Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Pierce County Housing Authority

For the period January 1, 2018 through December 31, 2018

Published December 16, 2019

Report No. 1025404

Office of the Washington State Auditor
Pat McCarthy

December 16, 2019

Board of Commissioners
Pierce County Housing Authority
Tacoma, Washington

Report on Financial Statements

The State Auditor's Office takes seriously our role of providing state and local governments with assurance and accountability as the independent auditor of public accounts. Independent audits provide essential accountability and transparency for Housing Authority operations.

The attached comprises our independent audit report on the Housing Authority's compliance with applicable requirements and safeguarding of public resources for the areas we examined.

In summary, this audit revealed an alarming abuse of power by a person in a position of fiscal responsibility. Public employees have an obligation to ensure open government by following the law, their government's own policies, and best practices. Those standards are outlined in this audit.

I wish to thank the Housing Authority's staff and leadership, including its commissioners, whose cooperation and assistance helped us in our review of these matters.

I also strongly recommend you, the Housing Authority's commissioners, review the recommendations included in this report. As stewards of public resources, it is incumbent upon you to ensure the Housing Authority has strong internal controls to prevent the misuse of those resources. The public expects such safeguards.

Sincerely,

Pat McCarthy

State Auditor

Olympia, WA

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2018-001 The Housing Authority's internal controls over accounting and financial reporting were inadequate to ensure accurate and timely reporting and the prevention and detection of fraud.

Background

Pierce County Housing Authority (Housing Authority) management, state and federal agencies, and the public rely on the information included in financial statements and reports to make decisions. Housing Authority management is responsible for designing and following internal controls that provide reasonable assurance regarding the reliability of financial reporting.

The Housing Authority provides housing opportunities for eligible individuals in Pierce County. The Housing Authority owns and manages nine apartment complexes and provides housing assistance through the Low Income Public Housing program. The Housing Authority's operating expenses were roughly $33.9 million in 2018, which includes $23.2 million of housing assistance payments. The Housing Authority's former Finance Director started working for the Housing Authority in 1998, was responsible for overseeing Housing Authority finances, and supervised between five and eight people.

The Housing Authority is required to report a supplementary Financial Data Schedule (FDS) for its audited Real Estate Assessment Center (REAC) submission. As part of the annual financial report, all local governments that spend federal funds must prepare a Schedule of Expenditures of Federal Awards (SEFA). Local governments that spend $750,000 or more in federal funds must receive a federal single audit. The Housing Authority's FDS and SEFA will be included with our report on the Housing Authority's federal programs.

Government Auditing Standards, prescribed by the Comptroller General of the United States, requires the auditor to communicate fraud that warrants the attention of those charged with governance and material weaknesses, as defined below in the Applicable Laws and Regulations section, as a finding.

Description of Condition

The current audit identified the following deficiencies in internal controls that, when taken together, represent a material weakness:

- The former Finance Director had full access to all systems and had wire transfer capability without adequate oversight and monitoring of her activities.

- The former Finance Director, who was responsible for financial statement preparation, restricted access to information so only she had the knowledge and experience necessary to prepare the financial statements and supplementary schedules accurately and completely.
- Staff members did not use the accounting system to perform the bank reconciliations. Instead, they used off-the-shelf software to reconcile the cash and investments activities. These duplicate systems made it easier for the former Finance Director to conceal her misappropriation.
- The Housing Authority's secondary review of the financial statements was inadequate to detect and prevent errors and irregularities before submitting the annual financial report for audit.
- Automated Clearing House (ACH) payments were processed in batches, not individually, and showed up as a batched dollar amount on the Housing Authority's bank statements. Further, journal entries to record the batches in the accounting system were confusing and not always entered in a timely manner.

Cause of Condition

The Housing Authority relied on the former Finance Director for proper recording of all financial activities, including bank account activity, financial statement preparation and reporting, without adequate oversight and review.

In addition, the Housing Authority's use of off-the-shelf software to reconcile the checking and investment accounts circumvented the reconciliation process in the accounting system, which helped the former Finance Director to perpetrate and conceal her misappropriation.

Finally, the finance staff lacked adequate training and information needed to effectively perform their duties. All questions went back to the former Finance Director for resolution.

Effect of Condition

As a result of the material weakness in internal controls:

- The former Finance Director misappropriated a total of $6,948,277 between 2016 and 2019, as detailed in the table below:

2016	2017	2018	2019
$413,169	$1,272,871	$1,951,477	$3,310,760

- The 2018 financial statements reported $1.95 million of misappropriation in the maintenance and general operational cost operating balances; however, these transactions would be more appropriately reported as an extraordinary item - fraud loss. Our report reflects a qualified opinion because this classification error was not corrected in the final financial statements.
- The Housing Authority did not meet its federal single audit and REAC filing deadlines of September 30, 2019, because the Housing Authority did not prepare an accurate FDS in a timely manner.

Additionally, delayed filing of the financial reports prevents the public from obtaining timely information about the Housing Authority's fiscal operations. It also hinders transparency to citizens and our Office's efforts to compile statistical information for use by the state Legislature and others.

Recommendations

We recommend the Housing Authority re-evaluate and strengthen internal controls over the financial systems and preparation of the financial statements. These controls should include:

- Proper monitoring of financial transactions and bank statement activity to ensure financial errors and irregularities are prevented or quickly detected. This includes properly reconciling the general ledger to the bank accounts, evaluating and limiting employee access to accounting systems based on job responsibilities, limiting wire transfer capabilities, and considering requiring dual authorizations.
- Adequate oversight and secondary review of financial statement preparation and reporting, to ensure accurate and timely financial reporting and compliance with federal single audit and REAC filing requirements.
- Providing staff with the training and information needed to effectively perform their duties. This includes training employees on how to conduct a meaningful review of financial information, such as journal entries, bank statements, and ACH payments.

Housing Authority's Response

Pierce County Housing Authority (PCHA) is committed to ensuring that all necessary controls are implemented to protect both PCHA's and the public's assets. PCHA has reviewed this report and agrees with all the recommendations presented by the State Auditor's Office.

Response to the State Auditor's recommendations:

The Authority is implementing new protocols and processes, with the help of a nationally recognized firm with deep knowledge and understanding of public housing authorities, to ensure proper monitoring of financial transactions and bank statement activity, including:

- *Wire transfer capability is limited and subject to dual authorization*
- *Access to the accounting system has been restricted by job duties*
- *Process for oversight and secondary review of financial statement preparation has been developed and implemented to ensure accurate and timely financial reporting*
- *Training staff on proper methods reconciling the general ledger to bank accounts*
- *Ongoing training for finance staff, executive staff and board members on review of journal entries, bank statements, and ACH payments*

PCHA recognizes its responsibility for the preparation and fair presentation of financial statements in accordance with accounting principles generally accepted in the United States of America.

Auditor's Remarks

We appreciate the Housing Authority's commitment to resolving the issues identified above and emphasize the importance of establishing effective internal control over accounting and financial reporting. We will follow up on the status of this finding during our next audit.

Applicable Laws and Regulations

RCW 43.09.200 – Local government accounting – Uniform system of accounting, states,

> The state auditor shall formulate, prescribe, and install a system of accounting and reporting for all local governments, which shall be uniform for every public institution, and every public office, and every public account of the same class.
>
> The system shall exhibit true accounts and detailed statements of funds collected, received, and expended for account of the public for any purpose whatever, and by all public officers, employees or other persons.

> The accounts shall show the receipt, use, and disposition of all public property, and the income, if any, derived therefrom; all sources of public income , and the amounts due and received from each sources; all receipts, vouchers, and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction; all statements and reports made or required to be made, for the internal administration of the office to which they pertain; and all reports published or required to be published, for the information of the people regarding any and all details of the financial administration of public affairs.

RCW 43.09.230 – Local government accounting – Annual reports – Comparative statistics, states in part:

> The state auditor shall require from every local government financial reports covering the full period of each fiscal year, in accordance with the forms and methods prescribed by the state auditor, which shall be uniform for all accounts of the same class.
>
> Such reports shall be prepared, certified, and filed with the state auditor within one hundred fifty days after the close of each fiscal year.

Budgeting, Accounting and Reporting System (BARS) manual, Internal Control section 3.1.3, states in part:

> <u>Purpose and Definition of Internal Controls</u>
>
> Internal control is defined by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), in standards adopted by the American Institute of Certified Public Accountants and by the Federal Office of Management and Budget as follows:
>
> Internal control is a process – affected by those charged with governance, management and other personnel designed to provide reasonable assurance regarding the achievement of objectives in the following categories:
>
> - Effectiveness and efficiency of operations
> - Compliance with applicable laws and regulations
> - Reliability of financial reporting

Management and the governing body are responsible for the government's performance, compliance and financial reporting. Therefore, the adequacy of internal control to provide reasonable assurance of achieving these objectives is also the responsibility of management and the governing body.

The governing body has ultimate responsibility for ensuring adequate controls to achieve objectives, even though primary responsibility has been delegated to management. Since management and the governing body are assumed to work in harmony, both parties are collectively referred to as "management" throughout the rest of this section.

Controls over Financial Reporting

This objective refers to fair presentation of financial statements and required schedules in all material respects in accordance with the stated basis of accounting . . .

Preparation of the annual report – Controls should ensure that financial statements and required schedules are properly compiled and prepared from source accounting records. Controls should also ensure correct presentation of statements and schedules . . .

Controls over Financial Reporting

This objective refers to fair presentation of financial statements and required schedules in all material respects in accordance with the stated basis of accounting.

In meeting this objective, the government should have controls that accomplish the following key functions:

- Identification of financial events – Controls should ensure financial events and transactions are properly identified and recorded.
- Properly applying accounting standards – Controls should ensure correct criteria and methodology is applied when accounting for financial events. When the correct method of accounting for or reporting a transaction is unclear, the government should seek clarification by performing research, contracting for accounting

assistance, or communicating with the State Auditor's Office or standard setting bodies.

- Correctly accounting for all financial events – Controls should ensure that:
- Only valid transactions are recorded and reported.
  - All transactions occurred during the period are recorded and reported.
  - Transactions are recorded and reported at properly valued and calculated amounts.
  - Recorded and reported transactions accurately reflect legal rights and obligations.
  - Transactions are recorded and reported in the account and fund to which they apply.
  - Preparation of the annual report – Controls should ensure that financial statements and required schedules are properly compiled and prepared from source accounting records. Controls should also ensure correct presentation of statements and schedules.

