Office of the Washington State Auditor
Pat McCarthy

November 21, 2019

Board of Commissioners
Vancouver Housing Authority
Vancouver, 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 financial statements and compliance with federal grant requirements of the Vancouver Housing Authority for the fiscal year ended December 31, 2018. The Housing Authority contracted with the CPA firm for this audit and requested that we accept it in lieu of performing our own audit.

Based on this review, we have accepted this report in lieu of the audit required by RCW 43.09.260. The Office of the Washington State Auditor did not audit the accompanying financial statements or the Vancouver Housing Authority's 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 Office of the Washington State Auditor website as a matter of public record.

Sincerely,

Pat McCarthy

State Auditor

Olympia, WA

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HOUSING AUTHORITY OF THE CITY OF VANCOUVER

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

Loveridge Hunt & Co., PLLC

CERTIFIED PUBLIC ACCOUNTANTS

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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 noted: _______ Yes ___X___ No

FEDERAL AWARDS

Internal control over major programs:

- Material weakness(es) identified? _______ Yes ___X___ No

- Significant deficiency(ies) identified that are not considered to be material 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 programs:

CFDA Numbers	Name of Federal Program or Cluster
14.129	Mortgage Insurance Nursing Homes, Intermediate Care Facilities, Board and Care Homes and Assisted Living Facilities
14.881	Moving to Work Demonstration Program

Housing Authority of the City of Vancouver

Schedule of Findings and Questioned Costs

For the Year Ended December 31, 2018

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

Dollar threshold used to distinguish between Type A and Type B programs:		$ 1,007,393
Auditee qualified as low-risk auditee:	X Yes	____ 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 of the City of Vancouver
Vancouver, 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 and the aggregate discretely presented component units of the Housing Authority of the City of Vancouver (the Authority), as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated July 29, 2019.

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.

14725 SE 36th Street, Suite 401, Bellevue, WA 98006 Phone (425) 453-2088 Fax (425) 646-3368

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 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 from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

Loeridge Hunt + Co, PLLC

Bellevue, Washington
July 29, 2019

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 of the City of Vancouver
Vancouver, Washington

Report on Compliance for Each Major Federal Program

We have audited the Housing Authority of the City of Vancouver'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 each of the Authority's major federal programs for the year ended December 31, 2018. 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the 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. However, our audit does not provide a legal determination of the Authority's compliance.

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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 each of its major federal programs for the year ended December 31, 2018.

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 each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the 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 a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

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.

Loveridge Hunt & Co, PLLC

Bellevue, Washington
July 29, 2019

Loveridge Hunt & Co., PLLC
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

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

Report on Financial Statements

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of the Housing Authority of the City of Vancouver (the Authority), as of and for the year ended December 31, 2018, 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.

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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 business-type activities and the aggregate discretely presented component units of the Authority as of December 31, 2018, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 12 to 20 and pension schedules on pages 56 to 60 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 operational, 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 Awards Regulations* 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 Schedule of State and Local Financial Assistance is required by management and is not a required part of the basic financial statements. The Actual Modernization Cost Certificates and Financial Data Schedule are presented for the purpose of additional analysis as required by HUD, and are also not a required part of the basic financial statements.

The supplementary 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 July 29, 2019, 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. The purpose of that report is solely 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 the effectiveness of the Authority's 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.

Loeridge Hunt + Co, PLLC

Bellevue, Washington
July 29, 2019

FINANCIAL SECTION

As management of the Housing Authority of the City of Vancouver (the Authority), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the year ended December 31, 2018.

The Authority's Management's Discussion and Analysis (MD&A) is designed to: (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the Authority's financial activities for the period, (c) identify changes in the Authority's financial position (its ability to address the next and subsequent year challenges) and (d) identify individual program issues or concerns.

Since the MD&A is designed to focus on the current period's activities, resulting changes and currently known facts, it should be read in conjunction with the Authority's Financial Statements and Notes.

Overview of the Housing Authority of the City of Vancouver

The Authority's purpose is to provide and promote decent, safe and affordable housing for low-income persons residing in Clark County, Washington. The Authority's mission is to provide opportunities to people who experience barriers to housing because of income, disability or special needs in an environment which preserves personal dignity, and in a manner which maintains the public trust.

The Authority's Board of Commissioners has directed management to diversify its portfolio thereby reducing its heavy reliance on Federal funds provided through the United States Department of Housing and Urban Development (HUD). The Authority's approach to meet this directive has been to develop locally financed projects to bring added capacity to serve the community. Since early 1990's, the Authority has acquired existing or built new housing projects utilizing a combination of local, State, and Federal funds to augment traditional Federal housing programs. Primary sources consisted of housing revenue bonds as debt and Low Income Housing Tax Credits as equity. While traditional Public Housing (HUD funded) is debt free, locally developed housing is leveraged with debt, which requires a steady stream of rental income and exposes the Authority to additional financing risk.

Federally appropriated subsidy for Public Housing continues to be underfunded and HUD has been advising Congress to find other ways to deal with this aging housing stock. By anticipating such policies, the Authority has divested or reorganized its Public Housing portfolio since 2008. By the end of 2015, all of its 575 traditional public housing units were either sold or converted to other available subsidized programs such as Section 8 project-based vouchers or Rental Assistance Demonstration (RAD) vouchers.

The Authority is one of 39 housing authorities across the country participating in HUD's Moving to Work (MTW) Demonstration program. Originally authorized under the Omnibus Consolidated Rescissions and Appropriations Act of 1996, the MTW program offers public housing authorities the opportunity to design and test innovative, locally-designed housing and self-sufficiency strategies. The program allows certain exceptions from federal rules governing the Public Housing and Section 8 Housing Choice Voucher (HCV) programs and in some cases offers flexibility in the funding of these programs.

For further detail on how funds are allocated and spent, please refer to the Authority's MTW Annual Plan and Report. Copies can be found on our website www.vhausa.com.

Financial Highlights

- While construction of Skyline Crest and Orchard Glen Apartments has been completed during 2016 and 2017, we received significant remaining low income housing tax credit capital contributions from limited partners during 2018, which were used to pay off construction debt for the properties.
- We began construction of Caples Terrace Apartments, a 30-unit apartment complex for homeless youth financed primarily with 9% low-income housing tax credits and grouped with other Discretely Presented Component Units on the financial statements.
- We completed construction of Bridgeview Education and Employment Resource Center, a community center designed to bring together various service providers to assist Clark County low-income residents in a more convenient manner.
- We have acquired limited partners' interests in Anthem Park at Uptown Village LP, Plum Meadows LP and Esther Short Commons LP and have transferred those assets to VHA main portfolio at the end of 2017. This transaction is responsible for notable increase in Business Type Activity column revenues and expenses and corresponding decrease in Component Units items from 2017 to 2018.

Overview of the Financial Statements

The Authority's Financial Statements consist of two parts – Management's Discussion and Analysis (this section) and the Financial Statements. The Financial Statements include the government-wide Financial Statements and Notes to the Financial Statements. The Authority is a stand alone governmental entity engaged only in business type activities. Accordingly, only fund financial statements are presented as the Financial Statements.

The Financial Statements include a Statement of Net Position, Statement of Revenues, Expenses and Changes in Fund Net Position and a Statement of Cash Flows. The Financial Statements report information about the Authority as a whole using accounting methods similar to those used by private sector companies.

The Statement of Net Position, which is similar to a balance sheet, reports all financial and capital assets of the Authority and is presented in a format where assets and deferred outflows minus liabilities and deferred inflows equals net position. Net position is broken into the following three categories.

- **Net investment in capital assets** consist of all capital assets, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of these assets.

- **Restricted** consists of restricted assets when constraints are placed on the assets by creditors (such as debt covenants), grantors, contributors, laws, or regulations.
- **Unrestricted** consists of unrestricted assets that do not meet the definition of net investment in capital assets.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Position regardless of when cash is received or paid.

Statement of Cash Flows discloses net cash provided by or used in operating activities, noncapital financing activities, capital and related financing activities, and investing activities.

Finally, the Notes provide additional information that is essential to a full understanding of the data provided and are an integral part of the Financial Statements.

The government-wide Financial Statements include seven legally separate tax credit partnerships (Component Units) for which the Authority is financially accountable. Their financial information is reported in total in a separate column. The Authority (Business Type Activity) column includes nine separate legal entities that were formed to help meet the mission of the Authority; the Authority maintains complete control over these entities.

Financial Analysis of the Authority

The following statements are condensed versions of our financial statements, for the purpose of analysis and discussion. See full Financial Statements for more detail.

Condensed Statement of Net Position

	Business Type Activity		Component Units	
	12/31/2018	12/31/2017	12/31/2018	12/31/2017
Current and Other Assets	$ 102,575,407	$ 106,571,444	$ 4,129,566	$ 4,433,100
Capital Assets	99,772,121	99,519,298	86,746,230	86,186,956
Total Assets	202,347,528	206,090,742	90,875,796	90,620,056
Deferred Outflows of Resources	4,276,799	5,182,990	-	-
Current Liabilities	33,907,628	41,360,412	4,819,293	15,772,354
Long-term Liabilities	75,963,017	81,400,245	61,828,773	59,575,156
Total Liabilities	109,870,645	122,760,657	66,648,066	75,347,510
Deferred Inflows of Resources	3,191,372	3,802,592	-	-
Net Investment in Capital Assets	16,343,412	13,376,406	24,140,084	14,195,278
Restricted	32,361,067	32,480,301	2,916,408	2,381,117
Unrestricted	44,857,831	38,853,776	(2,828,762)	(1,303,849)
Total Net Position	$ 93,562,310	$ 84,710,483	$ 24,227,730	$ 15,272,546
Debt to Asset Ratio	54.3%	59.6%	73.3%	83.1%

Major Factors Affecting Statement of Net Position

Both the Authority and the Component Units Debt to Asset ratio improved significantly due to Skyline Crest and Orchard Glen Apartments construction debt repayments from scheduled limited partner contributions as both properties' construction was financed with Authority issued debt.

The Authority total assets as of December 31, 2018 were $202.3 million – a decrease of $3.7 million, primarily resulting from decrease in construction-related receivables from Component Units. Component Units total assets stayed nearly constant as increase in capital asset from Caples Terrace construction was offset with general increase in accumulated depreciation.

