



Office of the Washington State Auditor
Pat McCarthy

Financial Statements and Federal Single Audit Report

Housing Authority of Grays Harbor County

For the period January 1, 2019 through December 31, 2019

Published December 28, 2020

Report No. 1027568





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

December 28, 2020

Board of Commissioners
Housing Authority of Grays Harbor County
Aberdeen, Washington

Report on Financial Statements and Federal Single Audit

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

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

Sincerely,

A handwritten signature in black ink that reads "Pat McCarthy".

Pat McCarthy
State Auditor
Olympia, WA

Americans with Disabilities

In accordance with the Americans with Disabilities Act, we will make this document available in alternative formats. For more information, please contact our Office at (564) 999-0950, TDD Relay at (800) 833-6388, or email our webmaster at webmaster@sao.wa.gov.

TABLE OF CONTENTS

Schedule of Findings and Questioned Costs.....	4
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.....	6
Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance in Accordance With the Uniform Guidance	9
Independent Auditor's Report on Financial Statements.....	12
Financial Section.....	16
About the State Auditor's Office.....	84

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Housing Authority of Grays Harbor County January 1, 2019 through December 31, 2019

SECTION I – SUMMARY OF AUDITOR’S RESULTS

The results of our audit of the Housing Authority of Grays Harbor County are summarized below in accordance with Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Financial Statements

We issued an unmodified opinion on the fair presentation of the basic financial statements of the business-type activities and the aggregate discretely presented component units in accordance with accounting principles generally accepted in the United States of America (GAAP).

Internal Control over Financial Reporting:

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

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

Federal Awards

Internal Control over Major Programs:

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

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

We reported no findings that are required to be disclosed in accordance with 2 CFR 200.516(a).

Identification of Major Federal Programs

The following program was selected as a major program in our audit of compliance in accordance with the Uniform Guidance.

<u>CFDA No.</u>	<u>Program or Cluster Title</u>
14.871	Housing Voucher Cluster – Section 8 Housing Choice Vouchers

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by the Uniform Guidance, was \$750,000.

The Housing Authority did not qualify as a low-risk auditee under the Uniform Guidance.

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

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

**Housing Authority of Grays Harbor County
January 1, 2019 through December 31, 2019**

Board of Commissioners
Housing Authority of Grays Harbor County
Aberdeen, 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 business-type activities and the aggregate discretely presented component units of the Housing Authority of Grays Harbor County, as of and for the year ended December 31, 2019, 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 22, 2020.

Our report includes a reference to other auditors who audited the financial statements of the Herman Johnson Tax Credit Partnership and the Grays Harbor Affordable Housing Group Tax Credit Partnership, as described in our report on the Housing Authority's financial statements. This report includes our consideration of the results of the other auditor's testing of internal control over financial reporting and compliance and other matters that are reported on separately by those other auditors. However, this report, insofar as it relates to the results of the other auditors, is based solely on the reports of the other auditors. The financial statements of the Herman Johnson Tax Credit Partnership and the Grays Harbor Affordable Housing Group Tax Credit Partnership were not audited in accordance with *Government Auditing Standards* and accordingly this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the Herman Johnson Tax Credit Partnership and the Grays Harbor Affordable Housing Group Tax Credit Partnership.

As discussed in Note 15 to the financial statements, in February 2020, a state of emergency was declared that could have a negative financial effect on the Housing Authority.

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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Housing Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Housing Authority's internal control.

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

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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

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

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy

State Auditor

Olympia, WA

December 22, 2020

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR FEDERAL PROGRAM AND REPORT ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH THE UNIFORM GUIDANCE**

**Housing Authority of Grays Harbor County
January 1, 2019 through December 31, 2019**

Board of Commissioners
Housing Authority of Grays Harbor County
Aberdeen, Washington

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM**

We have audited the compliance of the Housing Authority of Grays Harbor County, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the Housing Authority's major federal programs for the year ended December 31, 2019. The Housing Authority's major federal programs are identified in the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Housing Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 *U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain

reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Housing Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the Housing Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2019.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

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

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

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

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink, reading "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy

State Auditor

Olympia, WA

December 22, 2020

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Housing Authority of Grays Harbor County January 1, 2019 through December 31, 2019

Board of Commissioners
Housing Authority of Grays Harbor County
Aberdeen, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of the Housing Authority of Grays Harbor County, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the Housing Authority's basic financial statements as listed on page 16.

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 opinions on these financial statements based on our audit. We did not audit the financial statements of the Herman Johnson Tax Credit Partnership and the Grays Harbor Affordable Housing Group Tax Credit Partnership, which in aggregate represent 100 percent, of the assets, net position and revenues of the aggregate discretely presented component units. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Herman Johnson Tax Credit Partnership and the Grays Harbor Affordable Housing Group Tax Credit Partnership, is based solely on the report of the other auditors. 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. The financial statements of the Herman Johnson Tax Credit Partnership and the Grays Harbor Affordable Housing Group Tax Credit Partnership were not audited in accordance with *Government Auditing Standards*.

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

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

Opinions

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of the Housing Authority of Grays Harbor County, as of December 31, 2019, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 15 to the financial statements, in February 2020, a state of emergency was declared that could have a negative financial effect on the Housing Authority. 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 16 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Housing Authority's basic financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The accompanying Financial Data Schedule form is supplementary information required by HUD. These schedules are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2020 on our consideration of the Housing Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Housing Authority's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Pat McCarthy".

Pat McCarthy

State Auditor

Olympia, WA

December 22, 2020

FINANCIAL SECTION

Housing Authority of Grays Harbor County January 1, 2019 through December 31, 2019

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2019

BASIC FINANCIAL STATEMENTS

Balance Sheet – 2019

Statement of Revenues, Expenses and Changes in Fund Net Position – 2019

Statement of Cash Flows – 2019

Notes to Financial Statements – 2019

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Proportionate Share of Net Pension Liability – PERS 1, PERS 2/3 – 2019

Schedule of Employer Contributions – PERS 1, PERS 2/3 – 2019

SUPPLEMENTARY AND OTHER INFORMATION

Financial Data Schedule – 2019

Schedule of Expenditures of Federal Awards – 2019

Notes to the Schedule of Expenditures of Federal Awards – 2019

HOUSING AUTHORITY OF GRAYS HARBOR COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2019

As management of the Housing Authority of Grays Harbor County ("Housing Authority"), we offer readers of the Housing Authority's financial statements this narrative overview and analysis of the financial activities of the Housing Authority for the year ended December 31, 2019. We encourage readers to consider the information presented here in conjunction with the Housing Authority's financial statements.

Financial Highlights

Net Position

- At December 31, 2019, the Housing Authority's assets and deferred outflows exceeded its liabilities and deferred inflows (net position) by approximately \$33.2 million. Of this amount, \$31,326,218 (unrestricted net position) may be used to meet the Housing Authority's ongoing obligations to citizens and creditors. Total net position at December 31, 2019 increased from the previous year by \$3,886,068.

Unrestricted Cash

- The Housing Authority's unrestricted cash balances decreased from the previous year by \$401,786 and totaled \$1,056,058 at the end of the fiscal year.

Notes Receivable

- Notes receivable from component units increased by \$3,006,350 (11.5%) due to additional developer fees earned in 2019 from completion of the rehabilitation to the tax credit projects.

Revenues and Expenses

- The Housing Authority's total revenues for the year ended December 31, 2019 of approximately \$7.96 million decreased from the prior year by \$15,769,675. Total expenses for the year of approximately \$4.1 million, including depreciation and amortization of \$28,828, decreased from the prior year by \$122,450. These activities resulted in an increase in net position for the year ended December 31, 2019 of \$3,886,068.

Overview of the Financial Statements

The financial statements included in this report are those of a special-purpose government engaged only in business-type activities. The following statements are included:

- Balance Sheet -- reports the Housing Authority's current financial resources (short-term spendable resources) with capital assets, deferred outflows of resources, long-term debt obligations, deferred inflows of resources and net position.
- Statement of Revenues, Expenses, and Changes in Fund Net Position -- reports the Housing Authority's operating and non-operating revenues by major source, along with operating and non-operating expenses and other changes in net position.
- Statement of Cash Flows -- reports the Housing Authority's cash flows from operating, investing, and capital and non-capital financing activities.

HOUSING AUTHORITY OF GRAYS HARBOR COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2019

Financial Analysis of the Housing Authority

The Housing Authority has presented its financial statements under the reporting model required by the Governmental Accounting Standards Board. Prior year comparative information for this reporting period has been included in the following information to increase its usefulness.

The following table summarizes net position at December 31, 2019 and 2018:

CONDENSED BALANCE SHEETS

PRIMARY GOVERNMENT:

	2019	2018
Assets		
Current and other assets	\$ 35,688,013	\$ 31,942,920
Capital assets	219,465	233,030
Total assets	<u>35,907,478</u>	<u>32,175,950</u>
Deferred outflows of resources	<u>78,376</u>	<u>79,893</u>
Total assets and deferred outflows of resources	<u><u>\$ 35,985,854</u></u>	<u><u>\$ 32,255,843</u></u>
Liabilities		
Current liabilities	\$ 211,693	\$ 230,294
Non-current liabilities	2,286,688	2,420,988
Total liabilities	<u>2,498,381</u>	<u>2,651,282</u>
Deferred inflows of resources	<u>241,603</u>	<u>244,759</u>
Net Position		
Net investment in capital assets	(1,743,861)	(1,742,957)
Restricted	3,663,513	3,518,962
Unrestricted	31,326,218	27,583,797
Total net position	<u>33,245,870</u>	<u>29,359,802</u>
Total liabilities, deferred inflows of resources and net position	<u><u>\$ 35,985,854</u></u>	<u><u>\$ 32,255,843</u></u>

At December 31, 2019, the Housing Authority's current assets exceed current liabilities by \$6,500,939 for a current ratio of 31.7. The current ratio is a measure of the ability to pay debts as they become due.

HOUSING AUTHORITY OF GRAYS HARBOR COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2019

Financial Analysis of the Housing Authority (cont.)

The following table summarizes changes in net position for the years ended December 31, 2019 and 2018:

CONDENSED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION

PRIMARY GOVERNMENT:

	<u>2019</u>	<u>2018</u>
Revenues		
Operating revenue:		
Rental revenue	\$ 21,477	\$ 672,010
HUD operating grants	3,324,520	3,672,482
Developer fee income	3,006,350	3,007,077
Miscellaneous income	647,121	614,934
Non-operating revenue:		
Interest income	963,868	509,424
Gain (loss) on sale of assets	-	15,257,084
Total revenues	<u>7,963,336</u>	<u>23,733,011</u>
Expenses		
Operating expenses	4,064,416	4,176,994
Interest expense	12,852	22,724
Total expenses	<u>4,077,268</u>	<u>4,199,718</u>
Increase (decrease) in net position	3,886,068	19,533,293
Total Net Position, beginning of year	29,359,802	9,826,509
Total Net Position, end of year	<u>\$ 33,245,870</u>	<u>\$ 29,359,802</u>

Overall, the financial condition of the Housing Authority improved, with an increase to net position of \$3,886,068, primarily due to the developer fee income and interest income through the RAD conversion and tax credit project conversion. The operating revenue decreased approximately 12.1% from the prior year due primarily to additional income earned through the RAD conversion and tax credit project conversion process that was earned in the prior year, while operating expenses decreased approximately 2.7%. This results in a decrease in net operating income of 22.5%.

The Housing Authority's non-gain revenues are derived from various sources with approximately 41.7% received directly from the U.S. Department of Housing and Urban Development (HUD), 8.4% generated from the rental and management of Housing Authority-owned properties, 37.8% from the LIHTC and RAD conversions, and 12.1% from other sources.

The Housing Authority's most significant operating expenses are salaries, employee benefits and taxes, housing assistance payments, and professional services.

The Housing Authority's salaries expense decreased 6.9% from the prior year and was 10.9% of total revenues and 21.5% of operating expenses for the year ended December 31, 2019. This decrease is primarily due to reduction of staff from 16 to 13 employees in 2019.

HOUSING AUTHORITY OF GRAYS HARBOR COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2019

Financial Analysis of the Housing Authority (cont.)

The Housing Authority's employee benefits and taxes, representing 3.2% of total revenues and 6.2% of operating expenses for the year ended December 31, 2019, increased 13.7% from the prior year, primarily due to the annual adjustment to the net pension liability, deferred inflows and deferred outflows related to pensions for 2019.

The Housing Authority's housing assistance payments, representing 32.5% of total revenues and 63.6% of operating expenses for the year ended December 31, 2019, increased 36.1% from the prior year due primarily to the transition to the RAD project-based voucher program for the seven Low Rent developments in June 2018. The housing assistance payments are budgeted to be fully funded by operating subsidies from HUD, which are included in operating revenues.

The Housing Authority's professional services expense, representing 2.2% of total revenues and 4.4% of operating expenses for the year ended December 31, 2019, increased 13.8% from the prior year. This increase is due primarily to an increase in audit costs of \$17,406 from the Washington State Auditor's Office.

Capital asset and debt administration

Capital assets

Detailed information regarding the Housing Authority's capital assets may be found in Note 7 to the financial statements. The following table summarizes the changes in capital assets between fiscal years 2019 and 2018:

PRIMARY GOVERNMENT

	<u>January 1, 2019</u>	<u>December 31, 2019</u>	<u>Net Change</u>
Land and land improvements	\$ 314,651	\$ 314,651	\$ -
Buildings and improvements	1,437,928	1,437,928	-
Equipment, furniture and vehicles	<u>354,114</u>	<u>321,671</u>	<u>(32,443)</u>
Totals	2,106,693	2,074,250	(32,443)
Accumulated depreciation	<u>(1,873,663)</u>	<u>(1,854,785)</u>	<u>18,878</u>
Capital assets, net	<u>\$ 233,030</u>	<u>\$ 219,465</u>	<u>\$ (13,565)</u>

Long-term debt

The Housing Authority typically issues various types of debt obligations, including installment notes, deferred notes, mortgages and revenue bonds to finance the acquisition and rehabilitation of its properties. No new debt was issued during 2019. Detailed information regarding the outstanding long-term debt of the Housing Authority may be found in Note 8 to the financial statements.

At December 31, 2019, the Housing Authority had long-term debt outstanding in the amount of \$1.96 million.

HOUSING AUTHORITY OF GRAYS HARBOR COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2019

Contacting the Housing Authority's Financial Management

The financial report is designed to provide a general overview of the Housing Authority's finances for all those with an interest. Questions concerning any of the information should be addressed to the Executive Director of the Housing Authority of Grays Harbor County. The Housing Authority's offices are located at 602 E. 1st Street, Aberdeen, Washington 98520. The telephone number is (360) 532-0570.

HOUSING AUTHORITY OF GRAYS HARBOR COUNTY

BALANCE SHEET

December 31, 2019

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	<u>PRIMARY GOVERNMENT</u>	<u>COMPONENT UNITS</u>
CURRENT ASSETS:		
Cash	\$ 1,056,058	\$ 1,070,922
Restricted cash	201,647	837,971
Current investments--unrestricted	84,077	-
Current investments--restricted	3,500,000	-
Accounts receivable	14,803	45,634
Due from component units	343,282	-
Notes receivable from component units--current	1,512,765	-
Prepaid expenses	-	52,544
Total current assets	<u>6,712,632</u>	<u>2,007,071</u>
NONCURRENT ASSETS:		
Property and equipment--net	219,465	64,140,208
Notes receivable from component units--long-term	27,587,954	-
Interest receivable from component units	1,387,427	-
Tax credit fees, net of accumulated amortization	-	359,322
Total noncurrent assets	<u>29,194,846</u>	<u>64,499,530</u>
Total assets	<u>35,907,478</u>	<u>66,506,601</u>
DEFERRED OUTFLOWS OF RESOURCES:		
Deferred outflows related to pensions	78,376	-
Total assets and deferred outflows of resources	<u>\$ 35,985,854</u>	<u>\$ 66,506,601</u>

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

CURRENT LIABILITIES:		
Accounts payable	\$ 20,480	\$ 2,313,720
Accrued payroll and taxes	57,970	-
Accrued compensated absences	74,457	-
Tenant security deposits	2,926	102,075
Unearned revenue	35,208	23,073
Other current liabilities	-	1,293
Accrued interest payable--current	4,937	-
Due to primary government	-	343,282
Current portion of long-term debt	15,715	16,067,874
Total current liabilities	<u>211,693</u>	<u>18,851,317</u>
LONG-TERM LIABILITIES:		
Long-term debt--net of current portion	1,947,611	47,239,269
Accrued interest payable--long-term	-	1,387,427
Net pension liability	339,077	-
Total long-term liabilities	<u>2,286,688</u>	<u>48,626,696</u>
Total liabilities	<u>2,498,381</u>	<u>67,478,013</u>

(continued on page 2)

The accompanying notes are an integral part of these financial statements.

HOUSING AUTHORITY OF GRAYS HARBOR COUNTY
BALANCE SHEET (CONT.)
December 31, 2019

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION (CONT.)