Controls and processes should generate adequate documentation to demonstrate achievement of objectives. This is not only important for audit, oversight and public records purposes, but also to enable effective monitoring of controls over financial reporting by management.

Government Auditing Standards, December 2011 Revision, paragraph 4.23 states:

> 4.23 When performing GAGAS financial audits, auditors should communicate in the report on internal control over financial reporting and compliance, based upon the work performed, (1) significant deficiencies and material weaknesses in internal control; (2) instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the audit and any other instances that warrant the attention of those charged with governance; (3) noncompliance with provisions of contracts or grant agreements that has a material effect on the audit; and (4) abuse that has a material effect on the audit.

The American Institute of Certified Public Accountants *Codification of Statements on Auditing Standards*, section 265 – Communicating Internal Controls Related Matter Identified in Audit, paragraph 7, states:

> For purposes of generally accepted auditing standards, the following terms have the meanings attributed as follows:
>
> Material weakness. A deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.
>
> Significant deficiency. A deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Pierce County Housing Authority
January 1, 2018 through December 31, 2018

Board of Commissioners
Pierce County Housing Authority
Tacoma, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Pierce County Housing Authority (Housing Authority), as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Housing Authority's basic financial statements, and have issued our report thereon dated December 13, 2019. The Housing Authority's financial statements for the year ended December 31, 2018 improperly classify approximately $1.95 million of fraudulent disbursements. Accordingly, our report was modified to reflect a qualified opinion on the fair presentation of the financial statements for this departure from accounting principles generally accepted in the United States of America. Additionally, management has not disclosed the misappropriation, nor adjusted the affected balances and related financial analysis, in the management's discussion and analysis. Although our opinion on the basic financial statements is not affected, this is a material departure from prescribed guidelines.

As discussed in Note 8 to the financial statements, during the year ended December 31, 2018, the Housing Authority implemented Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

As discussed in Note 13 to the financial statements and described in Finding 2018-001 in the Schedule of Audit Findings and Responses, from 2016 to 2019, the Housing Authority experienced misappropriation perpetrated by a member of senior management. Additionally, the Housing Authority participates in a number of federal-assisted programs. The extent of potential federal grant expenditure disallowances, if any, resulting from the fraud is unknown at this time.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Audit Findings and Responses, we identified certain deficiencies in internal control that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Housing Authority's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Audit Findings and Responses as Finding 2018-001 to be a material weakness.

COMPLIANCE AND OTHER MATTERS

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

The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Audit Findings and Responses as Finding 2018-001. We also noted certain matters that we will report to the management of the Housing Authority in a separate fraud investigation report dated December 16, 2019.

HOUSING AUTHORITY’S RESPONSE TO FINDINGS

The Housing Authority’s response to the findings identified in our audit is described in the accompanying Schedule of Audit Findings and Responses. The Housing Authority’s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

PURPOSE OF THIS REPORT

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

Pat McCarthy

State Auditor

Olympia, WA

December 13, 2019

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Pierce County Housing Authority
January 1, 2018 through December 31, 2018

Board of Commissioners
Pierce County Housing Authority
Tacoma, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Pierce County Housing Authority (Housing Authority), as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Housing Authority's basic financial statements as listed on page 19.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Housing Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Housing Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinion

As discussed in Note 13 to the financial statements and described in Finding 2018-001 in the Schedule of Audit Findings and Responses, the Housing Authority's financial statements for the year ended December 31, 2018, include approximately $1.95 million of fraudulent disbursements, which are reflected in operating expense balances for maintenance and general operational costs. Accounting principles generally accepted in the United States of America require governments to establish and follow a policy that defines operating expenses based on the operations of the government. Because the fraudulent disbursements were not incurred in the process of providing affordable and low-income housing, they should not be classified as operating expenses. These transactions would be more appropriately reported as an extraordinary item – fraud loss in the statement of revenues, expenses and changes in net position and the statement of cash flows; however, these amounts have not been reclassified as such.

Qualified Opinion

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph above, the financial statements referred to above present fairly, in all material respects, the financial position of the Housing Authority, as of December 31, 2018, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 8 to the financial statements, in 2018, the Housing Authority adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

As discussed in Note 13 to the financial statements and described in Finding 2018-001 in the Schedule of Audit Findings and Responses, from 2016 to 2019, the Housing Authority experienced misappropriation perpetrated by a member of senior management. Additionally, the Housing Authority participates in a number of federal-assisted programs. The extent of potential federal grant expenditure disallowances, if any, resulting from the fraud is unknown at this time. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed on page 19 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. Management has not disclosed the misappropriation perpetrated by a member of senior management, nor adjusted the affected balances and related financial analysis in the management's discussion and analysis. Although our opinion on the basic financial statements is not affected, this is a material departure from prescribed guidelines. 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.

Housing Authority's Response to Finding

The Housing Authority's response to the finding identified above is described in the accompanying Schedule of Audit Findings and Responses. The Housing Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2019 on our consideration of the Housing Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Housing Authority's internal control over financial reporting and compliance.

Pat McCarthy

State Auditor

Olympia, WA

December 13, 2019

FINANCIAL SECTION

Pierce County Housing Authority
January 1, 2018 through December 31, 2018

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2018

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2018
Statement of Revenues, Expenses and Changes in Net Position – 2018
Statement of Cash Flows – 2018
Notes to Financial Statements – 2018

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Proportionate Share of Net Pension Liability – PERS 1, PERS 2/3 – 2018
Schedule of Employer Contributions – PERS 1, PERS 2/3 – 2018
Schedule of Funding Progress PEBB – Post-Employment Health Care Plan – 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of Pierce County Housing Authority (Authority) administers a broad range of housing-based programs within Pierce County, financed by local and federal sources. The Authority owns and operates 815 dwelling units and provides housing assistance subsidies and self-sufficiency services to approximately another 2,800 households. Our discussion and analysis of the Authority's financial performance provides an overview of the financial activities for the fiscal year ended December 31, 2018. Please read it in conjunction with the Authority's financial statements.

FINANCIAL HIGHLIGHTS

- Net operating income for assisted housing programs decreased from the prior year by approximately $696,000. The negative change is a result of decreased housing assistance subsidy provided to the Authority by the U.S. Department of Housing and Urban Development of about $615,000 in the housing choice voucher program, decreases in rental income of $19,000, increases in major maintenance and repair costs of $315,000 and expenses for an environmental review and other routine operating costs of $195,000 which were offset by reductions to housing assistance payments made to landlords $448,000.

- Revenue decreased in the affordable housing program by approximately $90,000 as a result of additional units being placed off-line for major repair or renovation and decreased occupancy, but expenses were reduced by $190,000 explaining the $100,000 increase in net operating income from 2017 to 2018.

- The Authority's net position was reduced by approximately $886,000 as a result of accounting principal changes in the computation of Other Post-Employment Benefits.

- The above described activity resulted in a decrease of about $595,000 in the Authority's financial operating results from 2017 to 2018.

The Authority is a highly leveraged operation, as is common in the residential real estate business. Because its rents are set at rates to provide affordable housing to low-income households, net income from operating the Affordable Housing programs is expected to be very minor. The Authority's accounting policy changed in 2016 in which major maintenance and repair items such as roof and window replacements, interior remodels and balcony replacements are recognized as an operating expense instead of being capitalized and depreciated over the life of the asset. The operation of the Assisted Housing Programs is designed to operate on a break-even basis with a small administrative fee allowed for managing the program for federal agencies; however, reductions in operating subsidies have required the Authority to use its reserves in order to continue operating the programs in line with its mission. During 2018 Housing and Urban Development, the primary source of administrative funding for the Authority's largest program, Housing Choice Vouchers, reduced fee eligibility to 80%.

Introduction to the Financial Statements

The Authority operates the following two major business type programs that are included in these financial statements.

Assisted Housing Programs

This major program is used to account for the various HUD and other federal housing programs administered by the Authority which is comprised of the Housing Choice Voucher, Moderate Rehabilitation, Family Self Sufficiency, Low-Income Public Housing and Rural Development programs.

Affordable Housing Programs

This major program is used to account for apartment building operations that are financed and operated in a manner similar to private business enterprise. The intent of the Authority is that the costs (expenses, including depreciation) of providing services to the general public on a continuing basis be financed or recovered primarily through rental revenues. Revenues and expenses related to financing or investing activities are treated as non-operating revenues and expenses in the Statement of Revenues, Expenses and Changes in Net Position. This major program also accounts for the sale and financing of single-family residences under its Homeownership program.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position and the Statement of Cash Flows found after Management's Discussion and Analysis, provide information about the activities of the Authority as a whole and present a longer-term view of the Authority's finances.

Reporting the Authority as a Whole

The Statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position and the Statement of Cash Flows report information about the Authority as a whole and about its activities in a way that helps communicate the financial condition of the Authority. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These statements report the Authority's net position, and changes in them, as well as how cash was generated and used during the year. The Authority's net position is the difference between assets plus deferred outflows and liabilities plus deferred inflows. It is one way to measure the Authority's financial position. Over time, increases or decreases in the Authority's net position are one indicator of whether its financial condition is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the Authority's funding structures and the condition of the Authority's housing stock, to assess the overall financial health of the Authority.

THE AUTHORITY AS A WHOLE

The Authority's net position decreased by approximately $3.2 million during 2018 as compared to a decrease of nearly $2.2 million in 2017. Approximately $886,000 of the decrease in 2018 is a result of the adjustment for the change in accounting principal regarding the computation of Other Post-Employment Benefits. The remainder of the change is a result of a reduction in housing assistance subsidies and payments which net to a decrease of $167,000, decreases in tenant revenue of $50,000, offset by an increase to capital contributions of $68,000. The remaining decrease is due to several factors including increased costs related to salaries and benefits, and increases in utility costs.

The following analysis focuses on the changes in assets, deferred outflows, liabilities, deferred inflows and net position of the Authority's operations. It presents condensed information obtained from the statements of net position.

	ASSETS AND NET POSITION 2018	2017	Percentage Change
Current and Other Assets	$ 7,553,363	$ 9,643,804	-21.68%
Capital Assets, Net	23,209,376	24,467,737	-5.14%
Total Assets	30,762,739	34,111,541	-9.82%
Deferred Outflows of Resource	224,490	227,459	-1.31%
Total Deferred Outflows of Resources	224,490	227,459	-1.31%
Non Current Liabilities	20,302,264	20,066,586	1.17%
Current Liabilities	1,293,552	1,797,653	-28.04%
Total Liabilities	21,595,816	21,864,239	-1.23%
Deferred Inflows of Resources	460,493	302,923	52.02%
Net Position:			
Invested in Capital Assets, Net of Debt	5,890,480	6,429,295	-8.38%
Restricted	727,552	795,763	-8.57%
Unrestricted	2,312,888	4,946,780	-53.24%
Total Net Position	$ 8,930,920	$ 12,171,838	-26.63%

The decrease in net position invested in capital assets, is caused by several offsetting factors. Depreciation of $1.54 reduced capital assets, while purchases of equipment and flooring of about $332,000, capital related debt payments of $264,000 and payoff of an administrative building loan of $433,000 increased the net investment in capital assets.

