payments in Lieu of Taxes						
96400	Bad debt - Tenant Rents	\$910				\$910	\$910
96500	Bad debt - Mortgages						
96600	Bad debt - Other	\$8,233				\$8,233	\$8,233
96800	Severance Expense						
96000	Total Other General Expenses	\$29,688	\$10,304	\$742	\$0	\$40,734	\$40,734
96710	Interest of Mortgage (or Bonds) Payable			\$8,523		\$8,523	\$8,523
96720	Interest on Notes Payable (Short and Long Term)						
96730	Amortization of Bond Issue Costs						
96700	Total Interest Expense and Amortization Cost	\$0	\$0	\$8,523	\$0	\$8,523	\$8,523
96900	Total Operating Expenses	\$1,018,263	\$538,973	\$29,379	\$90,483	\$1,677,098	\$1,677,098
97000	Excess of Operating Revenue over Operating Expenses	\$185,262	\$4,711,595	\$17,512	\$931,487	\$5,845,856	\$5,845,856
97100	Extraordinary Maintenance						
97200	Casualty Losses - Non-capitalized						
97300	Housing Assistance Payments		\$4,644,810		\$1,034,193	\$5,679,003	\$5,679,003
97350	HAP Portability-In		\$2,406			\$2,406	\$2,406
97400	Depreciation Expense	\$372,311		\$25,514		\$397,825	\$397,825
97500	Fraud Losses						
97600	Capital Outlays - Governmental Funds						
97700	Debt Principal Payment - Governmental Funds						
97800	Dwelling Units Rent Expense						
90000	Total Expenses	\$1,390,574	\$5,186,189	\$54,893	\$1,124,676	\$7,756,332	\$7,756,332
10010	Operating Transfer In						



ABOUT THE STATE AUDITOR'S OFFICE

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

We work with our audit clients and citizens as an advocate for government accountability. As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

The State Auditor's Office employees are located around the state to deliver services effectively and efficiently.

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

The results of our work are widely distributed through a variety of reports, which are available on our Web site and through our free, electronic subscription service.

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

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