	<u>PRIMARY GOVERNMENT</u>	<u>COMPONENT UNITS</u>
DEFERRED INFLOWS OF RESOURCES:		
Deferred inflows related to pensions	\$ 241,603	\$ -
NET POSITION:		
Net investment in capital assets	(1,743,861)	833,065
Restricted for:		
Capital replacements	3,500,000	735,894
Housing assistance payments	163,513	-
Unrestricted	31,326,218	(2,540,371)
Total net position	33,245,870	(971,412)
Total liabilities, deferred inflows of resources and net position	<u>\$ 35,985,854</u>	<u>\$ 66,506,601</u>

The accompanying notes are an integral part of these financial statements.

HOUSING AUTHORITY OF GRAYS HARBOR COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
For the year ended December 31, 2019

	PRIMARY GOVERNMENT	COMPONENT UNITS
OPERATING REVENUES:		
Tenant rental revenue	\$ 21,477	\$ 2,678,168
HUD operating grants	3,324,520	525,057
Commercial rental revenue	-	41,641
Fee revenue	638,731	-
Developer fee income	3,006,350	-
Miscellaneous income--tenants	8,390	-
Miscellaneous income (loss)--tax credit projects	-	(108,105)
Total operating revenues	<u>6,999,468</u>	<u>3,136,761</u>
OPERATING EXPENSES:		
Salaries	872,216	-
Employee benefits and taxes	251,581	-
Housing assistance payments	2,585,128	-
Maintenance and operations	16,082	935,380
Management fees	-	576,071
Administration	-	53,355
Utilities	27,429	469,049
Telephone	12,554	38,220
Office	38,566	56,837
Professional services	178,110	399,954
Insurance	12,240	106,801
Training and travel	13,210	-
Fees & charges	3,041	5,133
Operating expenses	2,779	-
Tenant services	300	-
Protective services	294	-
Depreciation and amortization	28,828	2,100,829
Bad debts	16,319	4,469
Miscellaneous expense	5,739	16,468
Total operating expenses	<u>4,064,416</u>	<u>4,762,566</u>
Operating income	<u>2,935,052</u>	<u>(1,625,805)</u>
NON-OPERATING REVENUES (EXPENSES):		
Investment income	963,868	307
Organizational costs	-	(400)
Interest expense	(12,852)	(1,714,080)
Net non-operating revenues (expenses)	<u>951,016</u>	<u>(1,714,173)</u>
Income (loss) before capital contributions and distributions	<u>3,886,068</u>	<u>(3,339,978)</u>
CAPITAL CONTRIBUTIONS AND DISTRIBUTIONS:		
Capital contributions--tax credit projects	-	772,469
Distributions of capital (syndication costs)	-	(100,000)
Net contributions and distributions	<u>-</u>	<u>672,469</u>
INCREASE (DECREASE) IN NET POSITION	3,886,068	(2,667,509)
TOTAL NET POSITION, beginning of year	<u>29,359,802</u>	<u>1,696,097</u>
TOTAL NET POSITION, end of year	<u>\$ 33,245,870</u>	<u>\$ (971,412)</u>

The accompanying notes are an integral part of these financial statements.

HOUSING AUTHORITY OF GRAYS HARBOR COUNTY

STATEMENT OF CASH FLOWS For the year ended December 31, 2019

	PRIMARY GOVERNMENT	COMPONENT UNITS
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from tenants	\$ 56,427	\$ 3,656,744
Receipts from government operating grants	3,321,729	516,361
Receipts from fee revenue	729,882	-
Cash payments to suppliers for goods and services	(3,327,101)	(3,726,371)
Cash payments to employees for services	(872,216)	-
Net cash provided (used) by operating activities	<u>(91,279)</u>	<u>446,734</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Reimbursement of development costs received at tax credit conversion closing	442,431	-
Syndication costs paid	-	(100,000)
Cash paid for tax credit project costs	(534,279)	(237,620)
Net cash used by non-capital financing activities	<u>(91,848)</u>	<u>(337,620)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchases of property and equipment	(15,263)	(13,779,048)
Payments on accounts payable to contractors	-	(5,452,287)
Proceeds from issuance of debt	-	20,672,977
Principal payments on long-term debt	(15,561)	-
Debt issuance costs paid	-	(422,320)
Interest paid on bonds and notes	(10,030)	(799,471)
Capital contributions received from partners	-	772,469
Net cash provided (used) by capital and related financing activities	<u>(40,854)</u>	<u>992,320</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash paid for tax credit development costs	-	(23,944)
Interest income received	204	-
Net cash provided (used) by investing activities	<u>204</u>	<u>(23,944)</u>
NET INCREASE (DECREASE) IN CASH	(223,777)	1,077,490
CASH, beginning of year	1,481,482	831,403
CASH, end of year	<u>\$ 1,257,705</u>	<u>\$ 1,908,893</u>

(continued on page 5)

The accompanying notes are an integral part of these financial statements.

HOUSING AUTHORITY OF GRAYS HARBOR COUNTY
STATEMENT OF CASH FLOWS (CONT.)
For the year ended December 31, 2019

	<u>PRIMARY GOVERNMENT</u>	<u>COMPONENT UNITS</u>
RECONCILIATION OF CASH, END OF YEAR, TO THE STATEMENT OF NET POSITION:		
Cash - unrestricted	\$ 1,056,058	1,070,922
Cash - restricted	201,647	837,971
CASH, end of year	<u><u>\$ 1,257,705</u></u>	<u><u>\$ 1,908,893</u></u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating income (loss)	\$ 2,935,052	\$ (1,625,805)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities--		
Depreciation and amortization	28,828	2,100,829
Noncash developer fee income	(3,006,350)	-
(Increase) decrease in--		
Accounts receivable--operating	1,581	(30,107)
Due from component unit--operating	91,151	29,239
Prepaid expenses	260	(16,561)
Deferred outflows related to pensions	1,517	-
Increase (decrease) in--		
Accounts payable--operating	(18,705)	(24,016)
Accrued payroll and taxes	(3,459)	-
Accrued compensated absences	(273)	-
Tenant security deposits	(1,750)	9,791
Unearned revenue--operating	34,748	11,015
Other current liabilities	-	(8,348)
Due to primary government--operating	(29,239)	697
Net pension liability	(121,484)	-
Deferred inflows related to pensions	(3,156)	-
Net cash provided by operating activities	<u><u>\$ (91,279)</u></u>	<u><u>\$ 446,734</u></u>
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for interest	<u><u>\$ 10,030</u></u>	<u><u>\$ 938,280</u></u>
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Interest income included in investments	<u><u>\$ 60,791</u></u>	<u><u>\$ -</u></u>
Interest income included in nonoperating interest receivable	<u><u>\$ 902,873</u></u>	<u><u>\$ -</u></u>

The accompanying notes are an integral part of these financial statements.

HOUSING AUTHORITY OF GRAYS HARBOR COUNTY
NOTES TO FINANCIAL STATEMENTS
December 31, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

This summary of the major accounting policies of the Housing Authority of Grays Harbor County (HAGH) is presented to assist the reader in evaluating the Authority's financial statements.

a. Nature of business--

The Housing Authority of Grays Harbor County (HAGH) was established in 1951 by a Grays Harbor County resolution and operates under the laws of the State of Washington applicable to Housing Authorities (Chapter 35.82 RCW). During 2019, the Housing Authority received funding under four federal programs administered by the U. S. Department of Housing and Urban Development (HUD)--the Section 8 Housing Choice Vouchers Program, the Section 8 Housing Assistance Payments Program, the Low Rent Public Housing Program, and the Public Housing Capital Fund Program.

b. Basis of accounting and reporting--

The financial statements have been prepared in accordance with U.S. generally accepted accounting principles, using the accrual basis of accounting and the economic resources measurement focus. Revenues are recognized when earned, and expenses are recorded when incurred. All activities of HAGH have been included in these financial statements.

The Housing Authority applies all Governmental Accounting Standards Board (GASB) pronouncements for preparation of the 2019 financial statements. The component units, which are nongovernmental limited partnerships, follow the accounting standards prescribed by the Financial Accounting Standards Board.

c. Discretely presented component units--

The Authority is the general partner of two tax credit limited liability limited partnerships (component units). These partnerships were formed for the purpose of developing, operating managing and leasing housing units in a manner that qualifies them for low-income housing tax credits under Section 42 of the Internal Revenue Code of 1986, as amended.

The Authority is responsible for the management of these partnerships and may impose its will on the partnerships through direct influence over their policies, budgets and operations. In addition, the Authority is contractually obligated to fund operating deficits through loans and advances to the partnerships and has primary responsibility for the debt issued on behalf of each partnership.

Both of the component units described below have a December 31 year end. The financial statements of the component units are audited separately and are presented as of December 31, 2019. Copies of these audited statements can be obtained by contacting the Housing Authority. The component units do not follow GASB standards; therefore, for presentation purposes, certain transactions and balances may be reflected differently in the Housing Authority's financial statements than in the separately issued component unit financial statements in order to conform with the presentation and classifications of the Authority's statements.

1. ***Herman Johnson Limited Liability Limited Partnership:*** In 2018, the Authority entered into a limited liability limited partnership agreement with RBC-Grays Harbor, LLC and RBC Tax Credit Manager II, Inc. to form Herman Johnson LLLP (HJ), a separate legal entity. The Authority is a 0.009% owner and the general partner responsible for managing HJ's two rental properties totaling 160 units. There is an initial 15-year regulatory compliance period monitored by the Washington State Housing Finance

HOUSING AUTHORITY OF GRAYS HARBOR COUNTY

NOTES TO FINANCIAL STATEMENTS (CONT.)

December 31, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.):

c. Discretely presented component units (cont.)--

Commission ending in 2033, at which time the investing partner may exit the partnership according to the provisions of the partnership agreement.

2. ***Grays Harbor Affordable Housing Group Limited Liability Limited Partnership:*** In 2018, the Authority entered into a limited liability limited partnership agreement with RBC-Grays Harbor, LLC and RBC Tax Credit Manager II, Inc. to form Grays Harbor Affordable Housing Group LLLP (GHAHG), a separate legal entity. The Authority is a 0.009% owner and the general partner responsible for managing the eight rental properties owned by GHAHG totaling 235 units. There is an initial 15-year regulatory compliance period monitored by the Washington State Housing Finance Commission ending in 2033, at which time the investing partner may exit the partnership according to the provisions of the partnership agreement.

d. Programs--

The following are the federal programs administered by HAGH and included in these financial statements.

1. Section 8 Housing Choice Vouchers Program

The Housing Authority began administering the Section 8 rental subsidy program in 1989. HUD enters into an annual contributions contract (ACC) with the Housing Authority to provide funding for assisting eligible low-income families to obtain decent, safe and sanitary housing. Generally, the tenant pays up to 30% of their income towards rent, and the Authority pays for the difference between the approved landlord contract rent and the rent paid by the tenants. The Housing Authority received an allocation of 223 vouchers from HUD, which equates to 2,796 voucher unit months per calendar year.

In August 2018, the Housing Authority issued 395 project-based vouchers as part of the RAD conversion from the Low Rent Public Housing Program. (see Note 1d.2). The Housing Authority actively monitors and plans activities related to the management of the voucher counts in order to comply with HUD's leasing provisions on a calendar year basis.

2. Low Rent Public Housing Program

The Low Rent Public Housing Program is also a rental subsidy program designed to provide decent, safe and sanitary housing for eligible low-income families and the elderly. HUD enters into an ACC with the Housing Authority to provide funding for the operation and maintenance of housing projects that are owned by the Housing Authority. The rent paid by the tenant to the Housing Authority is based on the income of the tenant family.

In late 2016, the Housing Authority began the process of converting many of its Low Rent Public Housing developments to tax credit projects in accordance with HUD's Rental Assistance Demonstration (RAD) program. In June 2018, 395 of the 415 units were converted to Section 8 project-based voucher units under the RAD program, leaving the Housing Authority with 20 Low Rent Public Housing units.

3. Public Housing Capital Fund Program

The Public Housing Capital Fund Program provides funding to improve the physical condition, and to upgrade the management and operation of existing public housing

HOUSING AUTHORITY OF GRAYS HARBOR COUNTY

NOTES TO FINANCIAL STATEMENTS (CONT.)

December 31, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.):

d. Programs (cont.)--

projects. An annual grant is awarded by HUD according to physical need, and management and modernization capability. The amount of the grant is determined based upon modernization budgets that are approved by HUD.

4. Section 8 Housing Assistance Payments Program

The Section 8 Housing Assistance Payments Program is a project-based rental subsidy program designed to provide decent, safe and sanitary housing for eligible low-income tenants of:

Emerson Manor, a 59-unit senior and/or disabled housing complex in Hoquiam, Washington that was acquired by the Housing Authority in 2000.

Riverside III, a 20-unit housing complex in Aberdeen, Washington that was acquired by the Housing Authority in 2002.

Harbor Manor, a 24-unit housing complex in Hoquiam, Washington that was acquired by the Housing Authority in 2014.

In January 2018, HUD entered into an annual housing assistance payments (HAP) contract with the Housing Authority, whereby all tenants of these complexes must meet the program's eligibility requirements. The tenant pays a portion of the contract rent, as stipulated in the HAP contract, based on the tenant's income. The balance of the rent is paid to the Housing Authority by HUD based on a HAP report submitted monthly. As a result of the RAD conversion in June 2018, HUD entered into a HAP contract with Grays Harbor Affordable Housing Group LLLP, replacing the HAP contract with the Housing Authority, and the rent subsidy is now paid by HUD to GHAHG. All three properties were transferred into the tax-credit partnership in the RAD conversion to provide funding for major rehabilitation and modernization.

e. Accounts receivable--

The direct write-off method is used for bad debt write-offs rather than an allowance for doubtful accounts, as required by U.S. generally accepted accounting principles. Actual write-offs are generally less than one percent of rental income. Therefore, any difference in the method of recording bad debts is considered to be immaterial.

f. Property and equipment--

Purchased property and equipment is stated at cost. Donated property and equipment is recorded at estimated acquisition value as of the date of the donation. The Housing Authority's policy is to capitalize property and equipment greater than \$5,000. Major expenditures that substantially increase useful lives of existing property are capitalized. Repairs, maintenance and minor renewals are expensed when incurred. When assets are retired or disposed of, their costs and related accumulated depreciation are removed from the books, and the resulting gain or loss is included in income.

Property and equipment are being depreciated on a straight-line basis over their estimated useful lives, which are as follows:

HOUSING AUTHORITY OF GRAYS HARBOR COUNTY

NOTES TO FINANCIAL STATEMENTS (CONT.)

December 31, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.):

f. Property and equipment (cont.)--

Land improvements	5 to 20 years
Buildings and improvements	7 to 40 years
Equipment	5 to 10 years
Vehicles	5 years

g. Tax credit fees--

Tax credit fees of \$396,331 are amortized on a straight-line basis over the 15-year tax credit compliance period. For the year ended December 31, 2019, amortization expense was \$37,009, resulting in tax credit fees, net of accumulated amortization, at December 31, 2019 of \$359,322.

h. Federal income taxes--

The Housing Authority is a municipal corporation and is, therefore, exempt from federal income taxes. The component units are limited partnerships. Accordingly, all tax effects of the Partnerships' income or loss are passed through to their partners individually.

i. Cash and cash equivalents--

For purposes of the statement of cash flows, the Housing Authority considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. At December 31, 2019, there are no cash equivalents.

j. Debt issuance costs--

For the component units, debt issuance costs are reported on the balance sheet as a direct deduction from the face amount of the related notes. Amortization of the debt issuance costs is reported as interest expense.

k. Deferred outflows/inflows of resources and unearned revenue--

1. Deferred outflows of resources

In addition to assets, the Balance Sheet reports a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Authority has three items that meet this criterion, resulting from the recent implementation of GASB Statement 68. One item is the difference between expected and actual experience in the pension plan; the second is changes in assumptions to the pension plan; and the third is contributions made to a pension plan subsequent to the measurement date.

2. Deferred inflows of resources

In addition to liabilities, the Balance Sheet reports a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time. The Authority has four items that qualify for reporting in this category, all related to pension obligations. One is the difference between expected and actual experience in the pension plan. Another is the net difference between the projected and actual earnings of the Authority's share of

HOUSING AUTHORITY OF GRAYS HARBOR COUNTY

NOTES TO FINANCIAL STATEMENTS (CONT.)

December 31, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.):

k. Deferred outflows/inflows of resources and unearned revenue (cont.)—

2. Deferred inflows of resources (cont.)

pension plan investments as calculated and reported by the Washington State Department of Retirement Systems (DRS). Third is changes in assumptions to the pension plan. The final deferred inflow of resources is the changes in proportion and differences between contributions and the proportionate share of contributions for the pension plan.