Restricted net position decreased approximately $68,000 as a result of the Authority's expenditure of restricted assets for making housing assistance payments to landlords. The use of restricted reserves is intentional in order to comply with regulatory requirements to mitigate the accumulation of restricted reserves at the Authority and reduce outlays by the U.S. Department of Treasury.

Unrestricted net position represents the portion of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements. The Authority completed adjustments of $886,000 for a change in accounting principal regarding the computation of Other Post-Employment Benefits. Expenditures for major maintenance and repairs of about $994,000, a reduction in tenant revenues of about $50,000, and an increase in other general costs resulted in a decrease in unrestricted net position of approximately $2.6 million.

Tenant rent and other revenues decreased $50,000 in 2018. Additionally, the Authority experienced a decrease in HUD contributions for the Housing Choice Voucher and other federal programs of $676,000, decreasing the total operating revenue by $726,000 or -2.21% compared to 2017 as shown in the following chart.

	CHANGES IN NET POSITION 2018	2017	Percentage Change
Rent and Other Tenant Revenues	$ 6,447,172	$ 6,497,226	-0.77%
Annual Contributions (HUD)	25,222,682	25,863,497	-2.48%
Other Revenues	409,468	444,803	-7.94%
Total Operating Revenues	32,079,322	32,805,526	-2.21%
Insurance Settlements	328,734	47,879	
Interest Revenue	53,319	35,915	48.46%
Total Non-Operating Revenue	382,053	83,794	355.94%
Apartment Operations and Administration Expense	6,829,207	7,022,101	-2.75%
Assisted Housing Operations and Administration	27,063,485	27,001,016	0.23%
Total Operating Expenses	33,892,692	34,023,117	-0.38%
Loss (Gain) on Disposition of Assets	23,431	34,408	-31.90%
Interest Expense	1,015,847	1,031,949	-1.56%
Total Non-Operating Expense (Income)	1,039,278	1,066,357	-2.54%
Increase (Decrease) in Net Assets Before Capital Grant Contributions	(2,470,595)	(2,200,154)	12.29%
Capital Grant Contributions	116,012	47,696	143.23%
Increase (Decrease) in Net Position	(2,354,583)	(2,152,458)	9.39%
Ending Net Position	$ 9,817,255	$ 12,171,838	-19.34%
Net operating income-Apartments	$ (1,011,083)	(1,112,091)	-9.08%
Net operating income-Assisted Housing	$ (802,287)	(105,500)	660.46%

Operating costs in the Affordable Housing program decreased, $193,000 or in 2018, primarily as a result of decreased major maintenance expenses. Operating costs for the Assisted Housing programs increased $63,000 through a reduction in housing assistance payments made to landlords offset by increases in major maintenance and repair costs completed in the Low-Income Public Housing program.

Overall, operating expenses decreased by about $130,000 or -.38% from the prior year.

The net effect of these revenue and expense changes decreased net operating income in 2018 by approximately $600,000 from the prior year. The combination of all of these operating and non-operating factors resulted in the current year decrease in net position of about $3.2 million compared to the 2017 decrease in net position of $2.2 million.

Budgetary Highlights

The Authority's executive staff developed its 2018 budget in December 2017. Informal budget revisions were completed during the year in response to operational changes made to adjust for HUD funding changes in the HCV program.

Overall, the Authority's revenues were $26,000 more than expected, and expenses were approximately $211,000 less than budgeted, creating a positive budget variance of $237,000. Revenues for the Affordable Housing program were $43,000 less than expected and expenses were $44,000 less than budgeted, with the offsetting amounts leaving the change to net position as expected. The Assisted Housing program revenue was approximately $69,000 more than anticipated and expenses were $168,000 less than budgeted. The main factors making up substantially all of the variance are as follows:

- Lease up in the Section 8 Housing Choice Voucher program was 0.75% less than planned.

- HUD reduced the operating subsidy in the Low-Income Housing program to 94% of the eligible amount.

- A dwelling unit in the Low-Income Public Housing program was damaged by fire. The Authority incurred additional non-routine expense in the repair and rehabilitation of the home and received an insurance settlement for the damages. While expenses increased as a result of completing the repairs, other routine expenses were reduced to offset the additional costs. This resulted in a positive budget variance of $257,000.

- The Authority received a settlement through its participation in a successful class action lawsuit against U.S. Housing and Urban Development in the amount of $219,000.

- The Authority did not affect a planned rent increase until later than planned.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2018, the Authority had $21.98 million invested in its portfolio of housing stock and $1.23 million invested in assets used in administration and program support. This amount represents a net decrease (including additions, disposals and depreciation) of $1.26 million from last year.

The decrease to capital assets is due to depreciation and disposals offset by $331,600 in additions of equipment.

The Authority maintains capital replacement, repair and other reserves under their new FNMA Notes and under a Rural Development Administration loan agreement requirement. As of December 31, 2018, the Authority has approximately $423,000 in reserves held specifically for capital replacements or repairs on the three blended LLCs component units and a Rural Development project. The Authority's fiscal-year 2019 budget for major maintenance and repair calls for it to spend approximately $1 million for major projects involving multi-family projects and the Low-Income Public Housing program. These improvements will be funded from existing reserves and current operations. For additional information, refer to Note 1.D.6. and Note 4 in the notes to the financial statements.

Debt Administration

At year-end, the Authority had $17.78 million in loans outstanding versus $18.5 million last year, a decrease of 3.9%. Reductions were a result of normal, recurring principal payments which included a balloon payment due for the administrative building.

The Authority no longer has obligations set forth under bond covenants to maintain pre-determined debt service coverage ratios as those bonds were redeemed during 2015. Additional information regarding long-term debt and related bond covenants is provided in Note 4 of the Authority's notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Authority's appointed commissioners and management considered many factors when setting the preliminary fiscal year 2019 budget. On-going impact of the reduced administrative fee funding has motivated the Authority's management to mirror most operating activities of 2018 in the 2019 budget, adding in factors for inflation, statutory increases and stabilizing housing subsidy utilization.

The investment in capital assets, net of related debt is expected to decrease because reduction of the related debt will be less than the regular on-going depreciation. The restricted net position balance is not expected to experience a substantial change as the major maintenance and repair projects will be funded by unrestricted net position. The Authority expects its unrestricted net position to decrease by approximately $1.2 million attributable to planned maintenance and repair projects of approximately $1 million and use of operating reserves in the Low-Income Public Housing program that will be required because of operating subsidy reductions. In order to meet the budget targets, the occupancy targets will need to be met, planned rental rate increases will need to be implemented, productivity in managing the assisted housing programs will need to be achieved and expense controls will need to be rigorously enforced.

Contacting the Authority's Financial Management

This financial report is designed to provide our citizens, renters, housing assistance clients, and creditors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Authority's finance department, at Pierce County Housing Authority, by mail at 1525 108th St S, Tacoma, WA 98444-2613.

PIERCE COUNTY HOUSING AUTHORITY
STATEMENT OF NET POSITION
AS OF DECEMBER 31, 2018

ASSETS	
Current Assets	
Cash, Cash Equivalents and Investments	5,037,419
Restricted Cash, Cash Equivalents and Investments	480,829
Accounts Receivable/prepaids (net)	364,790
Notes Receivable	8,822
Inventory	11,396
TOTAL CURRENT ASSETS	5,903,256
Non Current Assets	
Restricted Cash and Cash Equivalents	685,184
Notes Receivable	964,923
Capital Assets:	
Land	5,295,117
Buildings	35,848,697
Intangible Assets	89,224
Equipment and Flooring	3,688,208
Less accumulated depreciation	(21,711,870)
TOTAL NON CURRENT ASSETS	24,859,483
TOTAL ASSETS	30,762,739
Deferred Outflows of Resources	
Deferred Outflows Related to Pensions	224,490
TOTAL DEFERRED OUTFLOWS OF RESOURCES	224,490
LIABILITIES	
Accounts Payable	232,817
Accrued Interest Payable	86,592
Tenant Deposits and Prepaid Rent	246,382
Other Accrued Liabilities	229,122
Accrued Payroll & Compensated Absences	192,582
Current portion of long term liabilities	306,057
TOTAL CURRENT LIABILITIES	1,293,552
Non Current Liabilities	
Bonds and Loans Payable (net)	17,477,410
Pension Liabilities	1,105,689
Other Post Employment Benefits Liability	1,471,127
Compensated Absences and Other Non-Current Liabilities	248,038
TOTAL LIABILITIES	21,595,816
Deferred Inflows of Resources	
Deferred Inflows Related to Pensions	460,493
TOTAL DEFERRED INFLOWS OF RESOURCES	460,493
NET POSITION	
Net Investment in Capital Assets	5,890,480
Restricted	727,552
Unrestricted	2,312,888
TOTAL NET POSITION	8,930,920

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

PIERCE COUNTY HOUSING AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2018

OPERATING REVENUES	
Dwelling Rent	6,200,351
Tenant Charges	212,026
Laundry	9,875
Utilities	24,920
Other Income	325,810
Other Operating Grants	83,658
Annual Contributions (HUD) & Operating Grants	25,222,682
TOTAL OPERATING REVENUES	32,079,322
OPERATING EXPENSES	
Administration	2,410,324
Tenant Services	14,491
Utilities	1,162,540
Maintenance Costs	3,661,333
On Site Salaries and Benefits	320,937
General Operational Costs	1,401,700
Other	115,798
Independent Audit Costs	92,049
Housing Assistance Payments	23,165,573
Depreciation	1,547,947
TOTAL OPERATING EXPENSES	33,892,692
OPERATING INCOME	(1,813,370)
NONOPERATING REVENUES (EXPENSES)	
Gain (Loss) on Disposition of Assets	(23,431)
Insurance Settlements	328,734
Investment Revenue	53,319
Interest Expense	(1,015,847)
Total Nonoperating Revenue (Expenses)	(657,225)
INCOME (LOSS) BEFORE CONTRIBUTIONS	(2,470,595)
Capital Contributions	116,012
CHANGE IN NET POSITION	(2,354,583)
BEGINNING NET POSITION AS PREVIOUSLY REPORTED	12,171,838
PRIOR PERIOD ADJUSTMENTS	(886,335)
BEGINNING NET POSITION AS RESTATED	11,285,503
TOTAL NET POSITION ENDING	8,930,920