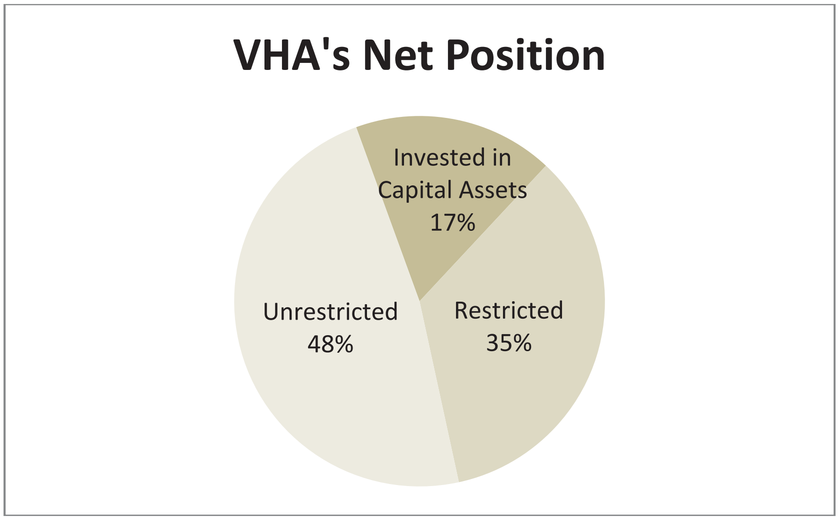
Both the Authority and Component Units total liabilities decreased significantly as a result of construction debt repayments from scheduled limited partner contributions.

Restricted assets of the Authority and Component Units represent special funds set aside for debt service, replacement reserves, construction activities and operating shortfalls as required in bond covenants, contracts, or HUD regulations.

Unrestricted assets of the Authority generally represent excess cash available, deferred developer fees and other receivables to be collected. The following chart illustrates the portions of net position in Business Type Activities invested in capital assets, restricted and unrestricted:

VHA Net Position

Invested in Capital Assets	17%	$ 16,343,412
Restricted	35%	32,361,067
Unrestricted	48%	44,857,831
	100%	$ 93,562,310



Condensed Statement of Revenue, Expense, and Changes in Fund Net Position

	Business Type Activities		Component Units	
	12/31/2018	12/31/2017	12/31/2018	12/31/2017
Revenues				
Operating Revenues				
Tenant Receipts	$21,688,043	$ 17,156,725	$ 5,879,083	$ 9,469,571
Other Operating Revenues	9,537,854	9,429,560	76,600	257,003
HUD Operating Subsidies	23,523,831	23,255,680	-	-
Non-operating Revenues				
Investment Income	2,100,389	3,137,867	5,163	2,505
Developer Fees	404,293	361,947	-	-
Gain/(Loss) on Disposed Property	11,891	455,382	-	-
Total Revenues	57,266,301	53,797,161	5,960,846	9,729,079
Expenses				
Operating Expenses				
Other Operating	18,567,446	16,918,436	3,630,585	5,252,328
Housing Assistance Payments	22,295,955	23,151,913	-	-
Depreciation	4,046,939	3,013,877	2,987,150	4,487,135
Non-Operating Expenses				
Interest Expense	4,425,992	5,768,074	2,356,823	3,689,641
Total Expense	49,336,332	48,852,300	8,974,558	13,429,104
Income (Loss) Before Contributions &	7,929,969	4,944,861	(3,013,712)	(3,700,025)
Capital Contributions & Special Items	921,858	(5,219,533)	11,968,896	15,666,497
Change in Net Position	8,851,827	(274,672)	8,955,184	11,966,472
Net Position, Beginning	84,710,483	84,985,155	15,272,546	3,318,163
Prior Periods Adjustments	-	-	-	(12,089)
Net Position, Ending	$93,562,310	$ 84,710,483	$24,227,730	$ 15,272,546

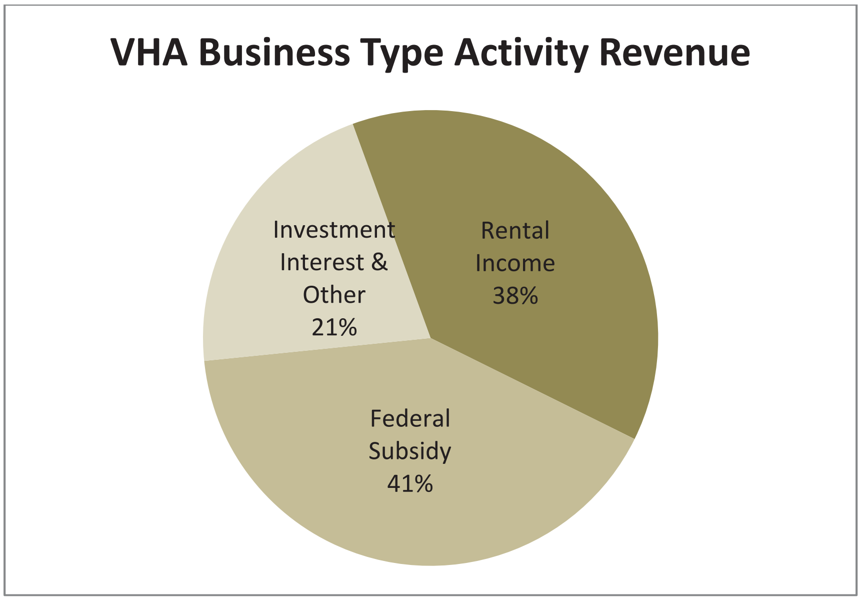
Results of Operations

Operating revenues of the Authority's Business Type Activities are generated from rents, federal subsidies and other income. For the year ending December 31, 2018, the Authority's total revenues increased from $53.8 million to $57.3 million, an increase of 6% from previous year. Component Units' total revenues decreased from $9.7 million to $6 million, a decrease of 39% from previous year. This revenue shift from Component Units to Business type Activities is a result of Authority's acquisition of limited partners' interests in Anthem Park at Uptown Village LP, Plum Meadows LP and Esther Short Commons LP and resulting transfer of those assets to VHA main portfolio at the end of 2017.

Expenses of the Authority's Business Type Activities increased by 1% from previous year with 34% increase in depreciation expense from additional assets offset with 23% decrease in interest expense as a result of construction loan repayments. Component Units' expenses decreased by 33% as a result of above mentioned asset transfer.

The following graph illustrates the revenue percentages of VHA Business Type Activities:

VHA Business Type Activity Revenue		
Rental Income	38%	$ 21,688,043
Federal Subsidy	41%	23,523,831
Investment Interest & Other	21%	12,054,427
	100%	$ 57,266,301



Capital Assets and Debt Administration

Capital Assets (net of depreciation)

	Business-Type Activities		Component Units	
	12/31/2018	12/31/2017	12/31/2018	12/31/2017
Land	10,624,384	10,535,011	2,025,857	2,025,857
Buildings and Improvements	87,365,255	86,759,559	80,364,586	82,877,616
Furniture and Equipment	887,576	432,776	1,185,633	1,283,483
Construction in Progress	894,906	1,791,952	3,170,154	-
	$99,772,121	$99,519,298	$86,746,230	$86,186,956

Major Capital Asset Transactions

Buildings and Improvements and Furniture and Equipment increased by $1.1 million and Construction in Progress decreased by $1 million for Business Type Activities as a result of Bridgeview Education and Employment Resource Center construction completion. Buildings and Improvements decreased by $2.5 million for Component Units due to regular depreciation.

Construction in Progress increased for Component Units due to construction of Caples Terrace Apartments.

Additional information regarding the Authority's capital assets can be found in Note 4 of the Notes to the Financial Statements.

Outstanding Debt

	Business-Type Activities		Component Units	
	12/31/2018	12/31/2017	12/31/2018	12/31/2017
Bonds Payable	$ 76,614,944	$ 80,811,355	$ -	$ -
Notes payable	26,953,947	34,359,489	53,329,554	60,093,516
Developer Fee Payable	-	-	1,092,987	4,660,211
Leases Payable	-	-	7,661,657	7,699,148
	$ 103,568,891	$ 115,170,844	$ 62,084,198	$ 72,452,875

Major Long-Term Debt Transactions

Business Type Activities total outstanding debt decreased by $11.6 million and Component Unit total outstanding debt decreased by $10.4 million primarily as a result of Skyline Crest and Orchard Glen Apartments construction debt repayments from scheduled limited partner contributions.

Additional information regarding the Authority's debt can be found in Notes 6 of the Notes to the Financial Statements.

Economic Factors and Future Events

Federal Programs – The Authority's Moving-to-Work contract has been extended through 2028, which ensures the longer-term commitment of the Federal government and continued regulatory flexibilities the designation offers. VHA's diversified housing portfolio and MTW designation provides some financial flexibility in dealing with uncertain Federal budgets. We continue to work with our congressional representatives to emphasize the importance of continued funding for our low-income residents.

Local Economy – Clark County's economic outlook has held steady with 5% December 2018 unemployment rate remaining unchanged from December 2017, slightly lagging behind the national average and neighboring Portland, Oregon rate of 3.9%. Construction activity continues to lead economic recovery after several years of inadequate inventory growth.

Rental Market – Occupancy rates remained at historically high levels in 2018. Multifamily new developments have picked up in Vancouver, which may have some impact on VHA's rental inventory competitiveness; however, given the significant difference between rents charged by private landlords and those charged by VHA low-income housing tax credit properties, a downturn in the rental market should not have a significant impact on VHA. We continue to rehab our existing portfolio, which improves its quality, decreases operating costs and makes us more desirable as we compete with the market. We believe our rental stock should be of high quality providing a respectable place to live for our low-income residents.

The downside of the unusually strong local rental market has been a significant increases in rent levels in Clark County, which have hurt low-income renters and translated into higher housing assistance expenses for the Authority.

Contacting the Housing Authority's Financial Management

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest. Questions concerning any of the information should be addressed to the Executive Director of the Housing Authority of the City of Vancouver. The Authority's offices are located at 2500 Main Street, Vancouver, Washington 98660. The telephone number is (360) 694-2501. The Authority's website can be found at www.vhausa.com.