3. Unearned Revenue

Unearned revenue consists primarily of prepaid tenant rents and advanced grant payments received that have not been earned as of the end of the year.

l. Use of estimates--

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

m. Accrued compensated absences--

All regular full-time and part-time employees are eligible to accrue annual leave based upon length of employment. All regular full-time employees also receive sick leave at a rate of 8 hours per month. Regular part-time employees receive sick leave at a prorated rate. All of the accumulated annual leave up to 240 hours plus one-half of the accumulated sick leave up to a maximum of 240 hours payable is paid to employees upon termination of employment. The total compensated absences payable upon termination as of December 31, 2019 has been accrued in the financial statements.

n. Public support and revenues--

The Housing Authority and its component units receive a substantial amount of funding from HUD. In the event that HUD would discontinue its support because of budget cuts, the Housing Authority and component units could experience a significant loss of support.

o. Operating revenues and expenses--

The Housing Authority reports operating revenues as defined in GASB Statement No. 9. Operating revenues generally result from fees and charges from providing services in connection with the ongoing operations of providing low-income housing, as well as operating subsidies and grants, and fees related to the RAD conversion. Capital grants are reported as capital contributions and are presented as cash flows from capital and related financing activities in the statement of cash flows. Operating expenses are those expenses that are directly incurred in the operation of providing low-income housing.

p. 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.

HOUSING AUTHORITY OF GRAYS HARBOR COUNTY

NOTES TO FINANCIAL STATEMENTS (CONT.)

December 31, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.):

q. Future Accounting Standards --

1. Statement No. 84

Fiduciary Activities defines criteria for identifying activities that state and local governments should report as fiduciary activities and how they should be reported. This Statement is effective for fiscal years beginning after December 15, 2019.

2. Statement No. 87

Leases will increase the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the principle that leases are financing of the right to use an underlying asset. This Statement is effective for fiscal years beginning after June 15, 2021.

3. Statement No. 88

Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements provides additional requirements for disclosure in notes to government financial statements related to debt, including direct borrowings and direct placements. This Statement is effective for fiscal years beginning after June 15, 2019.

4. Statement No. 89

Accounting for Interest Cost Incurred before the end of a Construction Period supersedes paragraphs 5 – 22 of GASB Statement No. 62 and requires that interest cost incurred before the end of a construction period be recognized as an expense. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This Statement is effective for fiscal years beginning after December 15, 2020.

5. Statement No. 90

Majority Equity Interest amends GASB Statements No. 14 and No. 61. It defines majority equity interest and specifies how a majority equity interest in a legally separate organization should be reported. This Statement is effective for fiscal years beginning after December 15, 2019.

6. Statement No. 91

Conduit Debt Obligations, provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with commitments extended by users, arrangements associated with conduit debt obligations, and related note disclosures. This Statement is effective for fiscal years beginning after December 15, 2021.

7. Statement No. 92

Omnibus 2020 provides additional guidance to enhance comparability in accounting and financial reporting and to improve consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. Most elements of this Statement are effective for fiscal years beginning after June 15, 2021.

HOUSING AUTHORITY OF GRAYS HARBOR COUNTY

NOTES TO FINANCIAL STATEMENTS (CONT.)

December 31, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.):

q. Future Accounting Standards (cont.)--

8. Statement No. 93

Replacement of Interbank Offered Rates addresses accounting and financial reporting implications related to leases, agreements and derivative instruments for which variable payments made or received depend on an interbank offered rate (IBOR), most notably the London Interbank Offered Rate (LIBOR), when LIBOR ceases to exist, as expected at the end of 2021 as a result of global reference rate reform. The requirements of this statement are effective for reporting periods beginning after June 15, 2020. Certain elements of this statement are effective for reporting periods beginning after June 15, 2021.

9. Statement No. 94

Public-Private and Public-Public Partnerships and Availability Payment Arrangements improves financial reporting by addressing issues related to public-private and public-public partnership arrangements and also provides guidance for accounting and financial reporting for availability payment arrangements. The requirements of this statement are effective for fiscal years beginning after June 15, 2022.

10. Statement No. 95

Postponement of the Effective Dates of Certain Authoritative Guidance provides temporary relief to governments and other stakeholders in light of the COVID-19 pandemic by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018 and later. The requirements of this statement are effective immediately, and the effective dates for all future accounting standards above have been updated to reflect the new effective dates identified in Statement No. 95.

The Authority has not yet adopted these standards and is evaluating the impact they may have on the financial statements.

NOTE 2 - RESTRICTED CASH AND INVESTMENTS:

Only cash and investments that have been legally or externally restricted are classified in the Balance Sheet as restricted assets. Restricted cash and investments include the following:

a. Tenant security deposits--

Tenants are required to pay a security deposit at the time they move into one of the Housing Authority's or a component unit's developments. The security deposits are refundable, provided that the unit's physical condition is satisfactory at the time the tenant moves out. Separate security deposit checking accounts have been established for each development.

b. Housing assistance payments--

Under the Section 8 Housing Choice Vouchers Program, HUD provides funding for housing assistance payments (HAP) based on the prior year's utilization, with monthly adjustments for actual utilization during the current year. Unspent HAP funds are restricted for future HAP expenses only.

c. Herman Johnson LLLP reserves--

1. Replacement reserve:

Pursuant to the Partnership Agreement, the Partnership is required to establish a replacement reserve account (the "Replacement Reserve"). The Replacement Reserve will be used for capital improvements, repairs to the Project, and other expenditures

HOUSING AUTHORITY OF GRAYS HARBOR COUNTY
NOTES TO FINANCIAL STATEMENTS (CONT.)
December 31, 2019

NOTE 2 - RESTRICTED CASH AND INVESTMENTS (CONT.):

c. Herman Johnson LLLP reserves (cont.)—

1. Replacement reserve (cont.):

provided for in the Partnership Agreement or annual budgets approved by the Special Limited Partner. Any other withdrawal from the Replacement Reserve will require the consent of the Special Limited Partner. The Replacement Reserve will be funded at an annual amount of \$400 per unit, increasing at 3% per annum, commencing on Substantial Completion, as defined in the Partnership Agreement.

2. Operating reserve:

Pursuant to the Partnership Agreement, the Partnership is required to establish and maintain an operating reserve (the “Operating Reserve”) account in the amount of \$374,907. The Operating Reserve will be established no later than the Fourth Capital Contribution, as defined in the Partnership Agreement. Any withdrawal from the Operating Reserve will require the consent of the Special Limited Partner. In no event will the Partnership withdraw funds from the Operating Reserve for operating deficits if the balance is less than \$374,907. As of December 31, 2019, the Operating Reserve has not been funded.

3. Income/expense reserve:

Pursuant to the Partnership Agreement, the Partnership is required to establish a reserve account (the “Income/Expense Reserve”) in an amount equal to the greater of \$35,000 or that amount which the Special Limited Partner determines to be the difference between the cash actually received by the Partnership on a cash basis from the normal operation of the Project and the amount necessary for the Partnership to maintain an Income/Expense Ratio, as defined in the Partnership Agreement, of at least 1.05 to 1.0 throughout the compliance period. The Operating Reserve will be established at the time of the Fourth Capital Contribution, as defined in the Partnership Agreement. As of December 31, 2019, the Income/Expense Reserve has not been funded.

d. Grays Harbor Affordable Housing Group LLLP reserves--

1. Replacement reserve:

Pursuant to the Partnership Agreement, the Partnership is required to establish a replacement reserve account for capital needs, improvements, replacements and any other contingencies of the Partnership. On or before the Fourth Capital Contribution, the Partnership is to deposit \$210,000 into a replacement reserve account. The Partnership will fund an annualized rate of the greater of \$300 per unit, increasing by 3% per annum, or \$400 as is required by HUD commencing upon Substantial Completion, which has not occurred as of December 31, 2019. Following the fifth year of the Compliance Period, and every five years thereafter, the Limited Partner shall have the right to require a physical needs assessment for the Project, which may result in adjustments to the reserve fund.

2. Operating reserve:

Pursuant to the Partnership Agreement, the Partnership is required to establish an operating reserve account to meet operating expenses and debt service of the Partnership in the initial amount of \$1,027,535 no later than the making of the Fourth Capital Contribution, which has not occurred yet as of December 31, 2019. The initial \$1,027,535 of the Operating Reserve shall be funded from Capital Contributions and/or the proceeds of the Project Loan. If there are insufficient funds to fund the Operating Reserve, the Housing Authority will be required

HOUSING AUTHORITY OF GRAYS HARBOR COUNTY
NOTES TO FINANCIAL STATEMENTS (CONT.)
December 31, 2019

NOTE 2 - RESTRICTED CASH AND INVESTMENTS (CONT.):

- d. Grays Harbor Affordable Housing Group LLLP reserves--
2. Operating reserve (cont.):
to fund the Operating Reserve or use funds from the Partnership Net Cash Flow to maintain a balance of \$1,027,535. The Housing Authority, as General Partner, shall be entitled to withdraw funds from the operating reserve subject to the Special Limited Partner's consent, which may be evidenced in an approved annual budget for the Project, or upon request of the Housing Authority.
- e. Subordinate debt cash--
The GHABC and Herman Johnson Partnerships have established interest bearing market rate savings accounts for costs associated with rehabilitation and interest payments of the Project. As of December 31, 2019, the Partnership's subordinate debt cash was \$431,015.
- f. Investments held for component units--
Pursuant to the Partnership agreements with the component units at closing, the Housing Authority was required to place \$3,500,000 of funds received from the sale of the properties into investments restricted for payment of development costs related to the rehabilitation of the properties acquired by the component units.

At December 31, 2019, restricted cash and investments consist of the following--

	PRIMARY GOVERNMENT	COMPONENT UNITS
Tenant security deposits	\$ 2,926	\$ 102,077
Housing assistance payments	163,513	-
Advance on administrative fees	35,208	-
Replacement reserves	-	304,779
Subordinate debt cash	-	431,115
Investments held for component units	3,500,000	-
Total restricted cash and investments	3,701,647	837,971
Restricted cash and investments--current	(3,701,647)	(837,971)
Restricted cash and investments--noncurrent	\$ -	\$ -

NOTE 3 - CASH AND INVESTMENTS:

The Housing Authority's deposits and investments 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. As a result, there is no custodial credit risk for any of the Housing Authority's or the Component Units' cash and investments.

As required by Washington State law, the Housing Authority's investments are limited to obligations of the U.S. Government, U.S. agency issues, obligations of the State of Washington, general obligations of Washington State municipalities, or certificates of deposit with Washington State banks and savings and loan institutions. As of December 31, 2019, all of the Housing Authority's investments are in U.S. Treasury bonds. The investments are recorded at cost plus accrued interest earnings, which approximates fair value. Management intends to hold the time deposits until maturity.

At December 31, 2019, the component units had no investments.

HOUSING AUTHORITY OF GRAYS HARBOR COUNTY
NOTES TO FINANCIAL STATEMENTS (CONT.)
December 31, 2019

NOTE 3 - CASH AND INVESTMENTS (CONT.):

Because Washington State law limits the Housing Authority's and the Component Units' deposits and investments to those with no risk of loss, the Housing Authority and the Component Units have no policies addressing custodial credit risk for deposits and investments.

The Housing Authority measures and reports investments at fair value using the valuation input hierarchy established by U.S. generally accepted accounting principles, as follows:

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

At December 31, 2019, all of the Housing Authority's investments, which were in U.S. Treasury bonds, were Level 1 investments. The component units had no investments at December 31, 2019.

At December 31, 2019, unrestricted cash consists of the following--

	PRIMARY GOVERNMENT	COMPONENT UNITS
Savings and checking accounts	\$ 1,055,933	\$ 1,070,822
Petty cash	125	100
Total cash	<u>\$ 1,056,058</u>	<u>\$ 1,070,922</u>

At December 31, 2019, investments consists of the following--

	PRIMARY GOVERNMENT	COMPONENT UNITS
Total investments	\$ 3,584,077	\$ -
Less current investments-- restricted for component unit	(3,500,000)	-
Net investments--unrestricted	84,077	-
Current investments--unrestricted	(84,077)	-
Noncurrent investments--unrestricted	<u>\$ -</u>	<u>\$ -</u>

The investments consist of U.S. Treasury bonds of \$3,500,000 held by the Housing Authority and are restricted for rehabilitation costs for the component units, plus unrestricted interest on those bonds of \$84,077. (See Note 2.f.)

NOTE 4 - ACCOUNTS RECEIVABLE:

At December 31, 2019, accounts receivable consists of the following--

	PRIMARY GOVERNMENT	COMPONENT UNITS
Tenant accounts receivable	\$ 5,578	\$ 20,432
Accounts receivable--HUD	8,300	6,827
Accounts receivable--other	925	18,375
Total accounts receivable	<u>\$ 14,803</u>	<u>\$ 45,634</u>

NOTE 5 - RECEIVABLES AND PAYABLES WITHIN THE REPORTING ENTITY:

Outstanding balances between the primary government and the component units reported as "due from component units" and "due to primary government" include outstanding charges by the Housing Authority to the Limited Partnership for services or goods outstanding at year-end, and other miscellaneous receivables/

HOUSING AUTHORITY OF GRAYS HARBOR COUNTY
NOTES TO FINANCIAL STATEMENTS (CONT.)
December 31, 2019

NOTE 5 - RECEIVABLES AND PAYABLES WITHIN THE REPORTING ENTITY:

payables between the entities. All of these charges are expected to be paid in less than one year.

NOTE 6 – NOTES AND INTEREST RECEIVABLE FROM COMPONENT UNITS:

1. *Herman Johnson LLLP Notes Receivable:*
 - A. *Developer fee note* – This note was issued June 12, 2018 for the agreed-upon developer fee of 920,427 in connection with the acquisition and development of Herman Johnson LLLP. As of December 31, 2019, the balance of the note was \$770,427. Any installment of the developer fee not paid when otherwise due shall be deferred with no interest and shall be paid from available cash flows of the Partnership in the priority set forth in the Amended and Restated Agreement of Limited Liability Limited Partnership. \$512,765 of this note was paid in October 2020 and is included in current notes receivable from component units at December 31, 2019. The remaining balance is noncurrent.
 - B. *Sponsor note A* – A promissory note in the amount of \$3,400,000 dated June 1, 2018 was issued in connection with the acquisition and development of the properties transferred to Herman Johnson LLLP. No annual payments are required on the principal or the interest that accrues at 4.00% compounded annually. This note is considered to be noncurrent as repayment is subject to available cash flows of the Partnership in the priority set forth in the Amended and Restated Agreement of Limited Liability Limited Partnership. The note shall be due and payable in all events on or before December 31, 2070. As of December 31, 2019, accrued interest receivable on the note was \$212,613.
 - C. *Sponsor note B* – A promissory note in the amount of \$1,234,000 dated June 1, 2018 was issued in connection with the acquisition and development of the properties transferred to Herman Johnson LLLP. No annual payments are required on the principal or the interest that accrues at 4.00% compounded annually. This note is considered to be noncurrent as repayment is subject to available cash flows of the Partnership in the priority set forth in the Amended and Restated Agreement of Limited Liability Limited Partnership. The note shall be due and payable in all events on or before December 31, 2070. As of December 31, 2019, accrued interest receivable on the note was \$77,166.
 - D. *Sponsor note C* – A promissory note in the amount of \$833,292 dated June 1, 2018 was issued in connection with the acquisition and development of the properties transferred to Herman Johnson LLLP. No annual payments are required on the principal or the interest that accrues at 4.00% compounded annually. This note is considered to be noncurrent as repayment is subject to available cash flows of the Partnership in the priority set forth in the Amended and Restated Agreement of Limited Liability Limited Partnership. The note shall be due and payable in all events on or before December 31, 2070. As of December 31, 2019, accrued interest receivable on the note was \$52,109.
 - E. *Sponsor note D* – A promissory note in the amount of \$1,000,000 dated June 1, 2018 was issued in connection with the acquisition and development of the properties transferred to Herman Johnson LLLP. No annual payments are required on the principal. No interest is charged on this note. This note is considered to be current at December 31, 2019, as repayment is due on the earlier of October 1, 2021 or the day the Partnership's construction loan is fully paid. The construction loan was paid in full in October 2020, and as a result, this note was also paid in full in October 2020.