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

PIERCE COUNTY HOUSING AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018

CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$	6,941,620
Payments to suppliers, employees and landlords		(32,939,409)
Receipts from governments		25,222,682
NET CASH PROVIDED BY OPERATING ACTIVITIES		(775,107)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from insurance settlements		328,734
Capital contributions		116,012
Purchases of capital assets		(331,599)
Principal paid on capital debt		(719,546)
Interest paid on capital debt		(1,015,847)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIE		(1,622,246)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments		4,611,650
Purchase of investments		(4,290,075)
Proceeds from Notes Receivable		90,050
Interest and dividends		53,319
NET CASH USED BY INVESTING ACTIVITIES		464,944
Net increase in cash and cash equivalents		(1,932,409)
Balances - beginning of the year		8,135,841
Balances - end of the year		6,203,432
Investments		-
Total Cash, Cash Equivalents and Investments	$	6,203,432

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income (Loss)	$	(1,813,370)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense		1,547,947
Pension expense		305,814
Other post employment benefits		(943,295)
Changes in assets and liabilities:		
Receivables, net		63,944
Inventories		(4,038)
Accounts Payable		138,030
Accrued Expenses		(46,804)
Tenant Deposits and Prepaid Rent		21,036
Accrued Payroll and Compensated absences		18,424
Non Current Liabilities and other		(62,795)
NET CASH PROVIDED BY OPERATING ACITVITIES	$	(775,107)

RECONCILIATION OF TOTAL CASH, CASH EQUIVALENTS AND INVESTMENTS TO THE STATEMENT OF NET POSITION		
Categories Reflected in the Statement of Net Assets		
Current:		
Cash, Cash Equivalents and Investments		5,037,419
Restricted Cash and Cash Equivalents		480,829
Non Current:		
Restricted Cash Equivalents and Investments		685,184
Unrestricted Investments		-
Total Cash, Cash Equivalents and Investments in Cash Flow Statement	$	6,203,432

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Pierce County Housing Authority (the Authority) was organized pursuant to the laws of the State of Washington. These financial statements have been prepared in conformity with generally accepted accounting principles as applied to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The Housing Authority's significant accounting policies are described in the following notes.

A. Reporting Entity

The purpose of the Authority is to provide safe, decent, sanitary and affordable housing to low income families in Pierce County, Washington, and to operate the housing programs in accordance with federal legislation administered through the U.S. Department of Housing and Urban Development (HUD) under provisions of the National Housing Act of 1937. The Authority was created in 1978 by an act of Pierce County, Washington.

The governing body of the Authority is its Board of Commissioners, which is comprised of six members, five of whom are appointed by the Pierce County Executive and ratified by the County Council and one, which is appointed by the Authority Board of Commissioners. The Board appoints an Executive Director to administer the affairs of the Authority. The Authority is not considered a component unit of Pierce County, as the Board of Commissioners independently oversees the Authority's operations and Pierce County is not financially accountable for the Authority. Financial accountability is defined as appointment of a majority of the entities board and either (a) the ability to impose the primary government's will, or (b) the Authority will provide a financial benefit to, or impose a financial burden on, the primary government.

On January 26, 2012, the Authority's Board of Commissioners adopted a resolution relating to the organization of a nonprofit corporation, Housing Successes, to support the Authority in its goals. On July 10, 2014, the IRS provided a final determination of the tax-exempt status of Housing Successes. While considered a component unit of the Authority, there was no fiscal activity during the year.

During 2014, the Authority established three separate Limited Liability Companies: Chateau Rainier Apartments LLC, DeMark Apartments LLC and Lakewood Village Apartments LLC, for the purpose of debt refunding. The refunding occurred in 2015 and the Authority transferred all assets and liabilities to these three separate legal entities. The Authority implemented the provisions of GASB Statement No. 80 *Blending Requirements for Certain Component units, an amendment of GASB Statement No. 14*. This statement requires that "A component unit should be included in the reporting entity financial statements using the blended method if the component unit is organized as a not-for-profit corporation in which the primary government is the sole corporate member…". These three legally separate entities are considered blended component units. Disclosure of these component units are provided in these notes to financial statements.

The accompanying financial statements include all programs, and organizations for which the Board of Commissioners is financially accountable.

B. Program Accounting

The accounts of the Authority are organized on the basis of programs, each of which is considered a separate accounting entity. The operations of each entity are accounted for with a separate set of self-balancing accounts that comprise its assets, deferred outflows, liabilities, deferred inflows, net position, revenues and expenses as appropriate. Resources are allocated to and accounted for in individual programs based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The operations of the Authority combine the two following major programs that account for separate business-type activities. The Authority uses sub-accounts within these major programs to account for certain funding streams that require separate accounting by State law, HUD regulations or by loan agreements. The two major programs described below are combined into a single enterprise fund for reporting purposes.

Assisted Housing Programs

This major program is used to account for the various HUD and other housing assistance programs administered by the Authority such as Section 8, Low-Income Public Housing (LIPH) and Rural Development (RD) programs.

Programs Administered for Assisted Housing

Public Housing: This program accounts for low-rent public housing projects developed and operated by the Authority. HUD provided development grants to allow the Authority to purchase real estate for use in the program and provides operating subsidies and capital improvement grants for ongoing management of the projects. There are 125 single family homes being operated in this program.

Section 8 Housing Choice Voucher Programs: The Section 8 programs provide housing assistance payments for up to approximately 2,800 households who live in private and Authority owned housing. These programs were authorized by Section 8 of the National Housing Act and provide housing assistance payments to landlords and lenders to subsidize rental and mortgage payments for low-income persons.

Moderate Rehabilitation: The Section 8 Moderate Rehabilitation program allows for the subsidy of rent on rehabilitated, low-income housing units for a contracted period of time. Both for-profit and not-for-profit developers may provide low-income housing under this program. The program has HUD-established and controlled rents designed to reimburse owners with sufficient rental income to pay for rehabilitation costs. Developers must obtain their own financing and HUD subsidizes rents once the units are occupied. There is one multi-family housing project consisting of 16 apartment units in this program.

Rural Development: This program provides for special needs populations in rural areas. Rural Development provides both rent subsidies and interest rate subsidies for this specific project which serves 20 elderly or disabled low income households.

While dwelling rent is recognized as operating revenues, the major portion of operating revenues in the Assisted Housing Programs is the HUD Annual Contributions. These operating grants are reported as operating revenue in the statement of revenues, expenses and changes in net position. Revenues and expenses related to financing or investing activities are treated as non-operating revenues and expenses in the statement of revenues, expenses and changes in net position. Capital contributions are treated as non-operating revenue.

Affordable Housing Program

This major program is used to account for various business type activity programs administered by the Authority that do not have on-going federal subsidies to fund operations.

Programs Administered for Affordable Housing

Apartments: The operation of 8 multi-family housing projects, consisting of 670 units that are financed and operated in a manner similar to private business enterprises are included in this group. Costs (expenses, including depreciation) of providing services to the general public, on a continuing basis, are recovered primarily through rental revenues. Revenues and expenses related to financing or investing activities are treated as non-operating revenues and expenses in the statement of revenues, expenses and changes in net position.

5H Homeownership**:** This program accounts for the sale of public housing program homes to current residents. Homes sold under this program are transferred from the Assisted Housing Program to the Homeownership program sub-account within the Affordable Housing program at its net book value. The proceeds of the sales are a combination of cash, for privately financed first mortgages, and second mortgage notes receivable. The Authority holds a “silent second” mortgage that bears no interest. These mortgages are due upon sale of the property or at such time as the family can afford to pay at least $50 per month in debt service as determined under program guidelines. Since the timing of repayment of these notes is uncertain, the investment in the related notes receivable have not been discounted. As such, these notes are stated at their face value in the accompanying statement of net position. There were 19 households served in this program during 2018.

C. Measurement Focus and Basis of Accounting

Basis of Accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. All of the Authority’s programs are considered business-type activities, which use the economic resources measurement focus and the accrual basis of accounting. Under this basis of accounting, revenues are recognized when they are earned and expenses recognized when incurred. Substantially all transactions in the Affordable Housing

Program are considered to be exchange type transactions. Annual HUD Contributions reflected in the Assisted Housing Program are considered to be voluntary non-exchange transactions. Revenues for such transactions are recorded when eligible payments have been earned.

The Authority presents a classified statement of net position, which distinguishes between short-term and long-term assets and liabilities. The criterion used to determine whether an asset or liability is long or short-term is one year. This means that assets that are expected to convert to cash or will benefit the ensuing year's operations are treated as current assets. Likewise, liabilities that will likely be settled within the ensuing year are treated as current liabilities. Certain liabilities, such as Unclaimed Property and Compensated Absences, are classified into current and long-term portions based upon estimates of the amounts that will be settled during the ensuing year.

D. Specific Assets, Liabilities and Revenue Recognition Policies

1. Cash, Cash Equivalents and Investments

The Authority's cash and cash equivalents are considered to be cash on hand, demand deposits, balances held by the servicer of the notes and short-term investments with original maturities of three months or less from the date of acquisition. Investments are reported at fair value.

2. Accounts Receivable

The Allowance Method for uncollectable accounts receivable (tenant rental and tenant charges) is utilized. All rents and other charges due from vacated tenants, tenants pending eviction or residency termination and all rents and other charges due from active tenants that are in excess of 60 days past due are deemed to be uncollectable. These amounts reduce the amount of accounts receivable and increase General Operational Costs reflected in these financial statements.

3. Restricted Cash Equivalents and Investments

These accounts contain resources restricted by external parties for the blended component units' replacement and repair reserves, housing assistance payments, family self-sufficiency escrow, and other replacement reserves in the various funds. The note servicer holds $509,277 in FDIC insured cash accounts pursuant to the Fannie Mae guidelines, that earn interest at a rate computed based upon money market rates published in the Bankrate Monitor by Bankrate, Inc. $155,734 is being held for the Housing Choice Voucher housing assistance payments, and is considered restricted as it is specially appropriated for the payment of housing assistance in the HCV program. Cash held for the operation of the assisted housing programs are not considered restricted, as they are available for operating expenses of those and other designated Authority programs. Funds are held in FSS escrow accounts in the amount of $250,182, and $62,540 is restricted for modernization and development activities for the Low-Income Public Housing and Rural Development programs. Tenant damage deposits held in trust accounts of $188,280 are considered restricted for return to the tenant or until they are applied to amounts owed by the tenant.