HOUSING AUTHORITY OF THE CITY OF VANCOUVER
Statement of Net Position
As of December 31, 2018

ASSETS		Business Type Activities		Component Units
Current Assets				
Cash and cash equivalents	$	23,709,824	$	526,398
Investments - unrestricted		1,488,980		-
Receivables				
Tenants (net of allowance)		295,637		25,011
Others		1,435,285		1,911
Leases receivable - component units - current		364,671		-
Notes receivable - component units - current		187,820		-
Notes receivable - others - current		156,125		-
Inventory and prepaid expenses		431,963		91,191
Restricted cash and cash equivalents		11,802,275		1,525,616
Total Current Assets		39,872,580		2,170,127
Long-Term Assets				
Developer fees receivable - component units		1,092,987		-
Leases receivable - component units, net		7,864,262		-
Notes receivable - component units (net of allowance)		41,533,036		-
Notes receivable - others		5,481,507		-
Restricted Assets				
Restricted cash and cash equivalents		6,731,035		1,621,979
Land		10,624,384		2,025,857
Buildings, structures, and improvements		162,616,653		94,670,789
Equipment and furniture		4,335,081		2,054,004
Less: Accumulated Depreciation		(78,698,903)		(15,174,574)
Construction in progress		894,906		3,170,154
Debt issuance costs - net of accumulated amortization		-		337,460
Total Long-Term Assets		162,474,948		88,705,669
Total Assets	$	202,347,528	$	90,875,796
Deferred Outflows of Resources				
Accumulated decrease in fair value of hedging derivatives		2,051,328		-
Resources related to pensions		545,523		-
Deferred outflows from bond refunding		1,679,948		-
Total Deferred Outflows of Resources	$	4,276,799	$	-

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HOUSING AUTHORITY OF THE CITY OF VANCOUVER
Statement of Net Position - (Continued)
As of December 31, 2018

	Business Type Activities	Component Units
LIABILITIES		
Current Liabilities		
Accounts payable	$ 1,405,238	$ 1,530,617
Compensated absences - current	443,451	48,599
Tenant deposits payable	1,305,747	232,287
Accrued interest payable	585,428	75,295
Accrued interest payable - VHA	-	2,665,023
Unearned revenues	161,216	12,047
Notes payable - current	3,705,929	119,092
Notes payable - VHA - current	-	136,333
Bonds payable - current	26,300,619	-
Total Current Liabilities	33,907,628	4,819,293
Long-Term Liabilities		
Compensated absences	6,558	-
Developer fee payable - VHA	-	1,092,987
Notes payable	23,248,018	13,828,240
Notes payable - VHA	-	39,245,889
Bonds payable	50,314,325	-
Capital leases payable - VHA	-	7,661,657
Net pension liabilities	2,394,116	-
Total Long-Term Liabilities	75,963,017	61,828,773
Total Liabilities	109,870,645	66,648,066
Deferred Inflows of Resources		
Accumulated increase in fair value of hedging derivatives	2,051,328	-
Resources related to pensions	1,140,044	-
Total Deferred Inflows of Resources	3,191,372	-
NET POSITION		
Net investment in capital assets	16,343,412	24,140,084
Restricted	32,361,067	2,916,408
Unrestricted	44,857,831	(2,828,762)
Total Net Position	$ 93,562,310	$ 24,227,730

HOUSING AUTHORITY OF THE CITY OF VANCOUVER
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended December 31, 2018

	Business Type Activities	Component Units
Operating Revenues		
Rent/lease revenue	$ 21,688,043	$ 5,879,083
Management fees	560,162	-
Donations and Grants	2,372,700	-
HUD operating subsidies	23,523,831	-
Other revenue	6,604,992	76,600
Total Operating Revenues	54,749,728	5,955,683
Operating Expenses		
Salaries and benefits	9,565,739	1,047,257
Administrative expenses	2,945,591	796,380
Utilities	2,014,456	603,225
Maintenance	3,120,121	751,636
Insurance	404,479	139,791
Bad debt expense	117,503	66,654
Depreciation and amortization	4,046,939	2,987,150
Housing assistance payments	22,295,955	-
Donations and Grants	140,200	-
Other general expense	259,357	225,642
Total Operating Expenses	44,910,340	6,617,735
Net Operating Income (Loss)	9,839,388	(662,052)
Non-Operating Revenues (Expenses)		
Investment interest income	2,100,389	5,163
Interest expense & fiscal charges	(4,425,992)	(2,356,823)
Developer fees	404,293	-
Gain/loss on disposed property	11,891	-
Total Non-Operating Revenues (Expenses)	(1,909,419)	(2,351,660)
Income (Loss) Before Contributions	7,929,969	(3,013,712)
Capital Contributions and Special Items		
HUD capital contributions	1,167,758	-
Other capital contributions (distributions)	(100)	11,968,896
Special items	(245,800)	-
Total Capital Contributions and Special Items	921,858	11,968,896
Change in Net Position	8,851,827	8,955,184
Total Net Position, Beginning	84,710,483	15,272,546
Total Net Position, Ending	$ 93,562,310	$ 24,227,730

HOUSING AUTHORITY OF THE CITY OF VANCOUVER
Statement of Cash Flows
For the Year Ended December 31, 2018

	Business Type Activities	Component Units
Cash Flows From Operating Activities		
Collections from customers and users	$ 24,287,381	$ 5,994,539
Collections from other PHA's	4,067,914	-
Operating grants received	24,416,285	-
Payments for housing assistance	(22,295,955)	-
Payments to suppliers	(9,023,408)	(3,368,399)
Payments to employees	(10,339,835)	-
Other receipts	53,492	-
Net cash provided by operating activities	11,165,874	2,626,140
Cash Flows From Non-Capital Financing Activities		
Loans to component units	(3,546,728)	-
Loans made to others	(1,866,609)	-
Proceeds from financing grants	1,331,661	-
Proceeds from loans issued for others	500,000	-
Proceeds from CU for reimbursement of development costs	598,475	-
Capital contributions made to component units	(100)	-
Payments received from component units	4,231,975	-
Other lease and note payments received	1,559,716	-
Net cash used by non-capital financing activities	2,808,390	-
Cash Flows From Capital and Related Financing Activities		
Proceeds from capital debt	459,035	3,546,728
Proceeds from capital contributions	-	11,968,896
Payments on development activity	(3,613,337)	(1,870,236)
Acquisition and construction of capital assets	(1,088,858)	(345,582)
Payment of financing costs	-	(70,842)
Principal paid on capital debt	(2,505,965)	(14,218,116)
Interest paid on capital debt	(3,506,690)	(1,891,583)
Demolition of capital assets	(245,800)	-
Proceeds from disposal of capital assets	11,891	-
Net cash used by capital and related financing activities	(10,489,724)	(2,880,735)
Cash Flows From Investing Activities		
Proceeds from sale of investments	158,441	-
Interest and dividends received	477,498	5,163
Net cash provided by investing activities	635,939	5,163
Net Change in Cash	4,120,479	(249,432)
Cash and cash equivalents, beginning	38,122,655	3,923,425
Cash and cash equivalents, ending	42,243,134	3,673,993
Cash and Cash Equivalents	23,709,824	526,398
Cash and Cash Equivalents - Restricted	11,802,275	1,525,616
Cash and Cash Equivalents - Restricted - Noncurrent	6,731,035	1,621,979
Cash, Statement of Net Assets, ending	$ 42,243,134	$ 3,673,993

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	Business Type Activities	Component Units
Reconciliation of Operating Income to Net Cash Provided By Operating Activities:		
Net Operating Income (Loss)	$ 9,839,388	$ (662,052)
Depreciation and Amortization	4,046,939	2,987,150
Changes in Assets and Liabilities:		
Decrease in accounts receivable	(146,531)	42,352
Decrease in prepaid expenses	(31,349)	(19,230)
Decrease in affiliates receivables	(868,653)	-
(Decrease) in accrued payroll expenses	(5,911)	4,084
Increase (Decrease) in accounts payable	(107,855)	(30,813)
Increase (Decrease) in unearned revenue	(511,267)	(11,599)
Change in Pension Items	(768,185)	-
Increase in management fee payable	-	310,056
Increase in tenant security deposits	215,099	6,192
Increase in deferred inflows of resources - funding received in	(500,000)	-
Other nonoperating revenues and expenses related to transfer o	4,199	-
Total Adjustments	(2,720,453)	301,042
Net Cash Provided by Operating Activities	$ 11,165,874	$ 2,626,140
Noncash investing, financing and capital activities		
Lease Receivable paid by component unit	$ 10,971,260	$ (10,971,260)
Revenue Bonds paid by component unit	(2,017,751)	2,017,751
Notes Payable paid by component unit	(8,272,658)	8,272,658
Interest paid by component unit on debt	(680,851)	680,851
Increase in capital assets by reclassification of development cost	3,894,950	
Note Payable issued in lieu of receiving capital asset	213,000	
Development cost financed by accounts payable	529,762	
Interest accrued to Others/Nonprofits on other loans	1,571,752	
Change in fair value of investments	23,497	

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Housing Authority of the City of Vancouver, Washington (the 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.

The Authority has implemented GASB Statement 85, *Omnibus 2017*, as of December 31, 2018. This statement addresses practice issues that have been identified during implementation of various accounting standards, including blending component units, amounts reported as goodwill, measuring money market accounts, and clarifying OPEB measurement and disclosures. This statement solidified the Authority's inclusion of the blended component units in the Business Type Activities column presented in the financial statements. The authority has been presented blended component units in this column, so no change to the financial statements was needed.

A. REPORTING ENTITY

The Authority is a municipal corporation created under Washington State Chapter 35.82 RCW in 1942 by the City of Vancouver and governed by a six member Board appointed by the Mayor of the City of Vancouver.

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 Component Units. The Component Units discussed below are included in the Authority's reporting entity because of the significance of their operational or financial relationships with the Authority.

1. Blended Component Units

Bridgeview Housing: This is a non-profit organization prescribed by Section 509(a)(3) of the Internal Revenue Code of 1986 that formed in January 1985 for the purpose of supporting Vancouver Housing Authority programs designed to encourage self-reliance and self-sufficiency of residents of properties owned or operated by VHA or its affiliates, and acquisition of real property, development, construction, preservation, and operation, either by means of joint ventures or acting alone, of decent, safe, affordable housing for low and moderate income persons or families and participation in federal, state, and local housing programs.

Vancouver Affordable Housing: This is a non-profit organization prescribed by Section 509(a)(1) of the Internal Revenue Code of 1986 that was formed in January 2008 for the purpose of expending and promoting community revitalization, developing and/or maintaining decent, safe and sanitary housing for persons of low income, and developing economic opportunities for low-income households in the City of Vancouver and Clark County, Washington.

VHA Proxy LLC: This is a Washington limited liability company that was formed in 2014 to acquire and own limited partnership interests in partnerships of which the Authority is the general partner. The Authority is the sole manager and the sole member of VHA Proxy LLC.

Anthem Columbia LLLP: This is a Washington limited liability limited partnership that was formed in 2018 to acquire, develop, rehabilitate, operate, manage, and maintain Anthem Park Apartments, a 58-unit apartment project, and Columbia House, a 150-unit apartment project, both located in Vancouver, WA. The partnership is made up of Vancouver Affordable Housing (limited partner) and Vancouver Housing Authority (general partner) with ownership interests of 99.99% and 0.01%, respectively. The partnership agreement provides for the partnership to continue in perpetuity, unless sooner terminated.

Arbor Ridge Assisted Living LP: This is a Washington limited partnership that was formed in 2000 to develop, own, and operate Arbor Ridge Assisted Living, a 60-unit low income assisted living housing project located in Vancouver, WA. The Authority acquired the limited partner's entire interest in the partnership in 2014 through VHA Proxy LLC.