HOUSING AUTHORITY OF GRAYS HARBOR COUNTY
NOTES TO FINANCIAL STATEMENTS (CONT.)
December 31, 2019

NOTE 6 – NOTES AND INTEREST RECEIVABLE FROM COMPONENT UNITS (CONT.):

2. *Grays Harbor Affordable Housing Group LLLP Notes Receivable:*

- A. *Developer fee note* – This note was issued June 13, 2018 for the agreed-upon developer fee of \$5,093,000 in connection with the acquisition and development of the properties transferred to Grays Harbor Affordable Housing Group LLLP. As of December 31, 2019, the balance of the note was \$4,743,000. Any installment of the developer fee not paid when otherwise due shall be deferred with no interest and shall be paid from available cash flows of the Partnership in the priority set forth in the Amended and Restated Agreement of Limited Liability Limited Partnership. This note is considered to be noncurrent since repayment is subject to available cash flow of the Partnership. Any unpaid balance shall be due and payable in all events on or before the end of the tax credit compliance period of May 31, 2070 or the date of liquidation of the Partnership.
- B. *Sponsor note A* – A promissory note in the amount of \$16,620,000 dated June 1, 2018 was issued in connection with the acquisition and development of the properties transferred to Grays Harbor Affordable Housing Group LLLP. No annual payments are required on the principal or the interest that accrues at 4.00% compounded annually. This note is considered to be noncurrent as repayment is subject to available cash flows of the Partnership in the priority set forth in the Amended and Restated Agreement of Limited Liability Limited Partnership. The note shall be due and payable in all events on or before December 31, 2070. As of December 31, 2019, accrued interest receivable on the note was \$1,045,539.
- C. *Sponsor note G* – A promissory note in the amount of \$500,000 dated June 1, 2018 was issued in connection with the acquisition and development of the properties transferred to Grays Harbor Affordable Housing Group LLLP. No annual payments are required on the principal. No interest is charged on this note. This note is considered to be noncurrent as repayment is due on the earlier of October 1, 2021 or the day the Partnership's construction loan is fully paid.

HOUSING AUTHORITY OF GRAYS HARBOR COUNTY
NOTES TO FINANCIAL STATEMENTS (CONT.)
December 31, 2019

NOTE 6 – NOTES AND INTEREST RECEIVABLE FROM COMPONENT UNITS (CONT.):

Notes receivable activity for the year ended December 31, 2019 is summarized as follows--

PRIMARY GOVERNMENT:

	Balance, Beginning of Year	Additions	Retirements	Balance, End of Year	Amounts Due Within One Year
<u>Herman Johnson LLLP:</u>					
Developer fee note	\$ 770,427	\$ -	\$ -	\$ 770,427	\$ 512,765
Sponsor note A	3,400,000	-	-	3,400,000	-
Sponsor note B	1,234,000	-	-	1,234,000	-
Sponsor note C	833,292	-	-	833,292	-
Sponsor note D	1,000,000	-	-	1,000,000	1,000,000
Accrued interest receivable on notes	118,459	223,429	-	341,888	-
Total Herman Johnson LLLP	<u>\$ 7,356,178</u>	<u>\$ 223,429</u>	<u>\$ -</u>	<u>\$ 7,579,607</u>	<u>\$ 1,512,765</u>
<u>Grays Harbor Affordable Housing Group LLLP (GHAHG):</u>					
Developer fee note	\$ 1,736,650	\$ 3,006,350	\$ -	\$ 4,743,000	\$ -
Sponsor note A	16,620,000	-	-	16,620,000	-
Sponsor note G	500,000	-	-	500,000	-
Accrued interest receivable on notes	366,095	679,444	-	1,045,539	-
Total GHAHG	<u>19,222,745</u>	<u>3,685,794</u>	<u>-</u>	<u>22,908,539</u>	<u>-</u>
Total notes and interest receivable from component units	<u>\$ 26,578,923</u>	<u>\$ 3,909,223</u>	<u>\$ -</u>	<u>\$ 30,488,146</u>	<u>\$ 1,512,765</u>
Notes receivable from component units	26,094,369	3,006,350	-	29,100,719	1,512,765
Interest receivable from component units	<u>\$ 484,554</u>	<u>\$ 902,873</u>	<u>\$ -</u>	<u>\$ 1,387,427</u>	<u>\$ -</u>
Total notes and interest receivable from component units	<u>\$ 26,578,923</u>	<u>\$ 3,909,223</u>	<u>\$ -</u>	<u>\$ 30,488,146</u>	<u>\$ 1,512,765</u>

HOUSING AUTHORITY OF GRAYS HARBOR COUNTY

NOTES TO FINANCIAL STATEMENTS (CONT.)

December 31, 2019

NOTE 7 - PROPERTY AND EQUIPMENT:

The following is a summary of the changes in property and equipment for the year ended December 31, 2019--

PRIMARY GOVERNMENT:

	Balance, Beginning of year	Additions	Dispositions	Balance, End of year
Nondepreciable property and equipment--				
Land	\$ 135,497	\$ -	\$ -	\$ 135,497
Construction in progress	-	-	-	-
Total nondepreciable property and equipment	<u>135,497</u>	<u>-</u>	<u>-</u>	<u>135,497</u>
Depreciable property and equipment--				
Land improvements	179,154	-	-	179,154
Buildings and improvements	1,437,928	-	-	1,437,928
Equipment and furniture	145,988	15,263	(47,706)	113,545
Vehicles	208,126	-	-	208,126
Total depreciable property and equipment	<u>1,971,196</u>	<u>15,263</u>	<u>(47,706)</u>	<u>1,938,753</u>
Less accumulated depreciation for--				
Land improvements	(179,154)	-	-	(179,154)
Buildings and improvements	(1,345,378)	(27,079)	-	(1,372,457)
Equipment and furniture	(141,309)	(1,445)	47,706	(95,048)
Vehicles	(207,822)	(304)	-	(208,126)
Total accumulated depreciation	<u>(1,873,663)</u>	<u>(28,828)</u>	<u>47,706</u>	<u>(1,854,785)</u>
Total depreciable property and equipment--net	<u>97,533</u>	<u>(13,565)</u>	<u>-</u>	<u>83,968</u>
Total property and equipment--net	<u>\$ 233,030</u>	<u>\$ (13,565)</u>	<u>\$ -</u>	<u>\$ 219,465</u>

COMPONENT UNITS:

	Balance, Beginning of year	Additions	Dispositions	Balance, End of year
Nondepreciable property and equipment--				
Construction in progress	\$ 13,005,025	\$ -	\$ (13,005,025)	\$ -
Depreciable property and equipment--				
Land improvements	656,138	1,629,435	-	2,285,573
Buildings - acquisition	24,208,093	-	-	24,208,093
Buildings and improvements	11,005,927	24,361,919	-	35,367,846
Equipment	260,771	4,446,315	-	4,707,086
Total depreciable property and equipment	<u>36,130,929</u>	<u>30,437,669</u>	<u>-</u>	<u>66,568,598</u>
Less accumulated depreciation for--				
Land improvements	(2,734)	(111,546)	-	(114,280)
Buildings - acquisition	(240,872)	(692,158)	-	(933,030)
Buildings and improvements	(82,057)	(802,145)	-	(884,202)
Equipment	(28,323)	(468,555)	-	(496,878)
Total accumulated depreciation	<u>(353,986)</u>	<u>(2,074,404)</u>	<u>-</u>	<u>(2,428,390)</u>
Total depreciable property and equipment--net	<u>35,776,943</u>	<u>28,363,265</u>	<u>-</u>	<u>64,140,208</u>
Total property and equipment--net	<u>\$ 48,781,968</u>	<u>\$ 28,363,265</u>	<u>\$ (13,005,025)</u>	<u>\$ 64,140,208</u>

HOUSING AUTHORITY OF GRAYS HARBOR COUNTY

NOTES TO FINANCIAL STATEMENTS (CONT.)

December 31, 2019

NOTE 8 - LONG-TERM DEBT AND PROPERTY ACQUISITIONS:

Long-term debt at December 31, 2019 consists of the following--

a. Notes and mortgages payable--Emerson Manor project

During 2000, the Housing Authority began working on the acquisition of Emerson Manor, a 59-unit complex in Hoquiam, Washington, through the federal low-income tax credit program. On December 28, 2000, title to the property was conveyed to the Housing Authority in order to meet the requirements of the tax credit program.

At December 31, 2019, the Housing Authority's outstanding long-term debt associated with the original acquisition of the Emerson Manor project consists of an \$825,000 Housing Finance Unit promissory note through the Washington State Department of Commerce. Terms of the note, which was to mature on August 31, 2051, required 15 annual interest only payments of \$8,250, at a rate of 1% per annum, beginning September 1, 2002. Beginning September 1, 2017, 35 annual payments of \$28,054, including principal and interest at a rate of 1% per annum, were required. The note is secured by a deed of trust covering the Emerson Manor property. On June 1, 2018, the note was amended to mature on June 30, 2068 and to require annual payments of \$20,713, including principal and interest at a rate of 1% per annum.

b. Notes and mortgages payable--Riverside III project

In October 2002, the Housing Authority acquired the Riverside III apartment complex, a 20-unit complex in Aberdeen, Washington. The property was acquired by assuming the previous owner's existing mortgage from HUD. This mortgage was forgiven by HUD on October 31, 2002. The Housing Authority was also awarded two loans and a grant for the acquisition and rehabilitation of Riverside III.

At December 31, 2019, the Housing Authority's outstanding loan related to the original acquisition and rehabilitation of Riverside III is an \$887,000 Housing Finance Unit promissory note through the Washington State Department of Commerce (DOC). The note is secured by a deed of trust covering the Riverside III property. This note is provided as two separate loans as follows:

1. The first loan is a \$285,000 amortized loan. Terms of this loan, which was scheduled to mature on June 30, 2043, required quarterly payments of \$2,164, including interest at 1% per annum beginning June 30, 2003. On June 1, 2018, the note was amended to mature on June 30, 2068, requiring annual payments of \$4,877, including principal and interest at a rate of 1% per annum.
2. The second loan of \$460,500 is deferred for 40 years at zero percent interest. On June 30, 2043, provided the Housing Authority has met the terms and conditions of the Housing Finance Unit contract, the deferred loan was scheduled to convert to a full grant, and no repayment would be required. On June 1, 2018, the note was amended to mature on June 30, 2068 with the same deferral provisions.

There are several covenants included in the note requirements, including using the property strictly for low-income housing, minimum insurance requirements, and repair and maintenance of the property. At December 31, 2019, the Housing Authority was in compliance with all applicable covenants.

HOUSING AUTHORITY OF GRAYS HARBOR COUNTY

NOTES TO FINANCIAL STATEMENTS (CONT.)

December 31, 2019

NOTE 8 - LONG-TERM DEBT AND PROPERTY ACQUISITIONS (CONT.):

c. Notes and mortgages payable--Harbor Manor project

In March 2014, the Housing Authority received funding to acquire and rehabilitate Harbor Manor, a 24-unit apartment complex in Hoquiam, Washington with project-based Section 8 Housing Assistance Payments program funding. Funding for the acquisition and rehabilitation of the complex was provided by a loan from a local bank and a recoverable grant from the State of Washington, Department of Commerce, Housing Trust Fund.

At December 31, 2019, the Housing Authority's outstanding loan related to the original acquisition and rehabilitation of Harbor Manor is a Housing Trust Fund loan of \$656,000 that is a recoverable grant, with a 40-year term and a zero percent interest rate. If the Housing Authority meets the specific requirements of the contract for the commitment period ending February 28, 2054, the loan will be forgiven. If the terms of the contract are not met during the commitment period, the loan plus a proportional share of the appreciated value of the property will be due and payable to the Department of Commerce within 30 days. The loan is secured by a deed of trust on the property. On June 1, 2018, the note was amended to mature on June 30, 2068 with the same deferral provisions.

d. Notes and mortgages payable--Herman Johnson, LLLP tax credit project:

1. *Construction revenue bond* – On June 1, 2018, the Partnership entered into a loan agreement with Citibank, N.A. in principal amount of \$11,700,000 (the "Construction Loan"). The Construction Loan, with a principal balance of \$11,055,109 at December 31, 2019, bears interest at the London Inter-Bank Offered Rate (LIBOR) plus 2.45% compounded annually beginning June 1, 2018. At December 31, 2019, the interest rate was 4.67%. The Construction Loan matures on January 1, 2021, subject to the Partnership's right to extend to July 1, 2021. The note is secured by a deed of trust for the properties owned by the Partnership. For the year ended December 31, 2019, accrued interest payable on the note was \$0. The loan was paid in full in October 2020.
2. *Developer Fee Note* – Issued on June 12, 2018 and payable to the Housing Authority in connection with the acquisition and development of the properties transferred to Herman Johnson LLLP. As of December 31, 2019, the balance of the note was \$770,427. Any installment of the developer fee not paid when otherwise due shall be deferred with no interest and shall be paid from available cash flows of the Partnership in the priority set forth in the Amended and Restated Agreement of Limited Liability Limited Partnership. This note is considered to be noncurrent since repayment is subject to available cash flow of the Partnership. Any unpaid balance shall be due and payable in all events on or before December 31, 2070 or the date of liquidation of the Partnership.
3. *Sponsor note A* – The Partnership entered into a loan agreement with the Housing Authority of Grays Harbor County dated June 1, 2018 in the amount of \$3,400,000 in connection with the acquisition and development of the properties transferred to Herman Johnson LLLP. No annual payments are required on the principal or the interest that accrues at 4.00% compounded annually. This note is considered to be noncurrent as repayment is subject to available cash flows of the Partnership in the priority set forth in the Amended and Restated Agreement of Limited Liability Limited Partnership. The note shall be due and payable in all events on or before December 31, 2070. At December 31, 2019, accrued interest payable on the note was \$212,613.

HOUSING AUTHORITY OF GRAYS HARBOR COUNTY

NOTES TO FINANCIAL STATEMENTS (CONT.)

December 31, 2019

NOTE 8 - LONG-TERM DEBT AND PROPERTY ACQUISITIONS (CONT.):

d. Notes and mortgages payable--Herman Johnson, LLLP tax credit project (cont.):

4. *Sponsor note B* – The Partnership entered into a loan agreement with the Housing Authority of Grays Harbor County dated June 1, 2018 in the amount of \$1,234,000 in connection with the acquisition and development of the properties transferred to Herman Johnson LLLP. No annual payments are required on the principal or the interest that accrues at 4.00% compounded annually. This note is considered to be noncurrent as repayment is subject to available cash flows of the Partnership in the priority set forth in the Amended and Restated Agreement of Limited Liability Limited Partnership. The note shall be due and payable in all events on or before December 31, 2070. At December 31, 2019, accrued interest payable on the note was \$77,166.
5. *Sponsor note C* – The Partnership entered into a loan agreement with the Housing Authority of Grays Harbor County dated June 1, 2018 in the amount of \$833,292 in connection with the acquisition and development of the properties transferred to Herman Johnson LLLP. No annual payments are required on the principal or the interest that accrues at 4.00% compounded annually. This note is considered to be noncurrent as repayment is subject to available cash flows of the Partnership in the priority set forth in the Amended and Restated Agreement of Limited Liability Limited Partnership. The note shall be due and payable in all events on or before December 31, 2070. At December 31, 2019, accrued interest payable on the note was \$52,109.
6. *Sponsor Note D* – The Partnership entered into a loan agreement with the Housing Authority of Grays Harbor County dated June 1, 2018 in the amount of \$1,000,000 in connection with the acquisition and development of the properties transferred to Herman Johnson LLLP. No annual payments are required on the principal. No interest is charged on this note. This note is considered to be current as repayment is due on the earlier of October 1, 2021 or the day the Partnership's construction loan is fully paid, which occurred in October 2020. As a result, this note was fully paid in October 2020.

e. Notes and mortgages payable--Grays Harbor Affordable Housing Group, LLLP tax credit project:

1. *Construction revenue bond* – On June 1, 2018, the Partnership entered into a loan agreement with Citibank, N.A. in the principal amount of \$25,800,000 prior to conversion and \$6,900,000 after conversion (the "CitiBank Loan"). The CitiBank Loan bears interest at LIBOR plus 1.95% (assumed 4.45%) prior to conversion compounded annually beginning June 1, 2018, and 5.25% fixed, compounded annually after conversion. The CitiBank Loan conversion is anticipated to take place on or before January 1, 2021 and the loan matures 15 years after the initial closing (subject to one six-month extension). As of December 31, 2019, the balance of the CitiBank Loan was \$23,569,001. For the period beginning February 27, 2018 (inception and ending December 31, 2019, interest totaled \$276,227, which is capitalized to construction in progress.

HOUSING AUTHORITY OF GRAYS HARBOR COUNTY

NOTES TO FINANCIAL STATEMENTS (CONT.)

December 31, 2019

NOTE 8 - LONG-TERM DEBT AND PROPERTY ACQUISITIONS (CONT.):

e. Notes and mortgages payable--Grays Harbor Affordable Housing Group, LLLP tax credit project:
(cont.):

2. *Developer fee note* – This note was issued on June 13, 2018 and payable to the Housing Authority in connection with the acquisition and development of the properties transferred to Grays Harbor Affordable Housing Group LLLP. As of December 31, 2019, the balance of the note was \$4,743,000. Any installment of the developer fee not paid when otherwise due shall be deferred with no interest and shall be paid from available cash flows of the Partnership in the priority set forth in the Amended and Restated Agreement of Limited Liability Limited Partnership. This note is considered to be noncurrent since repayment is subject to available cash flow of the partnership. Any unpaid balance shall be due and payable in all events on or before the end of the tax credit compliance period of May 31, 2070 or the date of liquidation of the Partnership.
3. *Sponsor note A* – The Partnership entered into a loan agreement with the Housing Authority of Grays Harbor County dated June 1, 2018 in the amount of \$16,620,000 in connection with the acquisition and development of the properties transferred to Grays Harbor Affordable Housing Group LLLP. No annual payments are required on the principal or the interest that accrues at 4.00% compounded annually. This note is considered to be noncurrent as repayment is subject to available cash flows of the Partnership in the priority set forth in the Amended and Restated Agreement of Limited Liability Limited Partnership. The note shall be due and payable in all events on or before December 31, 2070. At December 31, 2019, accrued interest payable on the note was \$1,045,539.
4. *Sponsor Note G* – The Partnership entered into a loan agreement with the Housing Authority of Grays Harbor County dated June 1, 2018 in the amount of \$500,000 in connection with the acquisition and development of the properties transferred to Grays Harbor Affordable Housing Group LLLP. No annual payments are required on the principal, and no interest is charged on this note. This note is considered to be noncurrent as repayment is due on the earlier of October 1, 2021 or the day the Partnership's construction loan is fully paid.