4. Due From and Due to other programs

During the course of the Authority's operations, numerous transactions occur between programs and/or between specific apartment rental buildings to finance operations and provide services. Internal activity within a program and between programs is eliminated except for residual balances remaining at year-end in the preparation of these financial statements. These residual balances are eliminated in these entity-wide financial statements.

5. Notes Receivable

Notes held by the Authority under its Homeownership and Low-Income Public Housing Programs are stated at the face value of unpaid second mortgages and unpaid rental account debt. Because the ultimate timing of receipt of these funds is uncertain, no discounting of amounts to reflect the time value of money is reflected in these financial statements. Mortgage and rental account payments that are due in 2018 are classified as current assets. In keeping with HUD's Real Estate Assessment Center Financial Data Schedule reporting requirements, mortgage balances that may be past due are considered non-current.

6. Capital Assets

All capital assets are valued at historical cost, which is comprised of acquisition, development and modernization costs of buildings, property improvements and equipment. Capital assets, except for land and construction in progress, are being depreciated on the straight-line method over estimated useful lives ranging from five to forty years. Buildings are depreciated over forty years, building improvements are depreciated over the remaining useful life of the particular building at the time of the improvement and intangible assets, equipment and floor covering are generally depreciated over five years.

The Authority's capitalization policies are as follows:

Costs for land or structures (buildings and improvements) are capitalized. Costs for equipment and furnishings, including tenant unit flooring, having a unit cost in excess of $200 and a useful life of more than one year are capitalized. Costs for betterments and additions, which add to the value or life of existing capital assets, are capitalized.

The majority of the Authority's capital assets are apartment buildings acquired as operating units in connection with the issuance of Housing Revenue Bonds, which were repaid in 2015 and replaced with FNMA notes. In most cases, the acquisition price was allocated between land and buildings, with no allocation of the purchase price between major components of the building. In these cases, when major components of a building are replaced, the loss on disposition of capital assets is recorded as a reduction to buildings while the disposition for equipment or other internal apartment furnishings that where separately purchased are recorded as a reduction to equipment.

The Authority applies certain HUD guidelines regarding eligible capital costs to its Low Income and Capital Fund programs so certain larger repairs or maintenance like roof replacements are capitalized. Major maintenance and repairs in the Authority's other programs are charged to operating expenses as incurred. Additions to building, equipment and flooring are costs incurred under the HUD Capital Fund and Public Housing Programs, and equipment and flooring in the Authority's other programs. A portion of the additions to equipment and flooring and some of the disposals in this category represent replacement of appliances and flooring in tenant units. The building disposals include the disposition of the declined value for building reconstruction and equipment replacement.

7. Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation and sick leave. Vacation pay, which may be accumulated up to 120 hours annually, is payable to the employee based upon terms of the collective bargaining agreement or employment policy whichever is applicable. An employee may accrue up to a maximum of 480 hours of sick pay and is payable upon terms of the collective bargaining agreement or employment policy whichever is applicable. Vested and accumulated vacation and sick leave are reported as expenses and classified into current and long-term portions in the applicable program.

8. Revenue Recognition

Tenant rent revenue is recognized on the first day of the month for which the rent is due. Rental payments received in advance of the month for which the payment is made is recorded as prepaid rent and is included in current liabilities. HUD contributions for continuing contracts and revenues from local and private grants are recognized as funding is earned. For non-recurring or new HUD contribution contracts, revenue is not recognized until the Authority receives a signed contract or notice of funding allocation.

9. Operating Revenues and Expenses

Operating revenues include fees and charges from providing services in connection with the ongoing operations of providing affordable and low-income housing. Operating revenues also include operating subsidies and grants provided by Housing and Urban Development (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 affordable and low-income housing. This presentation results in an operating income that is higher than a non-operating revenue presentation of HUD grants by the amount of the subsidies and grants. Overall it does not affect the presentation of the change in net position in the statement of revenues, expenses and changes in net position.

10. Inventory

Maintenance supplies maintained in the Authority's maintenance warehouse are valued at cost using the last-in, first-out method.

11. Pensions

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

NOTE 2: LEGAL COMPLIANCE-BUDGETS

The Authority has no legal obligation to provide a comprehensive annual budget. For certain HUD and RD programs, the Authority is contractually required to prepare budgets. These budgets were prepared in accordance with applicable program requirements and were approved by the Board of Commissioners as required. When necessary, budget revisions were submitted to the oversight agency and approved.

NOTE 3: DEPOSITS, CASH EQUIVALENTS AND INVESTMENTS

As required by State law, all deposits and investments of the Authority's programs are deposited with Washington State banks, except for the new FNMA loan reserves that are held by other FDIC insured institutions. The 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). The Authority has no policy for custodial credit risk separate from State law. The carrying amount is substantially the same as the bank balances as of December 31, 2018.

Deposits and Investments	2018 Carrying Amount
Deposits	
Bank Deposits and Cash on Hand	$ 6,203,432
Total Cash, Cash Equivalents and Investments	$ 6,203,432

Fair Value Measurement

The Authority categorizes its fair value measurements 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.

Level 1 inputs are quoted prices in active markets for identical assets. These valuation inputs are considered most reliable.

Level 2 inputs are quoted prices for similar assets, quoted prices for identical or similar assets in markets that are not active, or other observables. These valuation inputs are considered to be reliable.

Level 3 inputs are significant unobservable inputs and are considered to be the least reliable. The Authority had no investments at December 31, 2018.

NOTE 4: CAPITAL ASSET ACTIVITY

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

	Beginning Balance	Additions	Disposals	Ending Balance
Nondepreciable Capital Assets:				
Land	$ 5,295,117	$ -		$ 5,295,117
Construction in Progress	-	-		-
Total Nondepreciable Capital Assets:	5,295,117	-	-	5,295,117
Depreciable Capital Assets:				
Buildings	35,867,280		18,583	35,848,697
Intangible Assets	89,224			89,224
Equipment & Flooring	3,553,852	331,599	197,243	3,688,208
Total Depreciable Capital Assets:	39,510,356	331,599	215,826	39,626,129
Accumulated Depreciation				
Buildings	(17,410,285)	(1,267,742)		(18,678,027)
Equipment & Flooring	(2,927,451)	(280,205)	173,813	(3,033,843)
Total Accumulated Depreciation	(20,337,736)	(1,547,947)	173,813	(21,711,870)
Total Depreciable Capital Assets, Net:	19,172,620	(1,216,348)	42,013	17,914,259
Total Capital Assets, Net	$ 24,467,737			$ 23,209,376

NOTE 5: LONG TERM OBLIGATIONS

The Authority's long-term obligations consist of FNMA notes issues to the three blended component units, a Rural Development loan, a business activity loan incurred in connection with the purchase of three parcels used for administrative purposes, and a SHB 2060 forgivable loan obtained for a capital improvement project. In addition, the authority records long term liabilities for its pension liabilities, a portion of compensated absences, unclaimed property, escrow accounts associated with the Section 8 and Low-Income Public Housing Family Self Sufficiency Program, and Other Post-Employment Benefits (OPEB).

The change in the various classifications of the Authority's debt from 2017 to 2018 is shown on the following chart.

	Balance Outstanding December 31, 2017	Additions	Payments	Balance Outstanding December 31, 2018	Current Portion
Component Units FNMA Loans	$ 17,532,684	$ -	$ (263,849)	$ 17,268,835	$ 279,176
SHB 2060	65,000	-	-	65,000	-
Rural Development Program Loans	472,734	-	(23,102)	449,632	26,881
Business Activity Loan	432,595	-	(432,595)	-	-
Total Outstanding Debt at year End	$ 18,503,013	$ -	$ (719,546)	$ 17,783,467	
Less Current Portion of Long Term Debt	(721,544)			(306,057)	306,057
Total Long Term Debt Outstanding	$ 17,781,469			$ 17,477,410	

The Authority has no debt subject to Federal arbitrage regulations. Information for individual debt issues outstanding as of December 31, 2018 is contained in the following chart:

Issue	Purpose	Original Balance	Interest Rate Range (%)	Maturity Dates	Outstanding Balance 12/31/2018
FNMA Loan for Chateau Rainier	Refinancing Apartments Debt	10,250,000	5.66%	2016-2046	9,823,970
FNMA Loan for DeMark	Refinancing Apartments Debt	3,250,000	5.66%	2016-2046	3,114,919
FNMA Loan for Lakewood Village	Refinancing Apartments Debt	4,517,719	5.66%	2016-2046	4,329,946
SHB 2060	Capital Project Montgrove Manor	65,000	0.0%	2041	65,000
Rural Development Loan	Purchase of Apartment Community	696,219	1.0%	2014-2030	449,632
Total		$ 18,778,938			$ 17,783,467

The Authority classifies certain liabilities between its current and long-term portions. Compensated absences, unclaimed property and FSS program funds were classified between their current and long-term portions. The long-term liabilities represent the estimate of the portion of certain liabilities expected to be liquidated after December 31, 2018. Tenants are allowed to pay for a bond to satisfy their security deposit requirements. These transactions are managed by a third party. The assets held by the third party and the related tenant deposit liabilities are not reflected in the Financial Statements.

The non-current liabilities other than bonds and notes are listed in the following chart.

	December 31, 2017	Increase	Decrease	December 31, 2018	Current Portion
Family Self Sufficiency	$ 199,965	$ 50,216		$ 250,181	$ 30,498
Compensated Absences	134,903		(12,837)	122,066	95,602
Unclaimed Property	60,155		(2,939)	57,216	55,325
Sub-Total	$ 395,023	$ 50,216	$ (15,776)	$ 429,463	
Less Current Portion	(209,780)			(181,425)	181,425
Total Other Non-Current Liabilities	$ 185,243			$ 248,038	

	December 31, 2017	Increase	Decrease	December 31, 2018	Current Portion
Pension Liabilities	$ 1,572,042	$ 466,353		$ 1,105,689	$ -
Other Post Employment Liabilities	527,832	943,295		1,471,127	-
	$ 2,099,874	$ 1,409,648		$ 2,576,816	$ -

A. Debt Service to Maturity

The balance of individual Authority debt issues are as follows:

Authority Debt Service to Maturity

Issue	Rates	Principal Balance	Interest	Total Debt Service
SHB 2060	0.0%	$ 65,000	$ -	$ 65,000
Rural Development Program Loan	1.0%	449,632	2,111	451,743
Total		$ 514,632	$ 2,111	$ 516,743

The balance of individual Authority component units' loans are as follows:

Component Units' Debt Service to Maturity

Issue	Rates	Principal Balance	Interest	Total Debt Service
FNMA Loan for Chateau Rainier	5.66%	$ 9,823,970	$ 9,320,691	$ 19,144,661
FNMA Loan for DeMark	5.66%	3,114,919	2,955,344	6,070,263
FNMA Loan for Lakewood Village	5.66%	4,329,946	4,108,120	8,438,066
Total		$ 17,268,835	$ 16,384,155	$ 33,652,990

Installments for the Rural Development Program Loan approximate $27,000 per.