Plum Meadows LP: This is a Washington limited partnership that was formed in 2003 to develop, own, and operate Plum Meadows Apartments, a 162-unit apartment project in Vancouver, WA. The Authority acquired the limited partner's entire interest in the partnership on December 31, 2017 through VHA Proxy LLC.

Esther Short Commons LP: This is a Washington limited partnership that was formed in 2002 to develop, own, and operate Esther Short Commons, 160-unit apartment project and commercial retail space located in Vancouver, WA. The Authority acquired the limited partner's entire interest in the partnership on December 31, 2017 through VHA Proxy LLC.

Tenny Creek LLLP: This is a Washington limited liability limited partnership that was formed in 2018 to acquire, develop, construct, operate, manage, and maintain Tenny Creek Apartments, an apartment project located in Vancouver, WA. The partnership is made up of Vancouver Affordable Housing (limited partner) and Vancouver Housing Authority (general partner) with ownership interests of 99.99% and 0.01%, respectively. The partnership agreement provides for the partnership to continue in perpetuity, unless sooner terminated.

Van Vista Plaza LLLP: This is a Washington limited liability limited partnership that was formed in 2018 to acquire, develop, rehabilitate, operate, manage, and maintain Van Vista Apartments, a 96-unit apartment project located in Vancouver, WA. The partnership is made up of Vancouver Affordable Housing (limited partner) and Vancouver Housing Authority (general partner) with ownership interests of 99.99% and 0.01%, respectively. The partnership agreement provides for the partnership to continue in perpetuity, unless sooner terminated

Bridgeview Housing and Vancouver Affordable Housing were organized exclusively for the benefit of, to perform the functions of, or to carry out the purposes of the Authority as prescribed in their charters and the Authority maintains complete control over their decisions. As sole manager/member, the Authority maintains complete control over the decisions and management has operational responsibility for VHA Proxy LLC. The Authority also maintains complete control over the decisions and management has operational responsibility for Arbor Ridge Assisted Living LP, Plum Meadows LP, and Esther Short Commons LP after acquiring their respective limited partners' interests. As such, the books of these entities are blended in with the Authority and included with the Business Type Activities column.

2. *Discretely Presented Component Units*

The Authority (or Vancouver Affordable Housing) is the general partner in seven Tax Credit Limited Partnerships (Component Units). These partnerships are separate legal entities from the Authority. All of these partnerships are formed for the purpose of developing, operating, managing, and leasing the projects in a manner that qualifies them for low-income housing credits under Section 42 of the Internal Revenue Code of 1986, as amended.

The Component Units are managed by an asset manager who is an employee of the Authority as well as by the outside property management firms. This enables the Authority to influence management policy, budgets, and operations. Furthermore, the Authority is obligated to fund operating deficits by loaning funds to the partnerships and is primarily responsible for capital debt issued on behalf of each partnership. The services provided by the partnerships do not exclusively or almost exclusively benefit the Authority or its constituents. Therefore, the partnerships' financial statements are discretely presented in a single column in the accompanying financial statement. Individual financial statements for each limited partnership may be obtained from the administrative offices of the Authority. These entities are as follows:

Mill Creek Affordable Housing LP: This is a Washington limited partnership that was formed in 2006 to develop, own, and operate Mill Creek Senior Estates, a 28-unit apartment project and Mill Creek Apartments, a 50-unit apartment project located in Battle Ground, WA. The partnership is made up of NEF Assignment Corp. (limited partner) and Vancouver Housing Authority (general partner) with ownership interest of 99.99% and 0.01%, respectively. The partnership agreement provides for the termination of the partnership in 2104.

Vista Court LLLP: This is a Washington limited liability limited partnership that was formed in 2010 to develop, own and operate Vista Court Apartments, a 76-unit apartment project in Vancouver, WA. The partnership is made up of RBC Tax Credit Equity National Fund 12 LP (limited partner), RBC Tax Credit Manager II Inc. (special limited partner) and Vancouver Housing Authority (general partner) with ownership interests of 99.99%, 0.001% and 0.009%, respectively. The partnership agreement provides for the termination of the partnership in 2110.

1st Street Apartments LLLP: This is a Washington limited liability limited partnership that was formed in 2013 to develop, own, and operate 1st Street Apartments, a 152-unit apartment project in Vancouver, WA. The partnership is made up of USB LIHTC Fund 2014-1, LLC (limited partner) and Vancouver Housing Authority (general partner) with ownership interests of 99.99% and 0.01%, respectively. The partnership agreement provides for the partnership to continue in perpetuity, unless sooner terminated.

Skyline Crest LLLP: This is a Washington limited liability limited partnership that was formed in 2014 to acquire, hold, invest in, secure financing for, construct, rehabilitate, develop, improve, maintain, operate, lease, and otherwise deal with Skyline Crest Apartments, a 138-unit apartment project in Vancouver, WA. The partnership is made up of Boston Capital Corporate Tax Credit Fund XLI, a Limited Partnership (limited partner), BCCC, Inc. (special limited partner) and Vancouver Housing Authority (general partner) with ownership interests of 99.99%, 0% and 0.01%, respectively. The partnership agreement provides for the partnership to continue in perpetuity, unless sooner terminated.

Lincoln Place LLLP: This is a Washington limited liability limited partnership that was formed in 2014 to acquire, construct, own, finance, lease, and operate Lincoln Place, a 30-unit apartment project located in Vancouver, WA. The partnership is made up of Key Community Development Corporation (limited partner), Vancouver Housing Authority (special limited partner) and Vancouver Affordable Housing (general partner) with ownership interests of 99.98%, 0.01% and 0.01%, respectively. The partnership agreement provides for the partnership to continue in perpetuity, unless sooner terminated.

OG Rehabilitation LLLP: This is a Washington limited liability limited partnership that was formed in 2015 to acquire, develop, rehabilitate, operate, manage, and maintain Orchard Glen Apartments, an 80-unit apartment project located in Vancouver, WA. The partnership is made up of Key Community Development Corporation (limited partner) and Vancouver Housing Authority (general partner) with ownership interests of 99.99% and 0.01%, respectively. The partnership agreement provides for the partnership to continue in perpetuity, unless sooner terminated.

Caples Terrace LLLP: This is a Washington limited liability limited partnership that was formed in 2016 to acquire, develop, construct, operate, manage, and maintain Caples Terrace Apartments, an apartment project located in Vancouver, WA. The partnership is made up of Key Community Development Corporation (limited partner) and Vancouver Housing Authority (general partner) with ownership interests of 99.99% and 0.01%, respectively. The partnership agreement provides for the partnership to continue in perpetuity, unless sooner terminated.

B. BASIS OF ACCOUNTING AND PRESENTATION

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

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

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 debt liabilities are accounted for in the fund.

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

2. ***Investments***
Investments for the Authority and its Component Units are reported at fair value. The Statute authorizes the Authority to invest in obligations of the US Treasury, US Agencies, and instrumentalities, banker's acceptances, repurchase agreements, county investment pools, and the state treasurer's investment pool. For various risks related to the investments, see Deposits and Investments Note 2.

3. ***Receivables***
Tenant receivables consist of rents and other fees charged to tenants and are shown net of allowance for doubtful accounts. The Authority's policy is to write off accounts of former tenants after all internal collection proceedings have been exhausted and the accounts have been sent to third party collection agencies. As of December 31, 2018, the allowance for doubtful tenant accounts was $3,351 for the Authority and $7,774 for the Component Units.

Other receivables consist of accrued interest earned on investments, notes and contracts at the end of the year, earned amounts due from various federal, state and local grantors, amounts owed from other housing authorities, Component Units and other businesses or organizations for goods and services including amounts owed for which billings have not been prepared.

Notes and leases receivable from Component Units consist of amounts owed for developer fees, construction loans, capital leases, and goods and services. Lease receivables are shown net of unearned interest revenue. Notes receivable are shown net of allowance for doubtful accounts. See Related Parties Transactions Note 9 for detail.

4. ***Inventory 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.

5. ***Restricted Cash and Cash Equivalents***
In accordance with bond resolutions and certain related agreements, separate restricted cash 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. Further, certain cash assets of the Authority are restricted based on program regulations. Restricted cash assets currently include the following:

	Business-Type Activities	*Component Units*
Revenue Bond Debt Service	$ 2,313,853	$ 565,526
Replacement Reserves	4,669,351	1,056,454
Operating Reserves	9,720,692	1,294,428
Future Construction Accounts	500,302	-
Future Tenant Program Payments	28,482	-
Tenant Deposits	1,300,630	231,187
Total	$ 18,533,310	$ 3,147,595

6. Capital Assets
Major expenditures for capital assets, including capital leases and major repairs that increase useful lives, are capitalized. Maintenance, repairs, and minor renewals are accounted for as expenses when incurred.

Capital assets are defined by the Authority as assets with an initial individual cost of at least $5,000 and an estimated useful life in excess of one year. Capital assets are recorded at cost where the historical cost is known. Where historical cost is not known, assets are recorded at estimated fair market value. Donations are recorded at acquisition value at the time of donation or the appraised value.

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.

Depreciation is computed on the straight-line method with useful lives of 5 to 40 years.

Preliminary costs incurred for proposed projects are deferred pending construction of the facility. Costs relating to projects ultimately constructed are transferred to the projects; charges that relate to abandoned projects are expensed.

See Capital Assets Note 4 for further details.

7. Compensated Absences
Compensated absences are absences for which employees will be paid, such as vacation and sick leave. The Authority records unpaid leave for compensated absences as an expense and liability when incurred. Paid time off (PTO), which may be accumulated up to 520 hours, is payable upon termination of employment.

Employees hired prior to November 1, 1989 were permitted to accumulate an “Extended Illness Bank” (EIB). Accumulated extended illness bank benefits are payable upon use. Employees hired before 1982 who have an EIB balance when their employment terminates receive 50% of their accumulated balance. Employees hired after 1982 (but prior to 1989) who have an EIB balance when their employment terminates forfeit their balance, or they may elect to transfer their balance to another employee who is currently ill and in need. The EIB liability is estimated at 50% of the actual amounts accumulated.

8. <u>Pensions</u>

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

9. <u>Deferred inflows and outflows of resources</u>

The statement of net position also presents deferred inflows and outflows related to four types of activities. Deferred inflows and outflows related to pensions are further discussed in Note 8 Pension Plans. Derivative related inflows and outflows are discussed in Section A.3 of Note 6 Long Term Debt and Liabilities. Deferred outflows from bond refunding is the difference between the acquisition price of the reacquisition price and the net carrying amount of the old debt. This amount is amortized as interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter. Additionally, the Authority presents funding received in advance as a deferred outflow.