There are several covenants included in the note requirements, including using the property strictly for low-income housing, minimum insurance requirements, and repair and maintenance of the property. At December 31, 2019, the Housing Authority was in compliance with all applicable covenants.

Federal arbitrage regulations are not applicable to any of the Housing Authority's or the component units' debts.

HOUSING AUTHORITY OF GRAYS HARBOR COUNTY
NOTES TO FINANCIAL STATEMENTS (CONT.)
December 31, 2019

NOTE 8 - LONG-TERM DEBT AND PROPERTY ACQUISITIONS (CONT.):

Long-term debt activity for the year ended December 31, 2019 is summarized as follows--

PRIMARY GOVERNMENT:

	Balance, Beginning of Year	Additions	Retirements	Balance, End of Year	Amounts Due Within One Year
DOC amortized note payable--Riverside III	\$ 191,166	\$ -	\$ (2,966)	\$ 188,200	\$ 2,995
DOC deferred note payable--Riverside III	460,500	-	-	460,500	-
DOC deferred note payable--Harbor Manor	656,000	-	-	656,000	-
DOC note payable--Emerson Manor	811,858	-	(12,595)	799,263	12,720
Total long-term debt--primary government	\$ 2,119,524	\$ -	\$ (15,561)	\$ 2,103,963	\$ 15,715
Less discount on long-term debt	(143,537)	-	2,900	(140,637)	-
Net long-term debt	<u>\$ 1,975,987</u>	<u>\$ -</u>	<u>\$ (12,661)</u>	<u>\$ 1,963,326</u>	<u>\$ 15,715</u>

Net pension liability activity for the year ended
December 31, 2019 is as follows--

	<u>\$ 460,561</u>	<u>\$ -</u>	<u>\$ (121,484)</u>	<u>\$ 339,077</u>	<u>\$ -</u>
--	-------------------	-------------	---------------------	-------------------	-------------

COMPONENT UNITS:

	Balance, Beginning of Year	Additions	Retirements	Balance, End of Year	Amounts Due Within One Year
<u>Construction revenue bonds:</u>					
Herman Johnson LLLP	\$ 7,616,774	\$ 3,438,335	\$ -	\$ 11,055,109	\$ 11,055,109
Grays Harbor Affordable Housing Group LLLP	6,066,278	\$ 17,502,723	\$ -	\$ 23,569,001	\$ 3,500,000
Total construction revenue bonds	<u>13,683,052</u>	<u>20,941,058</u>	<u>-</u>	<u>34,624,110</u>	<u>14,555,109</u>

Intergovernmental loans:

Herman Johnson LLLP:

Developer fee note	\$ 770,427	\$ -	\$ -	\$ 770,427	\$ 512,765
Sponsor note A	3,400,000	-	-	3,400,000	-
Sponsor note B	1,234,000	-	-	1,234,000	-
Sponsor note C	833,292	-	-	833,292	-
Sponsor note D	1,000,000	-	-	1,000,000	1,000,000

Grays Harbor Affordable Housing Group LLLP:

Developer fee note	\$ 1,736,650	\$ 3,006,350	\$ -	\$ 4,743,000	\$ -
Sponsor note A	16,620,000	-	-	16,620,000	-
Sponsor note G	500,000	-	-	500,000	-
Total intergovernmental loans	<u>26,094,369</u>	<u>3,006,350</u>	<u>-</u>	<u>29,100,719</u>	<u>1,512,765</u>

Total long-term debt before issuance costs	39,777,421	23,947,408	-	63,724,829	16,067,874
--	------------	------------	---	------------	------------

Less debt issuance costs	(176,030)	(253,392)	11,736	(417,686)	-
--------------------------	-----------	-----------	--------	-----------	---

Total long-term debt	<u>\$ 39,601,391</u>	<u>\$ 23,694,016</u>	<u>\$ 11,736</u>	<u>\$ 63,307,143</u>	<u>\$ 16,067,874</u>
----------------------	----------------------	----------------------	------------------	----------------------	----------------------

Accrued interest payable--long-term	<u>\$ 484,554</u>	<u>\$ 902,873</u>	<u>\$ -</u>	<u>\$ 1,387,427</u>	<u>\$ -</u>
-------------------------------------	-------------------	-------------------	-------------	---------------------	-------------

HOUSING AUTHORITY OF GRAYS HARBOR COUNTY
NOTES TO FINANCIAL STATEMENTS (CONT.)
December 31, 2019

NOTE 8 - LONG-TERM DEBT AND PROPERTY ACQUISITIONS (CONT.):

The annual debt service requirements to maturity for long-term debt as of December 31, 2019 are as follows--

	PRIMARY GOVERNMENT		COMPONENT UNITS	
	Principal	Interest	Principal	Interest
2020	\$ 15,715	\$ 9,878	\$ 16,712,765	\$ 1,001,037
2021	15,872	9,717	17,899,108	867,662
2022	16,031	9,559	405,787	357,094
2023	16,191	9,398	342,351	421,913
2024	16,353	9,237	305,035	452,806
2025 - 2029	84,253	43,697	499,016	3,183,563
2030 - 2034	88,550	39,399	627,160	2,688,714
2035 - 2039	93,067	34,882	814,952	1,609,014
2040 - 2044	97,815	30,135	1,058,975	1,096,902
2045 - 2049	102,804	25,145	1,376,066	779,810
2050 - 2054	108,048	19,901	1,788,104	367,772
2055 - 2059	113,560	14,389	453,109	13,998
2060 - 2064	119,353	8,597	-	-
5065 - 2069	99,851	2,509	-	-
2069 - 2073	-	-	5,467,292	13,907,253
Totals	<u>\$ 987,463</u>	<u>* \$ 266,443</u>	<u>\$ 47,749,720</u>	<u>\$ 26,747,538</u>

* The primary government's total principal consists of the following--

Total long-term debt at December 31, 2019 from above	\$ 2,103,963
Less Riverside III and Harbor Manor's DOC deferred notes payable--	
No debt service requirements	<u>(1,116,500)</u>
Total principal debt service requirements--primary government	<u>\$ 987,463</u>

NOTE 9 - PENSION PLANS:

The following table represents the aggregate pension amounts for all plans subject to the requirements of GASB Statement 68, *Accounting and Financial Reporting for Pensions* for the year 2019:

Aggregate Pension Amounts – All Plans	
Pension liabilities	\$ (339,077)
Deferred outflows of resources	\$ 78,376
Deferred inflows of resources	\$ (241,603)
Pension expense/expenditures	\$ (12,515)

State Sponsored Pension Plans

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

HOUSING AUTHORITY OF GRAYS HARBOR COUNTY
NOTES TO FINANCIAL STATEMENTS (CONT.)
December 31, 2019

NOTE 9 – PENSION PLANS (CONT.):

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.

HOUSING AUTHORITY OF GRAYS HARBOR COUNTY
NOTES TO FINANCIAL STATEMENTS (CONT.)
December 31, 2019

NOTE 9 - PENSION PLANS (CONT.):

The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2019 were as follows:

PERS Plan 1		
Actual Contribution Rates:	Employer	Employee
January - June 2019:		
PERS Plan 1	7.52%	6.00%
PERS Plan 1 UAAL	5.13%	
Administrative Fee	0.18%	
Total	12.83%	6.00%
July – December 2019:		
PERS Plan 1	7.92%	6.00%
PERS Plan 1 UAAL	4.76%	
Administrative Fee	0.18%	
Total	12.86%	6.00%

The Housing Authority's actual contributions to the plan were \$43,407 for the year ended December 31, 2019.

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.

HOUSING AUTHORITY OF GRAYS HARBOR COUNTY
NOTES TO FINANCIAL STATEMENTS (CONT.)
December 31, 2019

NOTE 9 - PENSION PLANS (CONT.):
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 2019 were as follows:

PERS Plan 2/3		
Actual Contribution Rates:	Employer 2/3	Employee 2 only
January - June 2019:		
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%
July – December 2019:		
PERS Plan 2/3	7.92%	7.90%
PERS Plan 1 UAAL	4.76%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
Total	12.86%	7.90%

The Housing Authority's actual contributions to the plan were \$67,203 for the year ended December 31, 2019.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2019 with a valuation date of June 30, 2018. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study* and the *2017 Economic Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2018 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2019. Plan liabilities were rolled forward from June 30, 2018 to June 30, 2019, 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%

HOUSING AUTHORITY OF GRAYS HARBOR COUNTY
NOTES TO FINANCIAL STATEMENTS (CONT.)
December 31, 2019

NOTE 9 - PENSION PLANS (CONT.):

Mortality rates were based on the RP-2000 report's Combined Healthy Table and Combined Disabled Table, published by the Society of Actuaries. The OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

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

- OSA updated modeling to reflect providing benefit payments to the date of the initial retirement eligibility for terminated vested members who delay application for retirement benefits.
- OSA updated COLA programming to reflect legislation signed during the 2018 legislative session that provides PERS and TRS Plan 1 annuitants who are not receiving a basic minimum, alternate minimum, or temporary disability benefit with a one-time permanent 1.5% increase to their monthly retirement benefit, not to exceed a maximum of \$62.50 per month.

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.4 percent to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.5 percent except LEOFF 2). 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 employers, whose rates include a component for the PERS 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 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.

HOUSING AUTHORITY OF GRAYS HARBOR COUNTY
NOTES TO FINANCIAL STATEMENTS (CONT.)
December 31, 2019

NOTE 9 - PENSION PLANS (CONT.):

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	2.20%
Tangible Assets	7%	5.10%
Real Estate	18%	5.80%
Global Equity	32%	6.30%
Private Equity	23%	9.30%
	100%	

Sensitivity of NPL

The table below presents the Housing Authority's proportionate share of the net pension liability calculated using the discount rate of 7.4 percent, as well as what the Housing Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.4 percent) or 1-percentage point higher (8.4 percent) than the current rate.

	1% Decrease (6.4%)	Current Discount Rate (7.4%)	1% Increase (8.4%)
PERS 1	\$ 320,190	\$ 255,678	\$ 199,705
PERS 2/3	\$ 639,639	\$ 83,399	\$ (373,032)

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 December 31, 2019, the Housing Authority reported a total pension liability of \$339,077 for its proportionate share of the net pension liabilities as follows:

	Liability
PERS 1	\$ 255,678
PERS 2/3	\$ 83,399

At June 30, 2019, the Housing Authority's proportionate share of the collective net pension liabilities was as follows:

	Proportionate Share 6/30/18	Proportionate Share 6/30/19	Change in Proportion
PERS 1	0.006918%	0.006649%	(0.000269)%
PERS 2/3	0.008879%	0.008586%	(0.000293)%

HOUSING AUTHORITY OF GRAYS HARBOR COUNTY

NOTES TO FINANCIAL STATEMENTS (CONT.)

December 31, 2019

NOTE 9 - PENSION PLANS (CONT.):

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 both PERS Plan 1 and PERS Plan 2/3.

The collective net pension liability (asset) was measured as of June 30, 2019, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2018, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended December 31, 2019, the Housing Authority recognized pension expense as follows:

	Housing Authority Contributions to Pension Plans – Pension Expense	Proportionate Share of Collective Pension Expense	Total Pension Expense
PERS 1	\$ 43,407	\$ (44,207)	\$ (800)
PERS 2/3	\$ 67,203	\$ (78,918)	\$ (11,715)
TOTAL	\$ 110,610	\$ (123,125)	\$ (12,515)

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2019, the Housing 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	\$ -	\$ (17,081)
Changes of assumptions	\$ -	\$ -
Changes in proportion and differences between contributions and proportionate share of contributions	\$ -	\$ -
Contributions subsequent to the measurement date	\$ 19,779	\$ -
TOTAL	\$ 19,779	\$ (17,081)

Deferred outflows of resources related to pensions resulting from the Housing Authority's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2020. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

HOUSING AUTHORITY OF GRAYS HARBOR COUNTY
NOTES TO FINANCIAL STATEMENTS (CONT.)
December 31, 2019

NOTE 9 - PENSION PLANS (CONT.):

Year ended December 31:	PERS 1
2020	\$ (3,771)
2021	\$ (8,932)
2022	\$ (3,187)
2023	\$ (1,191)
2024	\$ -
Thereafter	\$ -

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 23,894	\$ (17,930)
Net difference between projected and actual investment earnings on pension plan investments	\$ -	\$ (121,395)
Changes of assumptions	\$ 2,136	\$ (34,992)
Changes in proportion and differences between contributions and proportionate share of contributions	\$ -	\$ (50,204)
Contributions subsequent to the measurement date	\$ 32,567	\$ -
TOTAL	\$ 58,597	\$ (224,522)

Deferred outflows of resources related to pensions resulting from the Housing Authority's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2020. 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 2
2020	\$ (49,590)
2021	\$ (71,753)
2022	\$ (37,080)
2023	\$ (24,236)
2024	\$ (13,951)
Thereafter	\$ (1,882)

NOTE 10 - RISK RETENTION POOLS:

The Housing Authority of Grays Harbor County is a member of the Housing Authorities' Risk Retention Pool (HARRP). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provision for Chapter 39.34 RCW, the Interlocal Cooperation Act. HARRP was formed on February 1, 1987 when housing authorities in states now including Washington, Oregon, California, and Nevada joined together by signing an Intergovernmental Cooperation Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. At December 31, 2019, there were 83 member public

HOUSING AUTHORITY OF GRAYS HARBOR COUNTY

NOTES TO FINANCIAL STATEMENTS (CONT.)

December 31, 2019

NOTE 10 - RISK RETENTION POOLS (CONT.):

housing authorities in the Pool, which is governed by a Board of Directors comprised of nine members--three from Washington, three from Oregon, and three from California. The directors are elected at the annual members' meeting to three classes in staggered terms of three years.

The Pool allows members to jointly purchase insurance coverage, establish a plan of self-insurance, and provide related services for its members. The Pool provides property, general liability, employment practices, public officers' errors and omissions coverage, and automobile liability coverage on an "occurrence" basis.

On April 1, 2011, HARRP launched the Affordable Housing Risk Pool (AHRP), under the authority of the ORWACA Agency Insurance Services, Inc, designed to accommodate Low Income Housing Tax Credit partnerships and affordable housing non-profits, which HARRP is unable to insure. The terms of coverage and coverage limits are similar to HARRP.

Members make an annual contribution to fund HARRP/AHRP. HARRP/AHRP acquires insurance from unrelated underwriters that are subject to a per occurrence deductible of \$0-\$500 for automobile claims, \$2,500 to 10% of the claim for employment practices claims and from \$1,000 to \$25,000 for property claims. The deductible for the public officers' errors and omissions coverage is 10%, with a minimum of \$2,500. The general liability policies have no deductibles. Property claims have deductibles of \$2,500 to 10% of the claim per occurrence.

Insurance carriers cover all losses over the deductible to the maximum limits of each policy. Since HARRP and AHRP are cooperative programs, there is a joint liability among the participating members. Each new member pays HARRP/AHRP a non-refundable membership fee. HARRP/AHRP is fully funded by its members, and claims are filed directly with each Pool's administrator.

HARRP/AHRP establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses. There have been no insurance settlements in any of the past three years that exceeded insurance coverage.

The following represents changes in liabilities for HARRP during the years ended December 31, 2019 and 2018--

	<u>2019</u>	<u>2018</u>
Losses and loss adjustment expense reserves, beginning of year	<u>\$ 9,214,645</u>	<u>\$ 6,745,317</u>
Incurred losses and loss adjustment expenses--		
Provision for covered events of the current year	6,359,880	8,922,332
Increase (decrease) in provision for covered events of the prior year	<u>(361,014)</u>	<u>170,646</u>
Total incurred losses and loss adjustment expenses	<u>5,998,866</u>	<u>9,092,978</u>
Payments--		
Losses and loss adjustment expenses attributable to covered events of the current year	2,456,210	2,238,337
Losses and loss adjustment expenses attributable to covered events of the prior year	<u>6,628,663</u>	<u>4,385,313</u>
Total payments	<u>9,084,873</u>	<u>6,623,650</u>
Loss and loss adjustment expense reserves, end of year	<u>\$ 6,128,638</u>	<u>\$ 9,214,645</u>

HOUSING AUTHORITY OF GRAYS HARBOR COUNTY

NOTES TO FINANCIAL STATEMENTS (CONT.)