The FNMA notes issued for each of the three component units began debt repayment on January 1, 2016. The monthly and annual installments for the three component units are as follows:

Issue	Monthly	Annual
FNMA Loan for Chateau Rainier	$ 59,231	$ 710,778
FNMA Loan for DeMark Apartments	18,781	225,369
FNMA Loan for Lakewood Village	26,106	313,278
Total	$ 104,118	$ 1,249,425

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

Authority Debt Service to Maturity

	Rural Development Loan		SHB 2060 Loan	
Year	Principal	Interest	Principal	Interest
2019	$ 26,880	$ 1,846	$ -	$ -
2020	26,649	265	-	-
2021	28,540	-	-	-
2022	30,565	-	-	-
2023	32,734	-		
2024-2028	201,987	-	-	-
2029-2033	102,277	-	-	-
2034-2038	-	-	-	-
2039-2043	-	-	-	-
2044-2045	-	-	65,000	-
Total	$ 449,632	$ 2,111	$ 65,000	$ -

The Authority's Component Units' debt service requirements to maturity are as follows:

Component Units' Debt Service to Maturity

	Chateau Rainier Apartments LLC		Demark Apartments LLC		Lakewood Village Apartments LLC	
Year	Principal	Interest	Principal	Interest	Principal	Interest
2019	$ 158,819	$ 551,210	$ 50,357	$ 174,774	$ 70,000	$ 242,947
2020	168,045	541,940	53,283	171,835	74,066	238,862
2021	177,807	532,132	56,378	168,725	78,369	234,539
2022	188,136	521,754	59,653	165,434	82,922	229,965
2023	199,065	510,774	63,118	161,953	87,739	225,125
2024-2028	1,182,821	2,365,488	375,041	750,033	521,333	1,042,596
2029-2033	1,568,684	1,977,805	497,387	627,109	691,403	871,723
2034-2038	2,080,425	1,463,652	659,646	464,085	916,954	645,108
2039-2043	2,759,106	781,769	874,838	247,879	1,216,085	344,566
2044-2045	1,341,062	74,167	425,218	23,517	591,075	32,689
Total	$ 9,823,970	$ 9,320,691	$ 3,114,919	$ 2,955,344	$ 4,329,946	$ 4,108,120

B. Prior Years Defeasance

During 2018, the balance of the loan for administrative buildings in the amount of $398,827 was paid in full in accordance with the terms of the Note.

During 2011, the Authority retired $466,583 of debt during the year simultaneous with a partial defeasance of the 1998 Series Pooled Housing Refunding Revenue Bonds in the amount of $6,175,000 resulting from of the sale of the Eagles Lair, Evergreen Court, Lone Pine and Eagles Watch apartment projects.

During 2010, Housing Revenue Bonds in the amount of $940,000 were defeased in connection with the sale of the Garden Court West apartments project.

During 2005, Housing Revenue Bonds in the amount of $8,285,000 were defeased in connection with the sale of the Highland Park apartments project.

During 2003, Housing Revenue Bonds totaling $30,685,000 were defeased in connection with the sale of the Park Meadows, Emerald Terrace, Park Village and Mallards Landing apartment projects. Also during 2003, the Authority exercised its option to fully prepay the amount of $45,781 for the outstanding bond issued in 1992 for an administrative building.

During 2000, the Harbor Heights bonds totaling $3,190,000 were defeased in connection with the sale of that property. Securities with a cost of approximately $3,250,000 were placed in escrow to fund the advanced defeasance. The advance refunding met the requirements of an in-substance defeasance and the old bonds were removed from the Authority's financial statements. As of December 31, 2003 no bonds are outstanding.

On December 1, 1998 Pierce County Housing Authority issued Senior Revenue Bonds of $31,140,000 and $3,030,000 Subordinate bonds at par with an effective interest rate of 5.74%%. These bonds were used to refinance existing short-term debt that was coming due and to defease other debt with higher interest rates and short-term financing. The advance refunding met the requirements of an in-substance defeasance and the old bonds were removed from the Authority's financial statements. These bonds were fully paid in 2015 and as of December 31, 2016 none of these bonds are outstanding.

NOTE 6: PENSION PLANS

The following table represents the aggregate pension amounts for all plans for the year 2018:

Aggregate Pension Amounts - All Plans

	PERS 1 UAAL	PERS 2/3	Aggregate Total
Pension liabilities	743,684	362,005	1,105,689
Pension assets	-	-	-
Deferred outflows of resources	64,741	159,749	224,490
Deferred inflows of resources	29,554	430,939	460,493
Pension expense/expenditures	44,776	(34,785)	9,991

State Sponsored Pension Plans

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

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

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

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

Public Employees' Retirement System (PERS)

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

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

Contributions

The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2018 were as follows:

PERS Plan 1

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 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.

Contributions

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2018 were as follows:

PERS Plan 2/3

Actual Contribution Rates	Employer 2/3	Employee 2
January – August 2018		
PERS Plan 2/3	7.49%	7.38%
PERS Plan 1 UAAL	5.03%	
Administrative Fee	0,18%	
Employee PERS Pln 3		Varies
Total	**12.70%**	**7.38%**
September – December 2018		
PERS Plan 2/3	7.52%	7.41%
PERS Plan 1 UAAL	5.13%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
Total	**12.83%**	**7.41%**

The Pierce County Housing Authority's actual PERS plan contributions were $449,193 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, 2017. 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, published by the Society of Actuaries. The OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

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

- Lowered the valuation interest rate from 7.70% to 7.50% for all systems except LEOFF 2. For LEOFF 2 the valuation interest rate was lowered from 7.50% to 7.40%.
- Lowered the 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 included an assumed 7.5 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.5 percent except LEOFF 2, which has assumed 7.4 percent). Consistent with the long-term expected rate of return, a 7.4 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3, PSERS 2, SERS 2/3, and TRS 2/3 employers, whose rates include a component for the PERS 1, and TRS 1 plan liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.4 percent was used to determine the total liability.

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.4 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 over 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
Fixed Income	20%	1.70%
Tangible Assets	7%	4.90%
Real Estate	18%	5.80%
Global Equity	32%	6.30%
Private Equity	23%	9.30%
	100%	

Sensitivity of the Net Pension Liability/(Asset)

The table below presents the Pierce County Housing 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	Current Discount Rate	1% Increase
	-6.40%	**7.40%**	**8.40%**
PERS 1	913,941	743,684	596,207
PERS 2/3	1,727,530	377,683	(729,041)

* See Note 4.C of the DRS Participating Employer Financial Information report for the year ended June 30. Multiply the total net pension liability amounts for each applicable plan by your proportionate share for that plan.

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 Pierce County Housing Authority reported a total pension liability of $1,105,689 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	743,684
PERS 2/3	362,005

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

	Proportionate Share 6/30/2017	Proportionate Share 6/30/18	Change in Proportion
PERS 1	0.017061%	0.016652%	0.000409%
PERS 2/3	0.021945%	0.021202%	0.000743%

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	44,776
PERS 2/3	(34,785)
Total	9,991

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 sources:

PERS 1	**Deferred Outflows of Resources**	**Deferred Inflows of Resources**
Differences between expected and actual experience	-	-
Net difference between projected and actual investment earnings on pension plan investments	-	(29,554)
Changes of assumptions	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	-
Contributions subsequent to the measurement date	64,741	-
TOTAL	64,741	(29,554)

PERS 2/3	**Deferred Outflows of Resources**	**Deferred Inflows of Resources**
Differences between expected and actual experience	44,372	(63,380)
Net difference between projected and actual investment earnings on pension plan investments	-	(222,143)
Changes of assumptions	4,235	(103,024)
Changes in proportion and differences between contributions and proportionate share of contributions	15,500	(42,392)
Contributions subsequent to the measurement date	95,642	-
TOTAL	159,749	(430,939)

Total All Plans	**Deferred Outflows of Resources**	**Deferred Inflows of Resources**
Differences between expected and actual experience	44,372	(63,380)
Net difference between projected and actual investment earnings on pension plan investments	-	(251,697)
Changes of assumptions	4,235	(103,024)
Changes in proportion and differences between contributions and proportionate share of contributions	15,500	(42,392)
Contributions subsequent to the measurement date	160,383	-
TOTAL	224,490	(460,493)

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**
2019	1,293
2020	(6,461)
2021	(19,386)
2022	(5,000)
Total	(29,554)

Year ended December 31:	**PERS 2/3**
2019	(19,236)
2020	(53,857)
2021	(117,335)
2022	(31,715)
Total	(222,143)

Year ended December 31:	**Total All Plans**
2019	(17,943)
2020	(60,318)
2021	(136,721)
2022	(36,715)
Total	(251,697)

NOTE 7: DEFERRED COMPENSATION PLAN

The Authority offers its employees a deferred compensation plan created in accordance with the Internal Revenue Code section 457. This plan, available to all regular full-time and part-time Authority employees are permitted to defer receipt of a portion of their salary until future years. Participation in the plan is optional. The deferred compensation is not available to the employee or their beneficiaries until termination, retirement, death or an unforeseeable emergency. The amounts of compensation deferred under the plan and all income attributable to these amounts are the sole property of the participant or their beneficiary. ING and DRS holds and invests these funds on behalf of the Authority’s employees. No amounts related to this plan are reflected in these financial statements.

NOTE 8: OTHER POST-EMPLOYMENT BENEFITS

A. Plan Description and Funding Policy

On January 1, 2014, the Authority changed its medical plan for all eligible employees to an agent multiple-employer health care plan offered through the Public Employees Benefits Board (PEBB). PEBB offers retirees access to medical, prescription drug, life dental, vision, disability and long-term care insurance. The Authority pays monthly premiums to PEBB to provide current coverage for medical and other benefits for active employees. These premiums do not pay for a portion of the PEBB benefit to future retirees. The PEBB OPEB plan does not issue a publicly available financial report.