10. <u>Operating Revenues/Expenses</u>

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 HUD. The use of this classification is based on guidance from HUD, the primary user of the financial statements. Operating expenses are those expenses that are directly incurred while in the operation of providing low-income housing.

This presentation results in an operating income that is higher than a non-operating 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 net position, or the presentation of cash and cash equivalents in the statement of cash flows.

NOTE 2 – DEPOSITS AND INVESTMENTS

A. DEPOSITS

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

B. INVESTMENTS

The Authority measures and records its investments within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. These guidelines recognize a three-tiered fair value hierarchy, as follows:

- Level 1: Quoted prices in active markets for identical assets or liabilities;
- Level 2: Quoted market prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other than quoted prices that are not observable;
- Level 3: Unobservable inputs for an asset or liability, to the extent observable inputs are not available.

As of December 31, 2018, the Authority had the following recurring fair value measurements:

Fair Value Measurements Using	Level 1	Level 2	Level 3
Debt Securities			
Federal Home Loan Mortgage Corp. (Freddie Mac)	$ 1,053,921	$ -	$ -
Federal National Mortgage Assoc. (Fannie Mae)	411,599	-	-
Gov't National Mortgage Assoc. (Gennie Mae)	23,460	-	-
Total Debt Securities	1,488,980	-	-
Total Investments by Fair Value Level	$ 1,488,980	$ -	$ -

Additionally, the Authority is currently invested in the Clark County Investment Pool (CCIP) in the amount of $22,090,624, which is reported at fair value.

The CCIP operates in accordance with appropriate state laws and regulations. Clark County Investment Pool is not SEC-registered. Authority to manage the Pool is derived from the Revised Code of Washington (RCW) in RCW 36.29.022. The fair value of the position in the pool is the same as the value of the pool shares.

The weighted average maturities of the CCIP is approximately one year, respectively, with cash available to the City on demand. The on demand availability of these funds defines them as cash equivalent liquid investments and not subject to interest rate risk or any market value reporting requirements. All CCIP investments are either obligations of the United States government, government-sponsored enterprises, or insured demand deposit accounts and certificates of deposits, meaning credit risk is very limited. The investments are either fully insured or fully held by a third party custody provider in the name of the CCIP. The CCIP is overseen by the Clark County Finance Committee and is audited annually by the Washington State Auditor's Office and regulated by Washington RCWs. Positions in this pool are not required to be categorized within the fair value hierarchy for recurring fair value measurements.

1. ***Credit Risk***

Credit risk is the risk that an issuer or related party will not fulfill its obligations. The Authority complies with its formal investment policy, which states that the Finance Director will use prudence in managing VHA funds and may hold downgraded securities at their discretion. Credit ratings of debt securities as of December 31, 2018 are as follows:

Debt Security	S&P Rating
Fannie Mae (Federal National Mortgage Association)	AA+
Freddie Mac (Federal Home Loan Mortgage Corporation)	AA+

2. ***Concentration Risk***

Concentration risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Authority complies with its formal investment policy, which requires that investments be diversified to reduce risk of loss from over-concentration of assets in a specific area. The Authority has several investments that are not explicitly backed by the federal government that exceed 5% of the Authority's total investment portfolio market value. These securities and percentage of the Authority's portfolio are as follows:

Issuer	% of Investments
Federal Home Loan Mortgage Corp (Freddie Mac)	71%
Federal National Mortgage Association (Fannie Mae)	28%

3. ***Interest Rate Risk***

The Authority complies with its formal investment policy, which limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The maturities of the Authority's investments are as follows:

		Investment Maturities in Years			
Investment Type	Value	< 1	1-5	6-10	10+
Government & Agency Bonds	1,488,980	-	32,579	-	1,456,401
Total	$ 1,488,980	$ -	$32,579	$ -	$ 1,456,401

4. ***Custodial Credit Risk (Investments)***

Custodial risk is the risk that, in the event of a failure of the counterparty, the government will not be able to recover its investments that are in the possession of an outside party. The Authority uses US Bank as the custodial agent for safekeeping of the Authority's investments. US Bank provides monthly reports on the Authority's securities, all of which are held in the Authority's name.

NOTE 3 – NOTES RECEIVABLE

The Authority has financed property acquisitions and made operating cash advances for certain non-profit entities and low-income individuals as part of various housing assistance programs. The Authority's Notes Receivable currently outstanding are as follows:

Purpose	Original Amount	Issue Date	Maturity Date	Interest Rate	Amount Outstanding
EOCF - Sale of St Johns Land	59,500	Apr-14	Apr-23	2.00%	$ 30,609
Low-Income Homeownership - Infill Phase II	192,500	Aug-00	Dec-50	0.00%	49,500
Low-Income Homeownership - Sale to Tenant	9,392	Mar-09	Mar-39	0.00%	8,942
Second Step - Sale of Watson House	128,290	Sep-14	Dec-42	2.00%	126,978
Meriwether Apartments LLLP	2,750,000	Jun-17	Jun-67	1.00%	2,783,433
Meriwether LLLP - Developer Fee	130,680	N/A	N/A	0.00%	130,680
Meadows Apartments LLLP	715,069	Jun-17	Jun-57	8.00%	803,250
Meadows LLLP - Developer Fee	206,634	N/A	N/A	0.00%	206,634
Rhododendron Place LLLP	1,250,000	Sep-18	Sep-73	2.55%	1,250,000
Rhododendron LLLP - Developer Fee	22,625	N/A	N/A	0.00%	22,625
Housing Initiative LLC - The Elwood construction	116,609	Jul-18	Dec-19	0.00%	116,610
Hazel Dell Nonprofit - Operating Advances	214,462	Nov-07	Jul-43	0.00%	108,371
Total					$ 5,637,632

For receivables from Component Units, see Related Parties Transactions Note 9.

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the Authority for the year ended December 31, 2018 was as follows:

Business Type Activities	12/31/2017	Increases	Decreases	12/31/2018
Non-depreciable assets				
Land	$ 10,535,011	$ 89,373	$ -	$ 10,624,384
Construction in progress	1,791,952	3,596,380	(4,493,426)	894,906
Total non-depreciable assets	12,326,963	3,685,753	(4,493,426)	11,519,290
Depreciable assets				
Building, structure & improvements	158,131,335	4,485,318	-	162,616,653
Equipment & furnishings	3,765,085	622,117	(52,121)	4,335,081
Total depreciable assets	161,896,420	5,107,435	(52,121)	166,951,734
Less accumulated depreciation for:				
Building, structure & improvements	71,371,776	3,879,621	-	75,251,397
Equipment & furnishings	3,332,309	167,318	(52,121)	3,447,506
Total accumulated depreciation	74,704,085	4,046,939	(52,121)	78,698,903
Total capital assets, net	$ 99,519,298	$ 4,746,249	$ (4,493,426)	$ 99,772,121

Capital asset activity for the Component Units for the year ended December 31, 2018 was as follows:

Component Units	12/31/2017	Increases	Decreases	12/31/2018
Non-depreciable assets				
Land	$ 2,025,857	$ -	$ -	$ 2,025,857
Construction in progress	-	3,170,154	-	3,170,154
Total non-depreciable assets	2,025,857	3,170,154	-	5,196,011
Depreciable assets				
Building, structure & improvements	94,363,823	306,966	-	94,670,789
Equipment & furnishings	2,015,680	38,324	-	2,054,004
Total depreciable assets	96,379,503	345,290	-	96,724,793
Less accumulated depreciation for:				
Building, structure & improvements	11,486,207	2,819,995	-	14,306,202
Equipment & furnishings	732,197	136,175	-	868,372
Total accumulated depreciation	12,218,404	2,956,170	-	15,174,574
Total capital assets, net	$ 86,186,956	$ 559,274	$ -	$ 86,746,230

NOTE 5 – SIGNIFICANT COMMITMENTS

Construction in progress for the Authority represents active construction projects composed of the following:

Project	Project Authorization	Expended to 12/31/2018	Committed
Shelters Renovation	15,560	15,560	-
RAD Renovations	785,000	428,405	356,595
E 16th Street	107,092	107,092	-
Van Vista Renovation	350,000	67,303	282,697
Anthem Park Renovation	150,000	59,302	90,698
Plum Meadows Renovation	12,570	12,570	-
Esther Short Renovation	17,118	17,118	-
Columbia House Renovation	300,000	111,126	188,874
Tenny Creek Assisted Living	500,000	58,486	441,514
VAH - Nicholson Homes	500,000	17,944	482,056
	$ 2,737,340	$ 894,906	$ 1,842,434

During 2018, the Authority capitalized $2,867 of net interest costs for funds borrowed to finance construction of capital assets.

NOTE 6 – LONG TERM DEBT AND LIABILITIES

A. REVENUE BONDS

The Authority issues revenue bonds to finance the purchase or construction of various properties. The revenue bonds are being repaid by project revenues, interest earnings, and general Authority revenues. The Authority's revenue bonds currently outstanding are as follows:

Purpose	Original Amount	Issue Date	Maturity Date	Interest Rate	Amount Outstanding
Orchard Glen Apartments Project	6,570,550	Jul-16	Apr-36	3.63%	4,600,897
Plum Meadows Project	9,100,000	Aug-03	Aug-35	5.69%	6,831,002
Esther Short Commons Project	10,700,000	Aug-03	Sep-35	5.71%	8,175,135
Mill Creek Projects	3,205,000	Jun-06	Jul-26	6.08%	2,821,052
Pooled (Willow Creek, Fishers Mill, Cougar Creek)	30,000,000	Nov-08	Dec-38	Variable	24,630,000
Pooled (Springbrook, Camas Ridge, Wisteria Manor)	29,190,000	Feb-17	Aug-39	1.4-4%	26,727,849
Van Vista Project	3,200,000	Feb-13	Feb-23	3.40%	2,829,009
Total					$ 76,614,944

Authority's revenue bonds debt service requirements to maturity are as follows:

Calendar Year Ending	Principal	Interest
2019	$ 26,300,619	$ 3,447,490
2020	1,727,675	2,126,190
2021	1,787,529	2,063,317
2022	1,852,071	1,999,074
2023	4,344,190	1,888,432
2024-2028	12,495,252	7,773,366
2029-2033	12,425,118	4,877,894
2034-2038	13,899,496	1,688,987
2039	1,782,994	53,700
Total	$ 76,614,944	$25,918,450

There is $2,313,852 in restricted assets of the Authority and $565,526 in restricted assets of the Component Units that represent sinking funds and debt service reserve requirements as contained in the various indentures.