December 31, 2019

NOTE 10 - RISK RETENTION POOLS (CONT.):

The following represents changes in liabilities for AHRP during the years ended December 31, 2019 and 2018--

	<u>2019</u>	<u>2018</u>
Losses and loss adjustment expense reserves, beginning of year	\$ 3,395,863	\$ 1,334,329
Incurred losses and loss adjustment expenses--		
Provision for covered events of the current year	2,217,298	3,731,685
Decrease in provision for covered events of the prior year	<u>645,261</u>	<u>(700,026)</u>
Total incurred losses and loss adjustment expenses	<u>2,862,559</u>	<u>3,031,659</u>
Payments--		
Losses and loss adjustment expenses attributable to covered events of the current year	1,041,907	896,693
Losses and loss adjustment expenses attributable to covered events of the prior year	<u>2,819,767</u>	<u>73,432</u>
Total payments	<u>3,861,674</u>	<u>970,125</u>
 Loss and loss adjustment expense reserves, end of year	 <u>\$ 2,396,748</u>	 <u>\$ 3,395,863</u>

In 2019 and 2018, the HARRP and AHRP unpaid losses and loss adjustment expenses were estimated based upon a consulting actuary's study. A contingency margin has not been included in the estimation of unpaid losses at December 31, 2019 and 2018.

NOTE 11 - CONTRACTS AND AGREEMENTS:

a. Property management agreements—Herman Johnson LLLP projects

In May 2018, the Housing Authority, as general manager of Herman Johnson LLLP, entered into two agreements with a property management company to provide property management services for each of the LLLP's housing projects beginning on June 1, 2018. Under the terms of the management agreements, the property management company is responsible for leasing and managing the property, including tenant selection, collection of rents and other receipts, payment of operating expenses, maintenance and repair of the properties and accounting for each property's operations. Maintenance of the property is performed by Housing Authority employees. In exchange for these services, the LLLP pays the property management company 7 percent of the monthly gross collected income from each project, or \$40.28 per unit, whichever is greater, and also reimburses the company for the payroll costs and related payroll taxes for specified employees of the company. The Agreements each have an initial term of two years and shall be renewed automatically thereafter for successive additional terms of two years each.

b. Property management agreements—Grays Harbor Affordable Housing Group LLLP projects

In May 2018, the Housing Authority, as general manager of Grays Harbor Affordable Housing Group LLLP, entered into eight agreements with a property management company to provide property management services for each of the LLLP's housing projects beginning on June 1, 2018. Under the terms of the management agreements, the property management company is responsible for leasing and managing the property, including tenant selection, collection of rents and other receipts, payment of operating expenses, maintenance and repair of the properties and accounting for each property's operations. Maintenance of the property is performed by Housing Authority employees. In exchange for these services, the LLLP pays the property management company 7 percent of the monthly gross collected income from each project, or \$40.28 per unit, whichever is greater, and also reimburses the company for the payroll costs and related payroll taxes for specified employees of the company. The Agreements each have an initial term of two years and shall be renewed automatically thereafter for successive additional terms of two years each.

HOUSING AUTHORITY OF GRAYS HARBOR COUNTY
NOTES TO FINANCIAL STATEMENTS (CONT.)
December 31, 2019

NOTE 11 - CONTRACTS AND AGREEMENTS(CONT.):

c. Rehabilitation contracts

Both component units entered into rehabilitation contracts with a construction company. Grays Harbor Affordable Housing Group, LLLP entered into an additional contract with another construction company for some specialized work. Pursuant to the terms of these contracts, the Partnerships may withhold a percentage of the total costs completed to date as a retainage until the work is substantially complete. For Herman Johnson, LLLP, at December 31, 2019, construction was completed, and only retainage payable of \$400,957 was due to its contractor. For Grays Harbor Affordable Housing Group, LLLP, at December 31, 2019, construction payable to its contractors was \$734,111, and retainage payable was \$978,552. All of these payable amounts are included in the Component Units' accounts payable at December 31, 2019.

NOTE 12 - COMPONENT UNITS:

In June 2018, the Authority entered into two tax credit partnerships as the general partner. These partnerships are accounted for as discretely presented component units, as described in Note 1c.

The Partnerships were formed to develop and provide low-income housing as tax credit projects through acquisition and remodel of units that were previously owned by the Authority either through the Section 8 Housing Assistance Payments Program or through the Low Rent RAD conversion program. The tax credit program allows investors certain tax incentives under Section 42 of the Internal Revenue Code for investing in low-income housing and to deduct any losses that pass through to them from the partnerships. The tax code requires that the buildings continue to serve the targeted low-income population for 15 years. The Authority has the option to purchase these projects at the expiration of this compliance period.

The Authority serves as the developer for these projects and collects a development fee. A portion of that fee is paid in cash at the completion of the work from installments of equity payments, and the balance is deferred and paid from operating cash flows over a period of approximately 15 years.

a. Herman Johnson LLLP

This Partnership was formed January 10, 2017 for the purpose of acquiring, developing, leasing, operating and managing the Aberdeen Manor and Skyview Manor apartments. The Housing Authority of Grays Harbor County is the general partner, with a 0.009% share of the ownership; the limited partner is RBC-Grays Harbor, LLC, with ownership of 99.99%; and the special limited partner is RBC Tax Credit Manager III, Inc., with ownership of 0.001%.

Pursuant to the Partnership Agreement, profits, losses, and credits are generally allocated 0.009% to the General Partner, 0.001% to the Special Limited Partner, 99.99% to the Limited Partner, and are subject to IRC Section 704(b) and other special allocations. Pursuant to the terms of the Partnership Agreement, the General Partner, Special Limited Partner, and Limited Partner are required to make capital contributions totaling \$100, \$10, and \$15,453,567, respectively, subject to potential adjustments based on the amount of low-income housing tax credits ultimately allocated to the Project in addition to other potential occurrences as more fully explained in the Partnership Agreement. As of December 31, 2019, the General Partner, the Special Limited Partner, and the Limited Partner had contributed \$100, \$0, and \$2,022,469, respectively.

The rehabilitation of Aberdeen Manor and Skyview Manor apartments, comprised of 160 units, was completed on December 31, 2018. Funding was provided by Low-Income Housing Tax Credits, the Washington State Housing Trust Fund and CitiBank.

HOUSING AUTHORITY OF GRAYS HARBOR COUNTY

NOTES TO FINANCIAL STATEMENTS (CONT.)

December 31, 2019

NOTE 12 - COMPONENT UNITS (CONT.):

The Housing Authority holds legal title to the properties, and on June 1, 2018, a financing lease agreement was entered into between the Authority and Herman Johnson, LLLP. This lease allows the limited partnership to be the owner of the buildings for federal income tax purposes and gives it an equity interest in all improvements to the properties plus debt service payments. Under the terms of the lease agreement, the Housing Authority retains ownership of the land associated with the properties. For the lease of the buildings, the Partnership made an up front lease payment of \$7,500,000 for the use of the buildings for the 100-year lease term.

Pursuant to the Lease Agreement, the Partnership shall pay to the Housing Authority \$1 per year, commencing on January 2, 2019, for the use of the land. Any unpaid portion of land rent shall be deferred and accrue interest at the rate of 3.05% per annum, compounded annually. For the year ended December 31, 2019, lease expense was \$0.

The properties derive revenue primarily from rent charged to tenants and rental assistance provided by contracts with HUD. The Authority has hired a property management company to manage the properties (See Note 11).

Pursuant to the Development Agreement for Herman Johnson LLLP, the Authority is entitled to a developer fee in the amount of \$920,427, all of which had been earned as of December 31, 2018. As of December 31, 2019, the developer fee payable to the Authority is \$770,427. Any developer fee not paid by the fourth installment of the Limited Partner's capital contribution will be paid from available cash flow as defined in the Partnership Agreement for Herman Johnson, LLLP and will bear no interest. The unpaid balance of the developer fee must be paid in full by May 31, 2033.

The Partnership entered into an agreement (the "Asset Management Agreement") with RBC Tax Credit Equity, LLC. Pursuant to the Asset Management Agreement, the Partnership will pay RBC Tax Credit Equity, LLC or its Affiliate an annual asset management fee of \$5,000, increasing by 3% per annum commencing upon the Initial Closing. As of December 31, 2019, the asset management fee was \$5,150.

b. Grays Harbor Affordable Housing Group, LLLP

This Partnership was formed February 22, 2018 for the purpose of acquiring, developing, leasing, operating and managing the Emerson Court, Hoquiam Manor, Pacific Court, Broadway Manor, Elma Manor, Emerson Manor, Riverside III, and Harbor Manor houses and apartments. The Housing Authority of Grays Harbor County is the general partner, with a 0.009% share of the ownership; the limited partner is RBC-Grays Harbor, LLC, with ownership of 99.99%; and the special limited partner is RBC Tax Credit Manager III, Inc., with ownership of 0.001%.

Pursuant to the Partnership Agreement, profits, losses, and credits, are generally allocated 0.009% to the General Partner, 0.001% to the Special Limited Partner, 99.99% to the Limited Partner, subject to IRC Section 704(b) and other special allocations.

Pursuant to the Partnership Agreement, the General Partner is required to make total capital contributions to the Partnership of \$100. The General Partner provided the required capital contributions of \$100 by December 31, 2018.

Pursuant to the Partnership Agreement, the Limited Partner is required to make total capital contributions to the Partnership of \$17,502,640. These contributions are subject to potential adjustments based on the amount of low-income housing tax credits ultimately allocated to the

HOUSING AUTHORITY OF GRAYS HARBOR COUNTY
NOTES TO FINANCIAL STATEMENTS (CONT.)
December 31, 2019

NOTE 12 - COMPONENT UNITS (CONT.):

Project in addition to other potential occurrences. As of December 31, 2019, the Limited Partner has provided cumulative capital contributions of \$1,000,000.

Pursuant to the Partnership Agreement, the Special Limited Partner is required to make a capital contribution to the Partnership of \$10. As of December 31, 2019, the Special Limited Partner has provided cumulative capital contributions of \$0.

The Emerson Court, Hoquiam Manor, Pacific Court, Broadway Manor, Elma Manor, Emerson Manor, Riverside III, and Harbor Manor projects, comprised of 235 units, was completed on December 31, 2018. Funding was provided by Low-Income Housing Tax Credits, the Washington State Housing Trust Fund and CitiBank.

The Housing Authority holds legal title to the properties, and on June 1, 2018, a financing lease agreement was entered into between the Authority and Grays Harbor Affordable Housing Group LLLP. This lease allows the limited partnership to be the owner of the buildings for federal income tax purposes and gives it an equity interest in all improvements to the buildings plus debt service payments. Under the terms of the lease, the Housing Authority retains ownership of the land associated with the properties.

The Partnership entered into a lease agreement (the "Land Lease") with the Housing Authority for the land. Pursuant to the Land Lease, the Partnership pays \$11,000 per annum for an exclusive right to the land for up to 50 years and, thereafter \$1 per year. The Land Lease has an initial term of 99 years.

The properties derive revenue primarily from rent charged to tenants and rental assistance provided by contracts with HUD. The Authority has hired a property management company to manage the properties (See Note 11).

Pursuant to the Development Agreement for Grays Harbor Affordable Housing Group LLLP, the Authority is entitled to a developer fee in the amount of \$5,093,350, all of which has been earned as of December 31, 2019. As of December 31, 2019, the developer fee payable to the Authority is \$4,743,000. Any developer fee not paid by the fourth installment of the Limited Partner's capital contribution will be paid from available cash flow, as defined in the Partnership Agreement for Grays Harbor Affordable Housing Group, LLLP and will bear no interest. The unpaid balance of the development fee must be paid in full by May 31, 2033.

The Partnership also entered into an agreement (the "Asset Management Agreement") with RBC Tax Credit Equity, LLC. Pursuant to the Asset Management Agreement, the Partnership will pay RBC Tax Credit Equity, LLC or its Affiliate an annual asset management fee of \$7,500, increasing by 3% per annum commencing upon the Initial Closing. As of December 31, 2019, the asset management fee was \$7,725.

NOTE 13 – CONTINGENCIES AND LITIGATION:

The Housing Authority is party to various legal proceedings during the year, which normally occur in housing authority operations. These legal proceedings have historically been resolved in the Housing Authority's favor, and future legal proceedings are not likely to have a material adverse impact on the affected funds of the Housing Authority. Also, the Housing Authority is covered against litigation through the Housing Authorities' Risk Retention Pool, and the Limited Partnership is covered against litigation through the Affordable Housing Risk Pool, as discussed in Note 10.

HOUSING AUTHORITY OF GRAYS HARBOR COUNTY

NOTES TO FINANCIAL STATEMENTS (CONT.)

December 31, 2019

NOTE 13 – CONTINGENCIES AND LITIGATION (CONT.):

At December 31, 2019, the Housing Authority was not aware of any pending or threatened litigation or other contingent liabilities that are required to be accrued or disclosed in the financial statements.

NOTE 14 – LOW-INCOME HOUSING TAX CREDITS:

The component units expect to generate a certain amount of federal low-income housing tax credits. Generally, such tax credits become available for use by each partnership's partners pro-rata over a ten-year period, which began in 2018 for Herman Johnson LLLP and partial credits in 2018 for Grays Harbor Affordable Housing Group LLLP, with the remaining credits beginning in 2019. The year in which the credit period begins is determined on a building-by-building basis within each Partnership. In order to qualify for these credits, the Project must comply with various federal and state requirements. These requirements include, but are not limited to, renting to low-income tenants at rental rates which do not exceed specified percentages of area median gross income for the first 15 years of operation. The Partnerships have also agreed with the Washington State Housing Finance Commission to maintain and operate the Projects as low-income housing for an additional 22 years beyond the initial 15-year compliance period. Because the tax credits are subject to compliance with certain requirements, there can be no assurance that the aggregate amount of tax credits will be realized, and failure to meet all such requirements or to correct noncompliance within a specified time period may result in generating a lesser amount of tax credits than expected in future years, and/or recapture of tax credits previously allocated. A reduction of future credits or recapture would require credit deficit payments to the Limited Partners under the terms of the Partnership Agreements.

The Herman Johnson LLLP and Grays Harbor Affordable Housing Group LLLP annual tax credits for each year of the compliance period is anticipated to be as follows for the years ending December 31:

<u>Year</u>	<u>HERMAN JOHNSON</u>	<u>GHAHG</u>
2018	\$ 800,636	\$ 155,435
2019	1,626,854	1,799,478
2020	1,626,854	1,799,478
2021	1,626,854	1,799,478
2022	1,626,854	1,799,478
2023	1,626,854	1,799,478
2024	1,626,854	1,799,478
2025	1,626,854	1,799,478
2026	1,626,854	1,799,478
2027	1,626,854	1,799,478
2028	826,218	1,644,043
Totals	<u>\$ 16,268,540</u>	<u>\$ 17,994,780</u>

NOTE 15 – SUBSEQUENT EVENTS:

In February 2020, the Governor of the State of Washington declared a state of emergency in response to the spread of a deadly new virus, the novel strain of coronavirus (COVID-19). In the weeks following the declaration, precautionary measures to slow the spread of the virus have been ordered. These measures include closing schools, colleges and universities, cancelling public events, prohibiting public and private gatherings, and requiring people to stay home unless they are leaving for an essential function. The extent of the impact of COVID-19 on the Housing Authority's and Component Units' operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, and impact on tenants, employees and vendors, all of which are uncertain and cannot be determined at this time.

REQUIRED SUPPLEMENTARY INFORMATION

HOUSING AUTHORITY OF GRAYS HARBOR COUNTY SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY PUBLIC EMPLOYEES' RETIREMENT SYSTEM PLAN 1

As of June 30, 2019
Last 10 Fiscal Years*

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Employer's proportion of the net pension liability (asset)	0.009100%	0.008022%	0.007541%	0.006918%	0.006649%					
Employer's proportionate share of the net pension liability	\$ 476,015	\$ 430,819	\$ 357,826	\$ 308,960	\$ 255,678					
Employer's covered employee payroll	\$ 1,042,885	\$ 961,002	\$ 951,019	\$ 921,430	\$ 933,263					
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	45.64%	44.83%	37.63%	33.53%	27.40%					
Plan fiduciary net position as a percentage of the total pension liability	89.20%	85.82%	90.97%	90.97%	67.12%					

Notes to Schedule:

Note 1

The Housing Authority does not currently have any employees who are members of PERS Plan 1. However, the Housing Authority is responsible for its proportionate share of the PERS Plan 1 unfunded actuarial accrued liability (UAAL). The Washington State Department of Retirement Systems assesses a fee based on all covered payroll for PERS Plan 2/3 to assist in funding the UAAL.

Note 2

This schedule is intended to provide 10 years of historical data. Until a full 10-year trend is compiled, information is presented only for those years for which information is available.