Per RCW 41.05.065, the Public Employees' Benefits Board (PEBB), created within the Washington State Health Care Authority (HCA), is authorized to design benefits and determine the terms and conditions of employee and retired employee participation and coverage. PEBB establishes eligibility criteria for both active employees and retirees. Benefits purchased by PEBB include medical, dental, life and long-term disability.

The relationship between the PEBB OPEB plan and its member employers and their employees and retirees is not formalized in a contract or plan document. Rather, the benefits are provided in accordance with a substantive plan. A substantive plan is one in which the plan terms are understood by the employers and plan members. This understanding is based on communications between the PEBB, employers and plan members and the historical pattern of practice with regard to the sharing of benefit costs.

The Authority has implemented Governmental Accounting Standards Board (GASB) Statement Number 75, Accounting and Financial Reporting for Employers for Postemployment Benefits other than Pensions for the year ending December 31, 2018. In accordance with this GASB statement, beginning net position has been restated for the increase in the OPEB liability.

B. Eligibility

There are three general eligibility requirements in order to receive PEBB retiree health insurance.

The retiree must:

- enroll or defer coverage no later than 60 days after the employer-paid or COBRA coverage ends,
- be vested in a Washington state sponsored retirement plan or meet the same age and years of service as is required of state sponsored retirees, and
- receive a monthly retirement plan payment or lump sum payment as allowed by the plan, except Plan 3 members who do not have to receive a retirement plan payment or a lump sum actuarially equivalent payment as allowed by the plan, but must meet the age and length of service requirements.

Substantially all of the Authority's employees will become eligible for these benefits if they reach normal retirement age while working for the Authority. There are currently no terminated employees or retirees who are eligible to receive these benefits.

C. Benefits

Upon retirement, members have access to medical, prescription drug, life dental, vision, disability and long-term care insurance. Per RCW 41.05.022, retirees who are not yet eligible for Medicare benefits may continue participation in the state's non-Medicare community-rated health insurance risk pool on a self-pay basis. Retirees in the non-Medicare risk pool receive an implicit subsidy. The implicit rate subsidy exists because retired members pay a premium based on a claims experience for active employees and other non-Medicare retirees. The subsidy is valued using the difference between the age-based claims costs and the premium. In calendar year 2017, the average weighted implicit subsidy was valued at $327 per adult unit per month. In calendar year 2018, the average weighted implicit subsidy is projected to be $348 per adult unit per month.

Retirees who are enrolled in both Parts A and B of Medicare may participate in the state's Medicare community-rated health insurance risk pool. Medicare retirees receive an explicit subsidy in the form of reduced premiums. Annually, the HCA administrator recommends an amount for the next calendar year's explicit subsidy for inclusion in the Governor's budget. The final amount is approved by the state Legislature.

Membership in the PEBB plan for the Authority consisted of the following:

Active Employees	43
Inactive	2
Retirees	0

The PEBB OPEB plan is available to employees who elect at the time they retire to continue coverage and pay the administratively established premiums under the provisions of the retirement system to which they belong. Retirees' access to the PEBB plan depends on the retirement eligibility of their respective retirement system. The District's PEBB members are all covered in PERS.

D. Funding Policy

The Washington Health Care Authority (HCA) administers the PEBB benefit plans. For medical insurance, HCA has two claims pools: one covering employees and non-Medicare eligible retirees and one covering retirees enrolled in Medicare Parts A and B. Each participating employer pays a portion of the premiums for active employees. For retirees, participating employees provide two different subsidies: and explicit subsidy and an implicit subsidy.

The explicit subsidy, permitted under the Revised Code of Washington (RCW) 41.05.085, is a straightforward, set dollar amount for a specific group of people. The explicit subsidy lowers the monthly premium paid by retired members enrolled in Medicare Parts A and B. PEBB determines the amount of the explicit subsidy annually.

Claims experience for employees and non-Medicare eligible retirees are pooled when determining premiums, so retired members pay a premium based on a pool of members that are, on average, younger and healthier. This results in an implicit subsidy, set up under RCW 41.05.022, from the employee group since the premiums paid by the retirees are lower than they would have been if the retirees were insured separately. The implicit and explicit subsidies funded on a pay-as-you-go basis. As such, the funded ratio is 0 %.

Contribution Information. Administrative costs as well as implicit subsidies are funded by required contributions (RCW 41.05.050) from participating employers. The subsidies provide monetary assistance for medical benefits. The benefits are funded on a pay-as-you-go basis. The estimated monthly cost for PEBB benefits for the reporting period for each active employee (average across all plans and tiers) is as follows:

E. Annual OPEB Cost and Total OPEB Liability (TOL)

The Authority's OPEB cost is calculated based upon the Annual Required Contribution of the employer (ARC). With fewer than 100 total plan members, the Authority has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement 45. The Authority's required contribution rate was $1,325 per active employee for the year ended December 31, 2017. Total contributions to the plan for the year ended December 31, 2018 were $56,960, which represents 100% of the required contributions.

The following shows the components of the Authority's annual OPEB cost for its third year as a participating employer. Premiums paid into the PEBB plan only cover current benefits for active employees and those premiums are not considered in the ARC or Net OBEB obligation reflected below.

Total Changes in OPEB Liability and Related Ratios

Service Cost	$	110,027
Interest		54,499
Changes in Experience Data and Assumptio		(103,785)
Change in Benefit Terms		-
Benefit Payments		(3,781)
Other		-
Net Change in Total OPEB Liability	$	56,960
Total OPEB Liability Beginning 1/1/2018	$	1,414,167
Total OPEB Liability Ending 12/31/2019	$	1,471,127
Covered Employee Payroll	$	2,263,789
Total OPEB Liability as a Percentage of Covered Payroll		64.99%

The Net OPEB Liability of $1,471,127 is included as a noncurrent liability on the Statement of Net Position.

F. Funding Status

As of January 1, 2017, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability for benefits for the Authority is $1,471,127 and the actuarial value of assets was $0 resulting in an Unfunded Accrued Actuarial Liability (UAAL) of $1,471,127.

Accrued Actuarial Liability (AAL) for Active Employees:		
Implicit Subsidy	$	28,302
Explicit Subsidy		878,562
Total Active Employees	$	906,864
Annual Covered Payroll		2,285,200
UAAL as a % of Annual Covered Payroll		39.68%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the ARC of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

G. Actuarial Methods and Assumptions

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, is designed to present multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. However, since the Authority joined the plan effective January 1, 2014, only information for 2014, 2015, 2016, 2017 and 2018 is presented.

The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The Authority has used the alternative measurement method permitted under GASB Statement 45. A single retirement age of 62.4 was assumed for all active members to determine the AAL and normal cost. Retirement, disablement, termination, and mortality rates were assumed to follow PERS 2 rates used in the January 1, 2017 actuarial valuation report issued by the Office of the State Actuary (OSA). Healthcare costs and trends were determined by Milliman and used by the OSA in the state-wide PEBB study performed in 2017. The results were based on grouped data with four active groupings and four inactive groupings. The actuarial costs method used to determine the Actuarial Accrued Liability (AAL) was Projected Unit Credit. The AAL and Net OPEB Obligation (NOO) are amortized on an open basis as a level dollar over 30 years. These assumptions are individually and collectively reasonable for the purposes of this valuation.

A copy of the 2017 Other Post-Employment Benefits Actuarial Valuation Report can be downloaded from the Washington Office of the State Actuary website located at
http://leg.wa.gov/osa/additionalservices/Documents/Final.2017.PEBB.OPEB.AVR.pdf

The total OPEB liability was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Discount Rate*	
Beginning of Measurement Year	3.58%
End of Measurement Year	3.87%
Projected Salary Changes	3.75% plus service-based salary increases
Healthcare Trend Rates**	Initial rate is approximately 7%, trends down to about 5% in 2080
Mortality Rates	
Base Mortality Rate	Healthy PR-200
Age Setback	1 year
Mortality Improvements	100% Scale BB
Projection Period	Generational
Inflation Rate	3%
Port Retirements Partifipation Percentage	65%
Percent With Spouse Coverage	45%

*Source: Bond Buyer General Obligation 20-Bond Municipal Index

**Trend rate assumptions vary slightly by medical plan. For additional detail on the healthcare trend rates, please see Office of the State Actuary's 2017 PEBB OPEB Actuarial Valuation Report.

In projecting the growth of the explicit subsidy, the cap is assumed to remain constant until 2019, at which time the explicit subsidy cap is assumed to grow at the health care trend rates. The state Legislature determines the value of the cap and no future increases are guaranteed; however, based on historical growth patterns, future increases to the cap are assumed.

Sensitivity of the Total Liability to Changes in the Discount Rate. The following represents the total OPEB liability of the Authority as an employer calculated using the discount rate of 3.58 percent, as well as what the total OPEB liability would be if it were calculated using a discount rate that is 1 percent point lower (2.58 percent) or 1 percentage point higher (4.58 percent) than the current rate:

	1% Decrease	Current Rate	1% Increase
Discount Rate	$1,851,333	$1,471,127	$1,179,936

Sensitivity of the Total OPEB Liability to Changes in the Health Care Cost Trend Rates. The following represents the total OPEB liability of the District as an employer, calculated using the health care trend rates of 7.00 percent decreasing to 5.00 percent, as well as what the total OPEB liability would be if it were calculated using health care trend rates that are 1 percentage point lower (6.00 percent decreasing to 4.00 percent) or 1 percentage point higher (8.00 percent decreasing to 6.00 percent) than the current rate:

	1% Decrease	Current Rate	1% Increase
Health Care Trend Rate	$1,137,264	$1,471,127	$1,925,560

NOTE 9: INSURANCE

Pierce County Housing Authority is currently a member of Housing Authority Risk Retention Group, Inc. (HARRG) and Housing Authority Insurance, Inc. (HAI) which is the Authority's primary supplier of General Commercial Liability and Commercial Property coverage, respectively. Darwin Select Insurance Company, a member of Allied World Assurance Company Holdings Ltd., provides the Public Officials and Employment Practices liability insurance coverage.