There are a number of other limitations and restrictions contained in the various bond indentures, such as maintaining the ratio of operating revenues to debt service requirements over an established ratio. Several projects are below the desired debt coverage ratios as of December 31, 2018. The debt coverage ratios are reported quarterly to the lender and limited partners. The Authority has considered options such as adjusting rents and operating cost as necessary and to the extent possible without violating rental restrictions to improve the ratios. Violation of the coverage covenant does not constitute a default on the bonds.

1. *Defeasance of Debt*

The Authority defeased certain revenue bonds in 2013 and 2017 by placing the funds in an irrevocable trust to provide for all future debt service payments on the bonds. Accordingly, the trust account assets and the liability for defeased bonds are not included in the Authority's financial statements. As of December 31, 2018, $21,930,000 of bonds outstanding are considered to be defeased.

2. Variable Rate Bonds

Interest on the variable-rate 2008 Pooled Bonds is determined weekly by the remarketing agent based upon prevailing market conditions and the yields at which comparable securities are being sold. The variable rates will never be greater than 12%.

Interest on the variable-rate Orchard Glen construction bonds is determined monthly and is paid at the rate equal to the sum of London Interbank Offered Rate (LIBOR) multiplied by the statutory reserve rate plus 1.4%.

2. Demand Bonds

2008 Pooled Bonds are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest on seven days' notice and delivery to the Authority's remarketing agent. The remarketing agent is authorized to sell the repurchased bonds at a price equal to 100% of the principal amount by adjusting the interest rate.

Under a credit enhancement agreement with Federal Home Loan Mortgage Corporation (Freddie Mac), the trustee or the remarketing agent is entitled to draw an amount sufficient to pay the purchase price of Pooled Properties bonds delivered to it. The credit enhancement agreement is valid through December 6, 2038 and carries a variable interest rate equal to the institution's prime lending rate plus 2%, for the first ninety days and prime lending rate plus 4% thereafter. No amount was outstanding on the letter of credit as of December 31, 2018. The Authority is required to pay Freddie Mac a credit facility fee of 0.83%, a liquidity facility fee of 0.25% and swap credit enhancement fee of 0.13% per annum based on the outstanding principal amount of the bonds. The Authority is also required to pay the loan servicer, KeyCorp Real Estate Capital Markets, Inc. a servicing fee of 0.1% per annum based on the outstanding principal amount of the bonds. In addition, the remarketing agent receives a fee equal to the 0.1% per annum based on the outstanding principal amount of the bonds. These bonds are classified as short-term since this credit enhancement does not qualify as a long-term non-cancelable take out agreement.

3. Derivative Instruments

As means of lowering its borrowing costs when compared against fixed-rate bonds at the time of issuance, the Authority entered into pay fixed interest rate swap agreement to hedge against interest rate cash flow variations of its 2008 Pooled Bonds. This hedging instrument is a financial contract and obligation entered into to provide part of the overall financing package for transactions where variable-rate debt was utilized.

The Authority measures and records its derivative instruments within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. These guidelines recognize a three-tiered fair value hierarchy, as follows:

- Level 1: Quoted prices in active markets for identical assets or liabilities;

- Level 2: Quoted market prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other than quoted prices that are not observable;
- Level 3: Unobservable inputs for an asset or liability, to the extent observable inputs are not available.

The fair value of the hedging instrument is negative and is shown on the Statement of Net Position in the amount of $2,051,328, which represents a $573,940 annual decrease in value. Because the hedge was determined to be an effective hedge, hedge accounting can be used which allows the Authority to record the changes in fair value on the Statement of Net Position. The fair value was calculated by the counterparty and is based on financial principles and assumptions that they believe to be reasonable, not quoted market rates at December 31, 2018. This fair value measurement was determined using significant other observable inputs and therefore falls into Level 2 category of the established fair value hierarchy.

Objectives and terms of hedging derivatives: The objective of the swap agreements is to hedge for changes in interest rates on 2008 Pooled Bonds, which mature on December 1, 2038 and the related swap agreement matures on December 1, 2023. The swap agreement was entered into and became effective at the same time the bonds were issued. The swap's notional amount of $30,000,000 matched the amount of outstanding bonds at that time. Starting in 2009, the notional value of the swap and the principal amount of the associated debt began to decline. Under the swap, the Authority pays the counterparty a fixed payment of 3.727% and receives a variable payment equal to USD-SIFMA Municipal Swap Index.

Credit risk: As of December 31, 2018, the Authority was not exposed to credit risk because the swap had negative fair value. However, should interest rates change and fair value of the swap become positive, the Authority would be exposed to credit risk in the amount of the derivative's fair value. The swap counterparty was rated A by Standard & Poor's as of December 31, 2018.

Termination risk: The Authority or the counterparty may terminate the swaps at any time if the other party fails to perform under the terms of the contract. The swap may be terminated by the Authority if the counterparty fails to pay, or breaches the agreement through bankruptcy, merger or other terms. If the swap is terminated, the variable-rate bond would no longer carry a synthetically fixed interest rate. Also, if at the time of termination the swap has a negative fair value, the Authority would be liable to the counterparty for a payment equal to the swap's fair value. The Authority knows of no termination events that have occurred.

Rollover risk: The swap exposes the Authority to rollover risk. As disclosed above, the derivative has a term of 15 years, expiring in 2023, and the associated debt has a term of 30 years, expiring in 2038. When the derivative expires, the Authority will be at risk that it may not rollover the derivative into a similar instrument that would provide a favorable synthetic interest rate.

Market access risk: If the existing swap contract was to terminate for any reason, the Authority may not be able to access the capital (credit) markets when necessary to rollover the derivative into a similar instrument that would provide a favorable synthetic interest rate or the cost of doing so might be higher than anticipated.

Contingent features: The Authority may be required to post collateral comprised of US government securities in the amount of negative fair value of the hedging derivative instrument if the Standard & Poor's credit rating of its credit enhancement provider declined below A+. The credit enhancement provider was rated AA+ by Standard & Poor's and no collateral has been posted or transferred as of December 31, 2018. The fair value of the derivative instrument with this feature was negative $2,051,328 as of December 31, 2018.

Net cash flows of derivatives hedging debt: The following table displays the Authority's net cash flows of derivative hedging debt using rates as of December 31, 2018 and assuming current interest rates remain the same for their term:

Calendar Year Ending	Principal	Interest	Net Hedging Derivatives	Total
2019	720,000	418,710	496,787	1,635,497
2020	760,000	406,470	482,264	1,648,734
2021	800,000	393,550	466,935	1,660,485
2022	840,000	379,950	450,799	1,670,749
2023	880,000	365,670	397,701	1,643,371
2024-2028	5,170,000	1,586,780	-	6,756,780
2029-2033	6,680,000	1,098,710	-	7,778,710
2034-2038	8,780,000	467,245	-	9,247,245
	$24,630,000	$ 5,117,085	$ 2,294,486	$32,041,571

As rates vary, variable-rate bond interest payments and net swap payments will vary.

B. NOTES PAYABLE

The Authority and several Component Units have long-term loans secured by capital assets. These loans were used to acquire capital assets that provide low income housing. They are being repaid by project revenues, interest earnings, and general Authority revenues. The notes currently outstanding are as follows:

Business Type Activities

Purpose	Original Amount	Issue Date	Maturity Date	Interest Rate	Amount Outstanding
Skyline Crest Apartments	$ 6,500,000	Sep-15	Oct-48	4.48%	$ 6,448,008
1st Street Apartments	564,268	Jun-10	Jan-35	0%	564,268
Mill Creek Apartments	860,600	Jun-06	May-47	0%	860,600
Mill Creek Apartments	818,200	May-06	Dec-46	1%	902,372
Mill Creek Apartments	170,300	May-06	Dec-51	0%	170,300
Mill Creek Senior Estates	600,000	Jun-06	May-47	0%	592,000
Mill Creek Senior Estates	573,500	May-06	Dec-51	0%	566,000
Vista Court Apartments	81,500	Jan-10	Jun-50	1%	81,500
Vista Court Apartments	327,000	Jan-10	Jun-50	1%	327,000
1st Street Apartments	385,621	Jun-10	Jan-35	0%	385,622
Infill Home Ownership Project	150,000	Various	Apr-28	0%	49,500
Meriwether Apartments	500,000	Jan-18	Dec-67	1%	502,083
Valley Homestead Shelter	300,000	Jul-92	Dec-32	0%	300,000
Emergency Shelter	500,000	Mar-93	Mar-33	0%	500,000
Columbia House	705,764	Oct-02	Nov-22	5.50%	204,618
Columbia House	1,594,236	Dec-02	Nov-22	Variable	440,267
Pinewood Apartments	250,000	Nov-14	Jun-35	1%	250,000
Camas Ridge Apartments	301,748	Aug-10	Dec-36	1%	224,539
Camas Ridge Apartments	1,500,000	Jan-10	Aug-51	1%	1,500,000
Camas Ridge Apartments	35,972	Aug-10	Dec-36	0%	34,281
Camas Ridge Apartments	311,358	Aug-10	Dec-36	0%	311,358
Vancouver Community SRO	200,000	Sep-98	Dec-51	2%	150,452
Wisteria Manor Apartments	400,000	Jan-01	Apr-51	1%	400,000
Wisteria Manor Apartments	100,000	Apr-01	May-41	1%	69,585
Arbor Ridge Assisted Living	3,389,300	May-15	Jun-50	3.55%	3,207,155
Arbor Ridge Assisted Living	400,000	Aug-02	Jul-52	2%	400,000
Arbor Ridge Assisted Living	300,000	May-01	Dec-37	4%	296,029
Anthem Park Apartments	3,100,000	Dec-17	Dec-19	4%	3,041,809
Anthem Park Apartments	724,149	Oct-02	Aug-53	2.5%	710,966
Plum Meadows Apartments	1,000,000	Jul-03	Mar-45	1%	1,014,602
Plum Meadows Apartments	300,000	Aug-03	Mar-51	3%	286,000
Esther Short Commons	750,000	Jul-02	Dec-43	3%	637,145
Esther Short Commons	600,000	Jul-02	Dec-41	3%	507,985
Esther Short Commons	125,000	Jul-02	Dec-22	0%	66,667
Esther Short Commons	200,000	Apr-03	Apr-43	2%	272,137
Bridgeview Resource Center	1,715,000	May-17	Nov-19	5.75%	226,099
Bridgeview Resource Center	100,000	Jul-17	Jul-37	0%	90,000
Bridgeview Resource Center	150,000	Jun-17	Jul-37	0%	150,000
VAH Nicholson Homes	163,000	Dec-11	Dec-39	0%	163,000
VAH Nicholson Homes	50,000	Mar-13	Feb-59	0%	50,000
Total					$ 26,953,947

Interest on the variable-rate Columbia House note is currently paid at the rate equal to 4.5% and is reset every three years. The next reset date is November 1, 2020.