REQUIRED SUPPLEMENTARY INFORMATION

HOUSING AUTHORITY OF GRAYS HARBOR COUNTY SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY PUBLIC EMPLOYEES' RETIREMENT SYSTEM PLANS 2 & 3

As of June 30, 2019
Last 10 Fiscal Years*

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Employer's proportion of the net pension liability (asset)	0.011752%	0.010277%	0.009700%	0.008879%	0.008586%					
Employer's proportionate share of the net pension liability	\$ 419,906	\$ 517,439	\$ 337,029	\$ 151,601	\$ 83,399					
Employer's covered employee payroll	\$ 1,042,885	\$ 961,002	\$ 951,019	\$ 921,430	\$ 933,263					
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	40.26%	53.84%	35.44%	16.45%	8.94%					
Plan fiduciary net position as a percentage of the total pension liability	89.20%	85.82%	90.97%	90.97%	97.77%					

Notes to Schedule:

Note 1

This schedule is intended to provide 10 years of historical data. Until a full 10-year trend is compiled, information is presented only for those years for which information is available.

REQUIRED SUPPLEMENTARY INFORMATION

HOUSING AUTHORITY OF GRAYS HARBOR COUNTY SCHEDULE OF EMPLOYER CONTRIBUTIONS PUBLIC EMPLOYEES' RETIREMENT SYSTEM PLAN 1 As of December 31, 2019 Last 10 Fiscal Years*

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Statutorily or contractually required contributions	\$ 42,049	\$ 45,735	\$ 46,724	\$ 46,238	\$ 43,407					
Contributions in relation to the statutorily or contractually required contributions	\$ (42,049)	\$ (45,735)	\$ (46,724)	\$ (46,238)	\$ (43,407)					
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -					
Covered employer payroll	\$ 980,046	\$ 958,809	\$ 955,540	\$ 913,770	\$ 873,484					
Contributions as a percentage of covered employee payroll	4.29%	4.77%	4.89%	5.06%	4.97%					

Notes to Schedule:

Note 1

The Housing Authority does not currently have any employees who are members of PERS Plan 1. However, the Housing Authority is responsible for its proportionate share of the PERS Plan 1 unfunded actuarial accrued liability (UAAL). The Washington State Department of Retirement Systems assesses a fee based on all covered payroll for PERS Plan 2/3 to assist in funding the UAAL.

Note 2

This schedule is intended to provide 10 years of historical data. Until a full 10-year trend is compiled, information is presented only for those years for which information is available.

REQUIRED SUPPLEMENTARY INFORMATION

HOUSING AUTHORITY OF GRAY'S HARBOR COUNTY

**SCHEDULE OF EMPLOYER CONTRIBUTIONS
PUBLIC EMPLOYEES' RETIREMENT SYSTEM PLANS 2 & 3**

As of December 31, 2019

Last 10 Fiscal Years*

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Statutorily or contractually required contributions	\$ 53,880	\$ 59,734	\$ 65,079	\$ 68,524	\$ 67,203					
Contributions in relation to the statutorily or contractually required contributions	\$ (53,880)	\$ (59,734)	\$ (65,079)	\$ (68,524)	\$ (67,203)					
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -					
Covered employer payroll	\$ 980,046	\$ 958,809	\$ 955,540	\$ 913,770	\$ 873,484					
Contributions as a percentage of covered employee payroll	5.50%	6.23%	6.81%	7.50%	7.69%					

Notes to Schedule:

Note 1

This schedule is intended to provide 10 years of historical data. Until a full 10-year trend is compiled, information is presented only for those years for which information is available.

HA Of Grays Harbor County (WA018)
Aberdeen, WA

Entity Wide Balance Sheet Summary

Submission Type: Audited/Single Audit

Fiscal Year End: 12/31/2019

	Project Total	6.1 Component Unit - Discreetly Presented	1 Business Activities	14.195 Section 8 Housing Assistance Program, Special Allocations	14.871 Housing Choice Vouchers	Subtotal	Total
111 Cash - Unrestricted	\$124,441	\$1,070,922	\$725,112		\$206,504	\$2,126,979	\$2,126,979
112 Cash - Restricted - Modernization and Development		\$735,894	\$3,500,000			\$4,235,894	\$4,235,894
113 Cash - Other Restricted					\$198,722	\$198,722	\$198,722
114 Cash - Tenant Security Deposits	\$2,926	\$102,077				\$105,003	\$105,003
115 Cash - Restricted for Payment of Current Liabilities							
100 Total Cash	\$127,367	\$1,908,893	\$4,225,112	\$0	\$405,226	\$6,666,598	\$6,666,598
121 Accounts Receivable - PHA Projects					\$825	\$825	\$825
122 Accounts Receivable - HUD Other Projects	\$8,300	\$8,696				\$16,996	\$16,996
124 Accounts Receivable - Other Government							
125 Accounts Receivable - Miscellaneous	\$0	\$16,506	\$100			\$16,606	\$16,606
126 Accounts Receivable - Tenants	\$1,130	\$20,432				\$21,562	\$21,562
126.1 Allowance for Doubtful Accounts - Tenants	\$0	\$0				\$0	\$0
126.2 Allowance for Doubtful Accounts - Other	\$0	\$0	\$0		\$0	\$0	\$0
127 Notes, Loans, & Mortgages Receivable - Current			\$1,512,765			\$1,512,765	\$1,512,765
128 Fraud Recovery					\$4,448	\$4,448	\$4,448
128.1 Allowance for Doubtful Accounts - Fraud					\$0	\$0	\$0
129 Accrued Interest Receivable			\$1,387,427			\$1,387,427	\$1,387,427
120 Total Receivables, Net of Allowances for Doubtful Accounts	\$9,430	\$45,634	\$2,900,292	\$0	\$5,273	\$2,960,629	\$2,960,629
131 Investments - Unrestricted							
132 Investments - Restricted			\$84,077			\$84,077	\$84,077
135 Investments - Restricted for Payment of Current Liability							
142 Prepaid Expenses and Other Assets		\$52,544				\$52,544	\$52,544
143 Inventories							
143.1 Allowance for Obsolete Inventories							
144 Inter Program Due From	\$0		\$343,282			\$343,282	\$343,282
145 Assets Held for Sale							
150 Total Current Assets	\$136,797	\$2,007,071	\$7,552,763	\$0	\$410,499	\$10,107,130	\$10,107,130

HA Of Grays Harbor County (WA018)
Aberdeen, WA

Entity Wide Balance Sheet Summary

Submission Type: Audited/Single Audit

Fiscal Year End: 12/31/2019

	Project Total	6.1 Component Unit - Discreetly Presented	1 Business Activities	14.195 Section 8 Housing Assistance Program, Special Allocations	14.871 Housing Choice Vouchers	Subtotal	Total
161 Land	\$100,825		\$34,672			\$135,497	\$135,497
162 Buildings	\$998,608	\$61,981,512	\$439,319			\$63,299,439	\$63,299,439
163 Furniture, Equipment & Machinery - Dwellings							
164 Furniture, Equipment & Machinery - Administration		\$4,707,086	\$276,977		\$44,694	\$5,028,757	\$5,028,757
165 Leasehold Improvements	\$152,060		\$27,094			\$179,154	\$179,154
166 Accumulated Depreciation	-\$1,090,488	-\$2,428,390	-\$723,344		-\$40,952	-\$4,283,174	-\$4,283,174
167 Construction in Progress							
168 Infrastructure							
160 Total Capital Assets, Net of Accumulated Depreciation	\$161,005	\$64,140,208	\$54,718	\$0	\$3,742	\$64,359,673	\$64,359,673
171 Notes, Loans and Mortgages Receivable - Non-Current			\$27,587,954			\$27,587,954	\$27,587,954
172 Notes, Loans, & Mortgages Receivable - Non Current - Past Due							
173 Grants Receivable - Non Current							
174 Other Assets		\$359,322				\$359,322	\$359,322
176 Investments in Joint Ventures							
180 Total Non-Current Assets	\$161,005	\$64,499,530	\$27,642,672	\$0	\$3,742	\$92,306,949	\$92,306,949
200 Deferred Outflow of Resources			\$61,664		\$16,712	\$78,376	\$78,376
290 Total Assets and Deferred Outflow of Resources	\$297,802	\$66,506,601	\$35,257,099	\$0	\$430,953	\$102,492,455	\$102,492,455
311 Bank Overdraft							
312 Accounts Payable <= 90 Days	\$2,804	\$149,157	\$6,395		\$11,282	\$169,638	\$169,638
313 Accounts Payable >90 Days Past Due							
321 Accrued Wage/Payroll Taxes Payable	\$406		\$47,661		\$9,903	\$57,970	\$57,970
322 Accrued Compensated Absences - Current Portion			\$57,093		\$17,363	\$74,456	\$74,456
324 Accrued Contingency Liability							
325 Accrued Interest Payable		\$1,387,427	\$4,937			\$1,392,364	\$1,392,364
331 Accounts Payable - HUD PHA Programs							
332 Account Payable - PHA Projects							

HA Of Grays Harbor County (WA018)
Aberdeen, WA

Entity Wide Balance Sheet Summary

Submission Type: Audited/Single Audit

Fiscal Year End: 12/31/2019

	Project Total	6.1 Component Unit - Discretely Presented	1 Business Activities	14.195 Section 8 Housing Assistance Program, Special Allocations	14.871 Housing Choice Vouchers	Subtotal	Total
333 Accounts Payable - Other Government							
341 Tenant Security Deposits	\$2,926	\$102,075				\$105,001	\$105,001
342 Unearned Revenue		\$23,073			\$35,208	\$58,281	\$58,281
343 Current Portion of Long-term Debt - Capital Projects/Mortgage Revenue		\$16,067,874	\$15,715			\$16,083,589	\$16,083,589
344 Current Portion of Long-term Debt - Operating Borrowings							
345 Other Current Liabilities		\$2,165,856				\$2,165,856	\$2,165,856
346 Accrued Liabilities - Other							
347 Inter Program - Due To		\$343,282				\$343,282	\$343,282
348 Loan Liability - Current							
310 Total Current Liabilities	\$6,136	\$20,238,744	\$131,801	\$0	\$73,756	\$20,450,437	\$20,450,437
351 Long-term Debt, Net of Current - Capital Projects/Mortgage Revenue		\$47,239,269	\$1,947,611			\$49,186,880	\$49,186,880
352 Long-term Debt, Net of Current - Operating Borrowings							
353 Non-current Liabilities - Other							
354 Accrued Compensated Absences - Non Current							
355 Loan Liability - Non Current							
356 FASB 5 Liabilities							
357 Accrued Pension and OPEB Liabilities			\$266,776		\$72,301	\$339,077	\$339,077
350 Total Non-Current Liabilities	\$0	\$47,239,269	\$2,214,387	\$0	\$72,301	\$49,525,957	\$49,525,957
300 Total Liabilities	\$6,136	\$67,478,013	\$2,346,188	\$0	\$146,057	\$69,976,394	\$69,976,394
400 Deferred Inflow of Resources			\$190,086		\$51,517	\$241,603	\$241,603
508.4 Net Investment in Capital Assets	\$161,005	\$833,065	-\$1,908,608		\$3,742	-\$910,796	-\$910,796
511.4 Restricted Net Position		\$735,894	\$3,500,000		\$163,514	\$4,399,408	\$4,399,408
512.4 Unrestricted Net Position	\$130,661	-\$2,540,371	\$31,129,433	\$0	\$66,123	\$28,785,846	\$28,785,846
513 Total Equity - Net Assets / Position	\$291,666	-\$971,412	\$32,720,825	\$0	\$233,379	\$32,274,458	\$32,274,458
600 Total Liabilities, Deferred Inflows of Resources and Equity - Net	\$297,802	\$66,506,601	\$35,257,089	\$0	\$430,953	\$102,492,455	\$102,492,455

HA Of Grays Harbor County (WA018)
Aberdeen, WA

Entity Wide Revenue and Expense Summary

Submission Type: Audited/Single Audit		Fiscal Year End: 12/31/2019				
	Project Total	6.1 Component Unit Discretely Presented	1 Business Activities	14.195 Section 8 Housing Assistance Program, Special Allocations	14.871 Housing Choice Vouchers	Total
70300 Net Tenant Rental Revenue	\$21,477	\$1,412,638				\$1,434,115
70400 Tenant Revenue - Other	\$3,611	\$31,331				\$34,942
70500 Total Tenant Revenue	\$25,088	\$1,443,969	\$0	\$0	\$0	\$1,469,057
70600 HUD PHA Operating Grants	\$101,477	\$525,057			\$3,223,043	\$3,849,577
70610 Capital Grants						
70710 Management Fee						
70720 Asset Management Fee						
70730 Book Keeping Fee						
70740 Front Line Service Fee						
70750 Other Fees			\$549,364			\$549,364
70700 Total Fee Revenue						
70800 Other Government Grants		\$1,261,930				\$1,261,930
71100 Investment Income - Unrestricted	\$2	\$229	\$60,961		\$32	\$61,224
71200 Mortgage Interest Income			\$902,873			\$902,873
71300 Proceeds from Disposition of Assets Held for Sale						
71310 Cost of Sale of Assets						
71400 Fraud Recovery						
71500 Other Revenue		\$45,241	\$3,095,718		\$4,729	\$4,729
71600 Gain or Loss on Sale of Capital Assets					\$11,413	\$3,152,372
72000 Investment Income - Restricted						
70000 Total Revenue	\$126,567	\$3,276,504	\$4,608,916	\$0	\$3,239,217	\$11,251,204
91100 Administrative Salaries			\$282,634		\$162,614	\$445,248
91200 Auditing Fees		\$45,872	\$24,889		\$34,284	\$105,045
91300 Management Fee		\$561,060				\$561,060
91310 Book-keeping Fee						
91400 Advertising and Marketing		\$48			\$546	\$594
91500 Employee Benefit contributions - Administrative			\$49,944		\$107,814	\$157,758
91600 Office Expenses		\$94,828	\$27,298		\$17,842	\$139,968
91700 Legal Expense	\$2,487	\$23,060			\$140	\$25,687

HA Of Grays Harbor County (WA018)
Aberdeen, WA

Entity Wide Revenue and Expense Summary

Submission Type: Audited/Single Audit		Fiscal Year End: 12/31/2019				
	Project Total	6.1 Component Unit Discretely Presented	1 Business Activities	14.195 Section 8 Housing Assistance Program_Special Allocations	14.871 Housing Choice Vouchers	Total
91800 Travel		\$2,565	\$906			\$3,471
91810 Allocated Overhead						
91900 Other	\$149	\$417,720	\$57,720		\$12,059	\$487,648
91000 Total Operating - Administrative	\$2,636	\$1,145,153	\$443,391	\$0	\$335,299	\$1,926,479
92000 Asset Management Fee						
92100 Tenant Services - Salaries						
92200 Relocation Costs		\$192,342				\$192,342
92300 Employee Benefit Contributions - Tenant Services						
92400 Tenant Services - Other			\$300		\$67,378	\$67,678
92500 Total Tenant Services	\$0	\$192,342	\$300	\$0	\$67,378	\$260,020
93100 Water	\$3,406	\$60,941	\$404			\$64,751
93200 Electricity	\$7,570	\$227,533	\$4,135		\$3,481	\$242,719
93300 Gas		\$17,401				\$17,401
93400 Fuel						
93500 Labor						
93600 Sewer	\$4,175	\$111,043	\$535			\$115,753
93700 Employee Benefit Contributions - Utilities						
93800 Other Utilities Expense	\$3,437	\$52,131	\$287			\$55,855
93000 Total Utilities	\$18,588	\$469,049	\$5,361	\$0	\$3,481	\$496,479
94100 Ordinary Maintenance and Operations - Labor	\$6,696		\$307,374			\$314,070
94200 Ordinary Maintenance and Operations - Materials and Other	\$725	\$116,742	\$1,963		\$308	\$119,738
94300 Ordinary Maintenance and Operations Contracts	\$11,899	\$767,017	\$652		\$536	\$780,104
94500 Employee Benefit Contributions - Ordinary Maintenance	\$3,345		\$90,478			\$93,823
94000 Total Maintenance	\$22,665	\$883,759	\$400,467	\$0	\$844	\$1,307,735
95100 Protective Services - Labor						
95200 Protective Services - Other Contract Costs						
95300 Protective Services - Other	\$49		\$135		\$110	\$294
95500 Employee Benefit Contributions - Protective Services						