The Authority finances its various risks of loss through the payment of premiums to the organizations discussed above. The Authority handles its risk of property loss with insurance that covers building, contents and loss of rents in a coverage amount of estimated replacement value, with a deductible of $25,000 for building losses and a deductible of $25,000 for contents. Risk of loss from general liability is handled with general liability coverage, which provides for $5,000,000 aggregate per occurrence coverage with a $5,000 deductible. Coverage for errors and omissions provides $2,000,000 of coverage per occurrence with a $25,000 deductible. Coverage for employment practices liability provides $2,000,000 of coverage per occurrence with a $25,000 deductible. The Authority also carried employee dishonesty bonding for $100,000 with a $5,000 deductible.

The Authority has also purchased their Auto Liability, Auto Physical Damage and Excess Auto coverage's effective 11/1/2018, which carries a combined single limit of $ 5,000,000 per occurrence.

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

There were no litigation settlements that exceeded insurance, net of deductible amounts, for the periods from 2014 to 2018.

HARRG and HAPI are owned by their members and each member is asked to make an individual initial capital contribution upon entering the membership to each company of either 50% of their first year's premium or a minimum $100 contribution. Pierce County Housing Authority has not contributed surplus to either company as of December 31, 2018.

The loans to the three component units required individual insurance on each of the properties that was satisfied by commercial policies. These policies provide coverage for property damage loss as above shown.

NOTE 10: DEBT SERVICE COVERAGE AND CAPITAL PROJECT COMMITMENTS

The Authority fully redeemed all bonds during 2015 and is no longer under any obligation to specific debt service coverage requirements.

During the course of its operations, the Authority enters into commitments for various capital projects and major maintenance work. At December 31, 2018, there was approximately $169,507 in commitments under these types of contracts.

NOTE 11: CONDUIT DEBT

The Housing Authority has issued debt instruments for the purpose of providing capital financing for specific non-governmental entities, which are not a part of the Housing Authority's financial reporting entity. In general, the Housing Authority has issued conduit debt, but the Housing Authority is not responsible for the payment of the original debt. That debt is secured by a Multifamily Deed of Trust, Assignment of Rents and Security Agreement for the underlying properties. Owners of the debt have no recourse to any revenues of the Housing Authority. The Housing Authority participated in the following transactions:

Name of Non-Project Governmental Entity	Description	Date of Issue	Original Issue Amount
Hidden Hills 2001, LP	Acquisition and Rehabilitation of Hidden Hills Apartments	January 1, 2002	$8,100,000
Sumner Commons, LP	Acquisition of land and construction of Sumner Commons Apartments	December 20, 2002	$1,750,000

NOTE 12: COMPONENT UNITS

Three component units, organized in 2014, for the purpose of obtaining new debt to refinance existing Authority debt were activated during 2015. As of November 25, 2015, the Chateau Rainier Apartments, LLC, the DeMark Apartments, LLC and the Lakewood Village Apartments LLC received the proceeds of individual loans, secured solely from the individual properties and net revenue obtained from each. The proceeds for these three loans were used to refund the 1998 Pooled Properties Revenue Bonds. The assets and liabilities of the three apartment communities were transferred to each LLC at book value, with the remainder after transfers to refund the 1998 Pooled Properties Revenue Bonds recorded as Due from/Due to Primary Government.

The Authority is the single member of each of these not-for-profit Limited Liability Companies (LLC), and according to GASB Statement No. 80 each are treated as blended component units. Condensed financial information for the three component units are provided in the following schedules.

Condensed Statement of Net Position	**Chateau Rainier Apartments LLC**	**DeMark Apartments LLC**	**Lakewood Village Apartments LLC**
Current Assets	$ 76,151	$ 34,595	$ 51,050
Capital Assets	5,432,622	1,843,542	5,083,787
Other Non-current Assets	247,213	93,740	124,548
Total Assets	5,755,986	1,971,877	5,259,385
Current Liabilities	281,204	100,435	138,037
Long-term Liabilities	9,665,855	3,064,561	4,260,308
Total Liabilities	9,947,059	3,164,996	4,398,345
NET POSITION			
Invested (deficit) in Capital Assets	(4,144,630)	(1,177,823)	878,140
Restricted	268,969	104,331	135,976
Unrestricted	(315,411)	(119,626)	(153,076)
Total Net Position	$ (4,191,072)	$ (1,193,118)	$ 861,040

Condensed Statement of Revenues, Expenses and Changes in Net Position	**Chateau Rainier Apartments LLC**	**DeMark Apartments LLC**	**Lakewood Village Apartments LLC**
Operating Revenues	$ 2,363,869	$ 868,569	$ 1,336,421
Operating Expenses	2,400,076	904,556	1,728,268
Net Operating Income	(36,207)	(35,987)	(391,848)
Total Non-operating Income (Expense)	(568,099)	(178,935)	(252,498)
Transfers From (To) Primary Government	598,605	257,882	332,450
Change in Net Position	(5,701)	42,960	(311,896)
Beginning Net Position, as Perviously Reported	(4,038,682)	(1,154,201)	1,257,193
Prior period adjustments	(146,689)	(81,878)	(84,257)
Beginning Net Position, as Restated	(4,185,371)	(1,236,079)	1,172,936
Ennding Net Position	$ (4,191,072)	$ (1,193,118)	$ 861,040

Condensed Statement of Cash Flows	**Chateau Rainier Apartments LLC**	**DeMark Apartments LLC**	**Lakewood Village Apartments LLC**
Cash Flows from Operations	19,122	745	(205,954)
Net Increase (Decrease) in cash	19,122	745	(205,954)
Cash at Beginning of Year	303,330	127,305	378,268
Cash at Ending of Year	322,452	128,050	172,314

NOTE 13: FRAUD LOSS AND ASSOCIATED CONTINGENCIES

Pierce County Housing Authority discovered fraud on the part of senior management in August 2019 during the annual financial audit conducted by the State Auditors Office (SAO). The fraud, perpetrated by the former Finance Director, began in 2016 and continued until shortly before the employee was terminated on August 8, 2019. The fraud totaled at least $6.9 million dollars; funds misappropriated in 2018 totaled at least $1.95 million dollars.

The affected balances should have been reported as an extraordinary item fraud loss but were reported as Maintenance expenses and General Operational costs. This was due to the fact that the Authority was unaware of the fraud until identified by the SAO; the fraud was complex, and; lack of resources required to identify/reclassify each fraudulent transaction due to the impact of the fraud itself.

The Authority participates in a number of federal-assisted programs. These grants are subject to audit by the grantors or their representatives. Such audits could result in requests for reimbursement to grantor agencies for expenditures disallowed under the terms of the grants. At this time, the extent of potential disallowances, if any resulting from the fraud above is unknown.

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Proportionate Share of Net Pension Liability

PERS Plan 1 UAAL and PERS Plan 2/3

As of June 30, 2018

Last 10 Fiscal Years*

	PERS Plan 1 UAAL			
	2018	2017	2016	2015
Employer's proportion of the net pension liability (asset)	0.016652%	0.017061%	0.017223%	0.016029%
Employer's proportionate share of the net pension liability	$ 743,684	$ 809,558	$ 924,956	$ 838,466
Covered payroll*	$ 2,263,789	$ 2,285,200	$ 2,243,004	$ 2,049,548
Employer's proportionate share of the net pension liability as a percentage of covered payroll	32.85%	35.43%	41.24%	40.91%
Plan fiduciary net position as a percentage of the total pension liability	63.22%	61.24%	57.03%	59.10%

	PERS Plan 2/3			
	2018	2017	2016	2015
Employer's proportion of the net pension liability (asset)	0.021202%	0.021945%	0.022060%	0.020716%
Employer's proportionate share of the net pension liability	$ 362,005	$ 762,484	$ 1,108,992	$ 740,194
Covered payroll*	$ 2,263,789	$ 2,285,200	$ 2,243,004	$ 2,049,548
Employer's proportionate share of the net pension liability as a percentage of covered payroll	15.99%	33.37%	49.44%	36.11%
Plan fiduciary net position as a percentage of the total pension liability	95.77%	90.97%	85.82%	89.20%

* Information Available for 2015, 2016, 2017 and 2018 only.

Note to Schedule: The Authority's covered payroll is reported for the years ended December 31, 2015 through 2018. The Authority has no participants in PERS Plan 1 and makes all of its contributions to PERS Plan 2/3. The state allocates a portion of its contribution to fund the PERS Plan 1 Unfunded Accrued Actuarial Liability (UAAL).

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Employer Contributions

PERS Plan 1 UAAL and PERS Plan 2/3

As of December 31, 2018

Last 10 Fiscal Years*

PERS Plan 1 UAAL

	2018	2017	2016	2015
Statutorily or contractually required contributions	$ 122,324	$ 95,994	$ 111,537	$ 87,763
Contributions in relation to the statutorily or contractually required contributions*	(122,324)	(95,994)	(111,537)	(87,763)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
Covered payroll*	$ 2,263,789	$ 2,285,200	$ 2,243,004	$ 2,049,548
Contributions as a percentage of covered payroll	5.40%	4.20%	4.97%	4.28%

PERS Plan 2/3

	2018	2017	2016	2015
Statutorily or contractually required contributions	$ 181,388	$ 133,064	$ 145,676	$ 112,210
Contributions in relation to the statutorily or contractually required contributions*	(181,388)	(133,064)	(145,676)	(112,210)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
Covered payroll*	$ 2,263,789	$ 2,285,200	$ 2,243,004	$ 2,049,548
Contributions as a percentage of covered payroll	8.01%	5.82%	6.49%	5.47%

* Information Available for 2015, 2016, 2017 and 2018 only.

Note to Schedule: Contributions above do not include the administrative fee of 0.18%. Administrative fees were $4,113, $4,209 and $3,673 for 2017, 2016 and 2015 respectively.

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress for the Public Employees Benefits Board

Post-Employment Health Care Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1/1/2013	-	624,915	624,915	0.00%	2,016,942	30.98%
1/1/2014	-	834,003	834,003	0.00%	2,247,194	37.11%
1/1/2015	-	890,972	890,972	0.00%	2,243,004	39.72%
1/1/2016	-	1,093,799	1,093,799	0.00%	2,285,200	47.86%
1/1/2017	-	906,864	906,864	0.00%	2,285,200	39.68%
1/1/2018	-	1,471,127	1,471,127	0.00%	2,263,789	64.99%

NOTES to Required Supplementary Information: The PEBB OPEB plan does not issue a publicly available financial report. Since the Authority joined the PEBB OPEB plan as of January 1, 2014, only five years of information is available. The schedule of funding progress uses the alternative method permitted under GASB Statement No. 45 for the year ended December 31, 2018.

ABOUT THE STATE AUDITOR'S OFFICE

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

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

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

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

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

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