Component Units

Purpose	Original Amount	Issue Date	Maturity Date	Interest Rate	Amount Outstanding	Unamortized Issuance Costs	Net Amount Outstanding
Vista Court Apartments	$3,685,000	Sep-12	Sep-42	7%	$ 3,409,204	$ (143,292)	$ 3,265,912
1st Street Apartments	1,030,000	Feb-14	Jun-54	1%	1,030,000	-	1,030,000
1st Street Apartments	9,500,000	Feb-17	Feb-32	5.98%	9,352,088	(270,668)	9,081,420
Lincoln Place Apartments	200,000	May-15	Dec-55	0.5%	200,000	-	200,000
Lincoln Place Apartments	270,000	May-15	May-55	0.5%	270,000	-	270,000
Lincoln Place Apartments	100,000	May-15	May-55	0.5%	100,000	-	100,000
Total					$ 14,361,292	$ (413,960)	$ 13,947,332

Notes payable debt service requirements to maturity are as follows:

	Business Type Activities		*Component Units*	
Calendar Year Ending	Principal	Interest	Principal	Interest
2019	$ 3,705,929	$ 649,970	$ 119,092	$ 807,283
2020	418,470	506,354	128,004	798,371
2021	437,167	494,894	138,873	787,502
2022	457,964	486,437	149,781	776,594
2023	306,535	473,837	161,414	764,961
2024-2028	1,902,502	2,274,281	1,009,109	3,622,767
2029-2033	7,924,851	1,982,130	8,836,248	2,376,633
2034-2038	3,940,405	683,799	1,064,505	608,406
2039-2043	3,710,781	473,511	1,306,212	213,936
2044-2048	2,558,187	206,967	214,933	18,145
2049-2053	934,053	40,616	225,939	7,139
2054-2058	231,784	18,216	593,222	112,339
2059-2063	30,855	19,145	-	-
2064-2067	394,464	16,017	-	-
Total	$ 26,953,947	$ 8,326,174	$ 13,947,332	$ 10,894,076

C. CHANGES IN LONG-TERM LIABILITIES

During the year ended December 31, 2018, the following changes occurred in long-term liabilities:

Business Type Activities	Balance 12/31/2017	Additions	Reductions	Balance 12/31/2018	Due Within One Year
Revenue Bonds	$ 80,811,355	$ -	$ (4,196,411)	$ 76,614,944	$26,300,619
Notes	34,359,489	1,188,412	(8,593,954)	26,953,947	3,705,929
Compensated Absences	455,920	495,899	(501,810)	450,009	443,451
Net Pension Liabilities	3,689,741	-	(1,295,625)	2,394,116	-
Totals	$119,316,505	$ 1,684,311	$(14,587,800)	$106,413,016	$30,449,999

Component Units	Balance 12/31/2017	Additions	Reductions	Balance 12/31/2018	Due Within One Year
Due to the Housing Authority					
Capital Lease	$ 7,699,148	$ -	$ (37,491)	$ 7,661,657	$ -
Developer Fee Payable	4,660,211	-	(3,567,224)	1,092,987	-
Loans and Notes Payable	46,035,360	3,777,514	(10,430,652)	39,382,222	136,333
Notes	14,058,156	-	(110,824)	13,947,332	119,092
Compensated Absences	41,595	42,541	(35,537)	48,599	48,599
Developer Fee Payable	-	-	-	-	-
Totals	$ 72,494,470	$ 3,820,055	$(14,181,728)	$ 62,132,797	$ 304,024

NOTE 7 – UNEARNED REVENUES

The Authority and the Component Units have recorded unearned revenues totaling $161,216 and $12,047, respectively, which consist of tenant rents received in advance.

NOTE 8 – 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 year 2018:

Aggregate Pension Amounts - All Plans	
Pension liabilities	$ 2,394,116
Deferred outflows of resources	545,523
Deferred inflows of resources	1,140,044
Pension expenditures	(116,577)

State Sponsored Pension Plans

Substantially all 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 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:

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

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

Public Employees' Retirement System (PERS)

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

PERS Plan 1

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.

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 2018 were as follows:

Actual Contribution Rates:	Employer	Employee
January-August 2018:		
PERS Plan 1	7.49%	6.00%
PERS Plan 1 UAAL	5.03%	-
Administrative Fee	0.18%	-
Total	12.70%	6.00%
September-December 2018		
PERS Plan 1	7.52%	6.00%
PERS Plan 1 UAAL	5.13%	-
Administrative Fee	0.18%	-
Total	12.83%	6.00%

PERS Plan 2/3

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

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

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

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.

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 2018 were as follows:

Actual Contribution Rates:	Employer 2/3	Employee 2
January-August 2018		
PERS Plan 2/3	7.49%	7.38%
PERS Plan 2/3 UAAL	5.03%	-
Administrative Fee	0.18%	-
Employee PERS Plan 3	-	varies
Total	12.70%	7.38%
September-December 2018		
PERS Plan 2/3	7.52%	7.41%
PERS Plan 2/3 UAAL	5.13%	-
Administrative Fee	0.18%	-
Employee PERS Plan 3	-	varies
Total	12.83%	7.41%

The Authority's actual PERS plan contributions were $262,637 PERS Plan 1 and $388,973 to PERS Plan 2/3 for the year ended December 31, 2018.

Actuarial Assumptions:

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2018 with a valuation date of June 30, 2018. 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* and the 2017 *Economic Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2017 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2018. Plan liabilities were rolled forward from June 30, 2017, to June 30, 2018, reflecting each plan's normal cost (using the entry-age cost method), assumed interest, and actual benefit payments.

- **Inflation:** 2.75% total economic inflation; 3.50% salary inflation
- **Salary increases:** In addition to the base 3.50% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.4%

Mortality rates were based on the RP-2000 report's "Combined Healthy Table" and "Combined Disabled Table". The Society of Actuaries publishes this document. 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.

Actuarial results reflect the following changes in assumptions and methods since the last valuation.

- Updated valuation interest rate, general salary growth, and inflation assumptions to be consistent with the assumptions adopted by the Pension Funding Council.

    - Lowered the valuation interest rate from 7.70% to 7.50% for all systems.
    - Lowered assumed general salary growth from 3.75% to 3.50% for all systems.
    - Lowered assumed inflation from 3.00% to 2.75% for all systems.

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.4 percent. To determine that rate, an asset sufficiency test was completed to test whether each pension plan's fiduciary net position was sufficient to make all projected future benefit payments for current plan members.

Consistent with current law, the asset sufficiency test included an assumed 7.50% long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.50%.)

Consistent with the long-term expected rate of return, a 7.40% future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS Plans 2 and 3 employers, whose rates include a component for the PERS Plan 1 liability). Based on those assumptions, the pension plan's 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 7.40% 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 7.4 percent was determined using a building-block-method. In selecting this assumption, the Office of the State Actuary (OSA) reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered capital market assumptions and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various time horizons.

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, 2018, 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%	1.7%
Tangible Assets	7%	4.9%
Real Estate	18%	5.8%
Global Equity	32%	6.3%
Private Equity	23%	9.3%
Total	100%	

Sensitivity of the Net Pension Liability/(Asset)

The table below presents the authority's proportionate share of the net pension liability calculated using the discount rate of 7.4 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 (6.4 percent) or 1-percentage point higher (8.4 percent) than the current rate.

	1% Decrease (6.4%)	Current Discount Rate (7.4%)	1% Increase (8.4%)
PERS 1	$ 1,970,473	$ 1,603,396	$ 1,285,432
PERS 2/3	$ 3,616,768	$ 790,720	$ (1,526,325)

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, 2018, the authority reported a total pension liability of $2,394,116 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)	
PERS 1	$	1,603,396
PERS 2/3	$	790,720

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

	Proportionate Share 6/30/17	Proportionate Share 6/30/18	Change in Proportion
PERS 1	0.040040%	0.035900%	-0.004140%
PERS 2/3	0.051510%	0.046310%	-0.005200%

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.

The collective net pension liability (asset) was measured as of June 30, 2018, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2017, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended December 31, 2018, the authority recognized pension expense as follows:

	Pension Expense	
PERS 1	$	(53,024)
PERS 2/3		(63,554)
Total	$	(116,578)

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2018, the authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following:

PERS 1		Deferred Outflows of Resources		Deferred Inflows of Resources
Net difference between projected and actual investment earnings on pension plan investments		-		(63,718)
Contributions subsequent to the measurement date		135,451		-
Total	$	135,451	$	(63,718)

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 96,921	$ (138,440)
Net difference between projected and actual investment earnings on pension plan investments	-	(485,222)
Changes of assumptions	9,250	(225,032)
Changes in proportion and differences between contributions and proportionate share of contributions	104,317	(227,632)
Contributions subsequent to the measurement date	199,584	-
Total	$ 410,072	$ (1,076,326)

Total All Plans	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 96,921	$ (138,440)
Net difference between projected and actual investment earnings on pension plan investments	-	(548,940)
Changes of assumptions	9,250	(225,032)
Changes in proportion and differences between contributions and proportionate share of contributions	104,317	(227,632)
Contributions subsequent to the measurement date	335,035	-
Total	$ 545,523	$ (1,140,044)

Deferred outflows of resources related to pensions resulting from the authority's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2019. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31:	PERS 1	PERS 2/3
2019	$ 2,788	$ (124,898)
2020	(13,929)	(176,434)
2021	(41,797)	(305,859)
2022	(10,780)	(118,840)
2023	-	(49,566)
Thereafter	-	(90,241)

NOTE 9 – RELATED PARTIES TRANSACTIONS

The Authority, as general partner, is responsible for the management and operation of projects owned by the low-income housing tax credit partnerships, which are discretely presented Component Units.

Receivables and payables between the Authority and the Component Units as of December 31, 2018 resulted from capital leases, developer fees, and notes. An overview of the relationships related to these transactions is disclosed below and summarized in the following table:

	Payable to the Authority 12/31/2018	Accrued Interest Presentation Difference	Unamortized Financing Costs	Allowance for Bad Debts	Receivable from Component Units 12/31/2018
Notes	$ 39,382,222	$ 2,189,187	$ 328,507	$ (179,060)	$ 41,720,856
Developer Fees	1,092,987	-	-	-	1,092,987
Net Capital Leases	7,661,657	475,836	91,440	-	8,228,933
Accrued Interest	2,665,023	(2,665,023)	-	-	-
Net Activity	$ 50,801,889	$ -	$ 419,947	$ (179,060)	$ 51,042,776

1. ***Notes Receivable/Payable***

The Authority made certain loans to the Component Units used to acquire capital assets that provide low-income housing. These loans are payable from revenues generated by the Component Units and limited partner capital contributions.

The Authority has earned management fees for managing the affairs of the Component Units. Generally, the management fees are payable from revenues generated by the component unit. However, the agreements state that if the component unit has not paid the fee by a specified date, the management fee earned may be forgiven. Component Units projects' budgets are designed to be self-reliant, however, if projects are unable to meet expectations, the Authority is obliged to assist them using the local revenue streams to supplement any shortfalls. These loans are payable from future revenues generated by the component units or from proceeds of sales. The Authority has accrued $179,061 as allowance for bad debts related to management fees receivable.

Notes payable owed to the Authority by the Component Units currently outstanding are as follows:

Purpose	Original Amount	Issue Date	Maturity Date	Interest Rate	Amount Outstanding	Unamortized Issuance Costs	Net Amount Outstanding
Orchard Glen - VHA/Chase Loan	6,570,550	Jul-16	Apr-36	3.63%	$ 4,600,897	$ (86,570)	$ 4,514,327
Orchard Glen - VHA Loan	1,750,000	Jul-16	Jul-56	2.33%	1,750,000	-	1,750,000
Vista Court - VHA Loan	1,200,000	Dec-10	Dec-61	8.5%	1,200,000	-	1,200,000
1st Street - VHA Loan	9,938,385	Feb-14	Feb-54	1%	9,758,534	-	9,758,534
Skyline Crest - VHA/Citi Permanent Loan	6,500,000	Apr-18	Oct-48	4.48%	6,448,008	(241,937)	6,206,071
Skyline Crest - VHA Master Loan	12,750,000	Sep-15	Sep-65	2.95%	12,750,000	-	12,750,000
Lincoln Place - VHA Permanent Loan	1,248,782	May-15	May-55	0.5%	1,196,377	-	1,196,377
Caples Terrace - VHA Note A	3,700,000	Jun-18	Jun-20	3.25%	360,612		360,612
Caples Terrace - VHA Note B	2,763,593	Jun-18	May-68	0.01%	936,117		936,117
VHA Accrued Management Fees	-	Various	N/A	0%	619,176	-	619,176
VHA Operating Advances	-	Various	N/A	0%	91,008	-	91,008
Total					$39,710,729	$ (328,507)	$ 39,382,222

Notes payable debt service requirements to maturity are as follows:

Calendar Year Ending	Principal	Interest
2019	136,333	1,157,416
2020	142,127	1,167,967
2021	149,106	1,178,661
2022	155,910	1,190,968
2023	163,002	1,204,547
2024-2028	931,468	6,280,741
2029-2033	5,797,347	6,857,256
2034-2038	3,245,106	6,615,310
2039-2043	-	8,217,180
2044-2048	-	11,014,702
2049-2053	-	15,204,740
2054-2058	12,704,911	20,819,074
2059-2063	1,200,000	17,273,869
2064-2068	14,046,729	627,450
Undefined	710,183	-
Total	$ 39,382,222	$98,809,881

2. ***Developer Fees Receivable/Payable***

The Authority has earned developer fees while the projects were being developed. Generally, the developer fees are payable from revenues generated by the component unit. However, the agreements state that if component unit has not paid the fee by a specified date, the developer fee earned may be reclassified as an additional capital contribution from the Authority.

3. ***Capital Leases Receivable/Payable***

The Authority has issued tax exempt revenue bonds, which are included in long term debt, for the acquisition or construction of properties utilizing Low Income Housing Tax Credits on behalf of its discretely presented Component Units.

As these limited partnerships or Component Units are created, the Authority establishes a capital lease relationship with each partnership whereby the Authority leases the property to the partnership. For these capital lease arrangements, a lease receivable for the net lease payments is established on the Authority's books and a lease payable on the partnership's books. The liability for the bonds remains on the Authority's books. The capital asset is recorded on the partnership's books. As the bonds payable is reduced through debt service payments, the corresponding lease receivable is reduced by an equal amount.

On the Authority's books, these leases are classified as direct financing leases and expire at various intervals over 99 years from initial period. All executory costs were paid by the component unit. The initial direct costs were paid directly by the Authority. Further, no contingent rentals exist under these leases. The Authority's net investments in direct financing leases as of December 31, 2018 are as follows:

Total minimum lease payments to be received:	$ 13,183,983
Less unearned income	(4,955,050)
Net investment in direct financing lease	$ 8,228,933

Leases Payable: The Component Units record lease payments as reductions of the long-term liability and as interest expense over the life of the lease. The partnerships also record depreciation expense to amortize the assets over the life of the assets. The assets acquired by the Component Units through capital leases, which remained payable as of December 31, 2018, are as follows:

Land	$ 1,421,761
Buildings, structures and improvements	10,729,650
Equipment and furniture	355,744
Less accumulated depreciation	(4,804,635)
	$ 7,702,520

Future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2018, were as follows:

Calendar Year Ending		
	2019	$ 127,442
	2020	211,615
	2021	211,615
	2022	222,115
	2023	231,615
	2024-2028	3,391,006
	2029-2033	898,720
	2034-2038	1,257,473
	2039-2043	2,084,875
	2044-2048	1,749,794
	2049-2052	3,139,117
Total minimum lease payments		13,525,387
Less: amount representing interest		(5,863,730)
Present value of minimum lease payments		$ 7,661,657

4. *Accrued Interest Receivable/Payable*

The Authority charges interest on the notes, developer fees, and capital leases made to the Component Units; the interest is accrued while payment from the component units remains outstanding. The Authority had $2,655,023 of accrued interest payable related to component units as of December 31, 2018, as follows:

Type	*Amount*
Accrued Interest on Notes	$ 2,189,187
Accrued Interest on Net Capital Leases	475,836
Total	$ 2,665,023

NOTE 10 – OTHER CAPITAL CONTRIBUTIONS

The following partner capital contributions were made in accordance with respective partnership agreements and recorded as other capital contributions during 2018:

	Business Type Activities	*Component Units*
Limited partner contribution to OG Rehab LLLP	$ -	$ 2,736,974
Limited partner contribution to Skyline Crest LLLP	-	8,603,464
Limited partner contribution to Caples Terrace LLLP	-	628,358
General partner contribution to Caples Terrace LLLP	(100)	100
Totals	$ (100)	$11,968,896

NOTE 11 – SPECIAL ITEMS

In 2018, the Authority incurred demolition costs of $245,800 related to demolition activities at two properties. Although such activities are not unusual given the nature of the Authority's business, they are infrequent in occurrence and therefore should be presented as special items.

NOTE 12 – SUBSEQUENT EVENTS

In February 2019, the Authority purchased Northcrest Apartments, a 26-unit apartment project located in Vancouver, WA. The purchase was financed with a $2,225,000 promissory note payable with a variable interest rate and matures March 2049. Interest on the variable-rate note is currently paid at the rate equal to 4.44% and resets in sixty months, on March 1, 2024. The interest rate after this period will be recalculated every six months based on the LIBOR interest rate plus 2.40%, with the annual interest rate on the note to be no less than 4.44% and no greater than 9.50%.

NOTE 13 – CONTINGENT LIABILITIES AND LITIGATION

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

The Authority participates in a number of federal, state and local 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. The amount of expenses that may be disallowed by the grantors cannot be determined at this time, although the Authority expects such amount, if any, to be immaterial.

The Authority is the general partner in a number of Tax Credit Limited Partnerships (Component Units) and has provided various guaranties to the respective limited partners, including completion guaranties, operating deficit guaranties, credit reduction guaranties, bank account loss guaranties, loan shortfall guaranties, tax abatement guaranties and indemnification guarantees. In the opinion of management, the likelihood of payments being required under these guarantees is remote and the amount of expenses cannot be reasonably determined at this time, although the Authority expects such amounts, if any, to be immaterial.

As a co-developer of Meriwether Place LLLP and Meadows Apartments LLLP, the Authority has made construction completion and operating deficit guaranties as authorized by the Authority Board of Commissioners. In the opinion of management, the likelihood of payments being required under these guarantees is remote and the amount of expenses cannot be reasonably determined at this time, although the Authority expects such amounts, if any, to be immaterial.

In April 2013, the Authority guaranteed a $446,294 loan, maturing April 2023, issued by Columbia Nonprofit Housing as authorized by the Authority Board of Commissioners. The loan balance is $218,631 as of December 31, 2018. The Authority has considered factors and historical data in assessing the likelihood that it will be required to make a payment on this note in the future. It concluded that it is not likely that the Authority will be required to make a payment on the guarantee; therefore, no liability is recognized on the statement of net position. No arrangements have been made for recovering from Columbia Nonprofit Housing in the event that the Authority is required to make a payment on their behalf.

The Authority is currently subject to a “Final Order and Judgment Approving Class Settlement” entered by the United States District Court for the Western District of Washington on July 31, 2015. The underlying class action lawsuit was filed by three current and former tenants, who alleged that VHA failed to properly calculate utility allowances for its Public Housing tenants for the period from May 1, 2004, until April 30, 2011. VHA denied any liability and denied that the plaintiffs or class members suffered any damages; however, the Authority believed that settlement of the dispute was in its best interests to avoid ongoing litigation and expense. Pursuant to the settlement, VHA established a settlement fund of $488,824 for certain class members and paid $110,000 in attorneys’ fees, court costs, and incentive payments to the class representatives. The Authority is also subject to certain non-monetary, injunctive relief until September 1, 2019.

NOTE 14 – RISK MANAGEMENT

The 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 eighty-three members in the states of Washington, Oregon, Nevada and California. Thirty-four of the eighty-three members are Washington public housing entities.

New members are underwritten at their original membership and thereafter automatically renew on an annual basis. Members may quit upon giving notice to HARRP prior to their renewal date. HARRP can terminate the members after giving a sixty 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 $1,000,000) for employee dishonesty and forgery or alteration and $50,000 for theft are also provided with deductibles the same as Property.

Coverage limits for General Liability and Errors & Omissions are $2,000,000 per occurrence and $2,000,000 annual aggregate. Property limits are offered on an agreed amount, based on each structure's value. Limits for Automobile Liability are $2,000,000, with $2,000,000 aggregate.

HARRP self-insures coverage for liability lines. HARRP self-insures the first $2 million for property, then purchases $45 million of excess insurance from Munich Reinusrance for a combined total of $47 million. The HARRP Board of Directors determines the limits and coverage terms, at its sole discretion.

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

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

The Authority self-insures for unemployment compensation as an alternative to the State program. During 2018, the Authority paid out a total of five claims totaling $7,989 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.

The Authority participates in workers' compensation insurance through the Washington State Department of Labor and Industries, Industrial Insurance State Fund.

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