HA Of Grays Harbor County (WA018)
Aberdeen, WA

Entity Wide Revenue and Expense Summary

Submission Type: Audited/Single Audit		Fiscal Year End: 12/31/2019				
	Project Total	6.1 Component Unit Discretely Presented	1 Business Activities	14.195 Section 8 Housing Assistance Program, Special Allocations	14.871 Housing Choice Vouchers	Total
95000 Total Protective Services	\$49	\$0	\$135	\$0	\$110	\$294
96110 Property Insurance		\$106,801				\$106,801
96120 Liability Insurance	\$1,728		\$5,560		\$1,761	\$9,049
96130 Workmen's Compensation						
96140 All Other Insurance			\$2,606		\$585	\$3,191
96100 Total Insurance Premiums	\$1,728	\$106,801	\$8,166	\$0	\$2,346	\$119,041
96200 Other General Expenses	\$8,300				\$14,151	\$22,451
96210 Compensated Absences			\$89,529		\$23,368	\$112,897
96300 Payments in Lieu of Taxes						
96400 Bad debt - Tenant Rents	\$2,608	\$4,469				\$7,077
96500 Bad debt - Mortgages						
96600 Bad debt - Other					\$13,711	\$13,711
96800 Severance Expense						
96000 Total Other General Expenses	\$10,908	\$4,469	\$89,529	\$0	\$51,230	\$156,136
96710 Interest of Mortgage (or Bonds) Payable		\$1,702,344	\$12,852			\$1,715,196
96720 Interest on Notes Payable (Short and Long Term)						
96730 Amortization of Bond Issue Costs		\$38,161				\$38,161
96700 Total Interest Expense and Amortization Cost	\$0	\$1,740,505	\$12,852	\$0	\$0	\$1,753,357
96900 Total Operating Expenses	\$56,574	\$4,542,078	\$960,201	\$0	\$460,688	\$6,019,541
97000 Excess of Operating Revenue over Operating Expenses	\$69,983	-\$1,265,574	\$3,648,715	\$0	\$2,778,529	\$5,231,663
97100 Extraordinary Maintenance						
97200 Casualty Losses - Non-capitalized						
97300 Housing Assistance Payments	\$383				\$2,571,286	\$2,571,669
97350 HAP Portability-In					\$10,672	\$10,672
97400 Depreciation Expense	\$10,857	\$2,074,404	\$17,035		\$936	\$2,103,232
97500 Fraud Losses						

HA Of Grays Harbor County (WA018)
Aberdeen, WA

Entity Wide Revenue and Expense Summary

Submission Type: Audited/Single Audit		Fiscal Year End: 12/31/2019					
	Project Total	6.1 Component Unit Discretely Presented	1 Business Activities	14.195 Section 8 Housing Assistance Program, Special Allocations	14.871 Housing Choice Vouchers	Subtotal	Total
97600 Capital Outlays - Governmental Funds							
97700 Debt Principal Payment - Governmental Funds							
97800 Dwelling Units Rent Expense							
90000 Total Expenses	\$67,814	\$6,616,482	\$977,236	\$0	\$3,043,582	\$10,705,114	\$10,705,114
10010 Operating Transfer In							
10020 Operating Transfer Out							
10030 Operating Transfers from/to Primary Government							
10040 Operating Transfers from/to Component Unit							
10050 Proceeds from Notes, Loans and Bonds							
10060 Proceeds from Property Sales							
10070 Extraordinary Items, Net Gain/Loss							
10080 Special Items (Net Gain/Loss)							
10091 Inter Project Excess Cash Transfer In							
10092 Inter Project Excess Cash Transfer Out							
10093 Transfers between Program and Project - In							
10094 Transfers between Project and Program - Out							
10100 Total Other financing Sources (Uses)	\$0	\$0	\$0	\$0	\$0	\$0	\$0
10000 Excess (Deficiency) of Total Revenue Over (Under) Total Expenses	\$58,753	-\$3,339,978	\$3,631,680	\$0	\$195,635	\$546,090	\$546,090
11020 Required Annual Debt Principal Payments	\$0	\$0	\$15,561	\$0	\$0	\$15,561	\$15,561
11030 Beginning Equity	\$232,913	\$1,696,097	\$29,089,145	\$0	\$37,744	\$31,055,899	\$31,055,899
11040 Prior Period Adjustments, Equity Transfers and Correction of Errors		\$672,469				\$672,469	\$672,469
11050 Changes in Compensated Absence Balance							
11060 Changes in Contingent Liability Balance							
11070 Changes in Unrecognized Pension Transition Liability							
11080 Changes in Special Term/Severance Benefits Liability							
11090 Changes in Allowance for Doubtful Accounts - Dwelling Rents							
11100 Changes in Allowance for Doubtful Accounts - Other							
11170 Administrative Fee Equity					\$69,865	\$69,865	\$69,865

HA Of Grays Harbor County (WA018)
Aberdeen, WA

Entity Wide Revenue and Expense Summary

Submission Type: Audited/Single Audit		Fiscal Year End: 12/31/2019				
	Project Total	6.1 Component Unit Discretely Presented	1 Business Activities	14.195 Section 8 Housing Assistance Program Special Allocations	14.871 Housing Choice Vouchers	Total
11180 Housing Assistance Payments Equity						
11190 Unit Months Available	240	5976	0		7416	\$163,514
11210 Number of Unit Months Leased	103	5652	0		7225	13632
11270 Excess Cash	\$126,639					13180
11610 Land Purchases	\$0					\$126,639
11620 Building Purchases	\$0					\$0
11630 Furniture & Equipment - Dwelling Purchases	\$0					\$0
11640 Furniture & Equipment - Administrative Purchases	\$0					\$0
11650 Leasehold Improvements Purchases	\$0					\$0
11660 Infrastructure Purchases	\$0					\$0
13510 CFFP Debt Service Payments	\$0					\$0
13901 Replacement Housing Factor Funds	\$0					\$0

HA Of Grays Harbor County (WA018)

Aberdeen, WA

Program Balance Sheet Summary

Fiscal Year End: 12/31/2019

Submission Type: Audited/Single Audit

	6.1 Component Unit - Discretely Presented	1 Business Activities	14.195 Section 8 Housing Assistance Payments Program Special Allocations	14.871 Housing Choice Vouchers	Total
111 Cash - Unrestricted	\$1,070,922	\$725,112		\$206,504	\$2,002,538
112 Cash - Restricted - Modernization and Development	\$735,894	\$3,500,000			\$4,235,894
113 Cash - Other Restricted				\$198,722	\$198,722
114 Cash - Tenant Security Deposits	\$102,077				\$102,077
115 Cash - Restricted for Payment of Current Liabilities					
100 Total Cash	\$1,908,893	\$4,225,112	\$0	\$405,226	\$6,539,231
121 Accounts Receivable - PHA Projects				\$825	\$825
122 Accounts Receivable - HUD Other Projects	\$8,696				\$8,696
124 Accounts Receivable - Other Government					
125 Accounts Receivable - Miscellaneous	\$16,506	\$100			\$16,606
126 Accounts Receivable - Tenants	\$20,432				\$20,432
126.1 Allowance for Doubtful Accounts - Tenants	\$0				\$0
126.2 Allowance for Doubtful Accounts - Other	\$0	\$0		\$0	\$0
127 Notes, Loans, & Mortgages Receivable - Current		\$1,512,765			\$1,512,765
128 Fraud Recovery				\$4,448	\$4,448
128.1 Allowance for Doubtful Accounts - Fraud				\$0	\$0
129 Accrued Interest Receivable		\$1,387,427			\$1,387,427
120 Total Receivables, Net of Allowances for Doubtful Accounts	\$45,634	\$2,900,292	\$0	\$5,273	\$2,951,199
131 Investments - Unrestricted		\$84,077			\$84,077
132 Investments - Restricted					
135 Investments - Restricted for Payment of Current Liability					
142 Prepaid Expenses and Other Assets	\$52,544				\$52,544

HA Of Grays Harbor County (WA018)

Aberdeen, WA

Program Balance Sheet Summary

Fiscal Year End: 12/31/2019

Submission Type: Audited/Single Audit

	6.1 Component Unit - Discretely Presented	1 Business Activities	14.195 Section 8 Housing Assistance Payments Program Special Allocations	14.871 Housing Choice Vouchers	Total
143 Inventories					
143.1 Allowance for Obsolete Inventories					
144 Inter Program Due From		\$343,282			\$343,282
145 Assets Held for Sale					
150 Total Current Assets	\$2,007,071	\$7,552,763	\$0	\$410,499	\$9,970,333
161 Land		\$34,672			\$34,672
162 Buildings	\$61,861,512	\$439,319			\$62,300,831
163 Furniture, Equipment & Machinery - Dwellings					
164 Furniture, Equipment & Machinery - Administration	\$4,707,086	\$276,977		\$44,694	\$5,028,757
165 Leasehold Improvements		\$27,094			\$27,094
166 Accumulated Depreciation	-\$2,428,390	-\$723,344		-\$40,952	-\$3,192,686
167 Construction in Progress					
168 Infrastructure					
160 Total Capital Assets, Net of Accumulated Depreciation	\$64,140,208	\$54,718	\$0	\$3,742	\$64,198,668
171 Notes, Loans and Mortgages Receivable - Non-Current		\$27,587,954			\$27,587,954
172 Notes, Loans, & Mortgages Receivable - Non Current - Past					
173 Grants Receivable - Non Current					
174 Other Assets	\$359,322				\$359,322
176 Investments in Joint Ventures					
180 Total Non-Current Assets	\$64,499,530	\$27,642,672	\$0	\$3,742	\$92,145,944
200 Deferred Outflow of Resources		\$61,664		\$16,712	\$78,376

HA Of Grays Harbor County (WA018)
Aberdeen, WA

Program Balance Sheet Summary

Submission Type: Audited/Single Audit Fiscal Year End: 12/31/2019

	6.1 Component Unit - Discretely Presented	1 Business Activities	14.195 Section 8 Housing Assistance Payments Program Special Allocations	14.874 Housing Choice Vouchers	Total
290 Total Assets and Deferred Outflow of Resources	\$66,506,601	\$35,257,099	\$0	\$430,953	\$102,194,653
311 Bank Overdraft					
312 Accounts Payable <= 90 Days	\$149,157	\$6,395		\$11,282	\$166,834
313 Accounts Payable >90 Days Past Due					
321 Accrued Wage/Payroll Taxes Payable		\$47,661		\$9,903	\$57,564
322 Accrued Compensated Absences - Current Portion		\$57,093		\$17,363	\$74,456
324 Accrued Contingency Liability					
325 Accrued Interest Payable	\$1,387,427	\$4,937			\$1,392,364
331 Accounts Payable - HUD PHA Programs					
332 Account Payable - PHA Projects					
333 Accounts Payable - Other Government					
341 Tenant Security Deposits	\$102,075				\$102,075
342 Unearned Revenue	\$23,073			\$35,208	\$58,281
343 Current Portion of Long-term Debt - Capital	\$16,067,874	\$15,715			\$16,083,589
344 Current Portion of Long-term Debt - Operating Borrowings					
345 Other Current Liabilities	\$2,165,856				\$2,165,856
346 Accrued Liabilities - Other					
347 Inter Program - Due To	\$343,282				\$343,282
348 Loan Liability - Current					
310 Total Current Liabilities	\$20,238,744	\$131,801	\$0	\$73,756	\$20,444,301
351 Long-term Debt, Net of Current - Capital Projects/Mortgage	\$47,239,269	\$1,947,611			\$49,186,880

HA Of Grays Harbor County (WA018)
Aberdeen, WA

Program Balance Sheet Summary

Submission Type: Audited/Single Audit		Fiscal Year End: 12/31/2019			
	6.1 Component Unit - Discretely Presented	1 Business Activities	14.195 Section 8 Housing Assistance Payments Program Special Allocations	14.871 Housing Choice Vouchers	Total
352 Long-term Debt, Net of Current - Operating Borrowings					
353 Non-current Liabilities - Other					
354 Accrued Compensated Absences - Non Current					
355 Loan Liability - Non Current					
356 FASB 5 Liabilities					
357 Accrued Pension and OPEB Liabilities		\$266,776		\$72,301	\$339,077
350 Total Non-Current Liabilities	\$47,239,269	\$2,214,387	\$0	\$72,301	\$49,525,957
300 Total Liabilities	\$67,478,013	\$2,346,188	\$0	\$146,057	\$69,970,258
400 Deferred Inflow of Resources		\$190,086		\$51,517	\$241,603
508.4 Net Investment in Capital Assets	\$833,065	-\$1,908,608		\$3,742	-\$1,071,801
511.4 Restricted Net Position	\$735,894	\$3,500,000		\$163,514	\$4,399,408
512.4 Unrestricted Net Position	-\$2,540,371	\$31,129,433	\$0	\$66,123	\$28,655,185
513 Total Equity - Net Assets / Position	-\$971,412	\$32,720,825	\$0	\$233,379	\$31,982,792
600 Total Liabilities, Deferred Inflows of Resources and Equity -	\$66,506,601	\$35,257,099	\$0	\$430,953	\$102,194,653

HA Of Grays Harbor County (WA018)

Aberdeen, WA

Program Revenue and Expense Summary

Submission Type: Audited/Single Audit

Fiscal Year End: 12/31/2019

	6.1 Component Unit - Discretely Presented	1 Business Activities	14.195 Section 8 Housing Assistance Payments Program Special Allocations	14.871 Housing Choice Vouchers	Total
70300 Net Tenant Rental Revenue	\$1,412,638				\$1,412,638
70400 Tenant Revenue - Other	\$31,331				\$31,331
70500 Total Tenant Revenue	\$1,443,969	\$0	\$0	\$0	\$1,443,969
70600 HUD PHA Operating Grants	\$525,057			\$3,223,043	\$3,748,100
70610 Capital Grants					
70710 Management Fee					
70720 Asset Management Fee					
70730 Book Keeping Fee					
70740 Front Line Service Fee					
70750 Other Fees		\$549,364			\$549,364
70700 Total Fee Revenue					
70800 Other Government Grants	\$1,261,930				\$1,261,930
71100 Investment Income - Unrestricted	\$229	\$60,961		\$32	\$61,222
71200 Mortgage Interest Income		\$902,873			\$902,873
71300 Proceeds from Disposition of Assets Held for Sale					
71310 Cost of Sale of Assets					
71400 Fraud Recovery				\$4,729	\$4,729
71500 Other Revenue	\$45,241	\$3,095,718		\$11,413	\$3,152,372
71600 Gain or Loss on Sale of Capital Assets					
72000 Investment Income - Restricted	\$78				\$78
70000 Total Revenue	\$3,276,504	\$4,608,916	\$0	\$3,239,217	\$11,124,637

HA Of Grays Harbor County (WA018)

Aberdeen, WA

Program Revenue and Expense Summary

Submission Type: Audited/Single Audit

Fiscal Year End: 12/31/2019

	6.1 Component Unit - Discretely Presented	1 Business Activities	14.195 Section 8 Housing Assistance Payments Program Special Allocations	14.871 Housing Choice Vouchers	Total
91100 Administrative Salaries		\$282,634		\$162,614	\$445,248
91200 Auditing Fees	\$45,872	\$24,889		\$34,284	\$105,045
91300 Management Fee	\$561,060				\$561,060
91310 Book-keeping Fee					
91400 Advertising and Marketing	\$48			\$546	\$594
91500 Employee Benefit contributions - Administrative		\$49,944		\$107,814	\$157,758
91600 Office Expenses	\$94,828	\$27,298		\$17,842	\$139,968
91700 Legal Expense	\$23,060			\$140	\$23,200
91800 Travel	\$2,565	\$906			\$3,471
91810 Allocated Overhead					
91900 Other	\$417,720	\$57,720		\$12,059	\$487,499
91000 Total Operating - Administrative	\$1,145,153	\$443,391	\$0	\$335,299	\$1,923,843
92000 Asset Management Fee					
92100 Tenant Services - Salaries					
92200 Relocation Costs	\$192,342				\$192,342
92300 Employee Benefit Contributions - Tenant Services					
92400 Tenant Services - Other		\$300		\$67,378	\$67,678
92500 Total Tenant Services	\$192,342	\$300	\$0	\$67,378	\$260,020
93100 Water	\$60,941	\$404			\$61,345
93200 Electricity	\$227,533	\$4,135		\$3,481	\$235,149
93300 Gas	\$17,401				\$17,401
93400 Fuel					

HA Of Grays Harbor County (WA018)

Aberdeen, WA

Program Revenue and Expense Summary

Submission Type: Audited/Single Audit

Fiscal Year End: 12/31/2019

	6.1 Component Unit - Discretely Presented	1 Business Activities	14.195 Section 8 Housing Assistance Payments Program Special Allocations	14.871 Housing Choice Vouchers	Total
93500 Labor					
93600 Sewer	\$111,043	\$535			\$111,578
93700 Employee Benefit Contributions - Utilities					
93800 Other Utilities Expense	\$52,131	\$287			\$52,418
93000 Total Utilities	\$469,049	\$5,361	\$0	\$3,481	\$477,891
94100 Ordinary Maintenance and Operations - Labor		\$307,374			\$307,374
94200 Ordinary Maintenance and Operations - Materials and	\$116,742	\$1,963		\$308	\$119,013
94300 Ordinary Maintenance and Operations Contracts	\$767,017	\$652		\$536	\$768,205
94500 Employee Benefit Contributions - Ordinary Maintenance		\$90,478			\$90,478
94000 Total Maintenance	\$883,759	\$400,467	\$0	\$844	\$1,285,070
95100 Protective Services - Labor					
95200 Protective Services - Other Contract Costs					
95300 Protective Services - Other		\$135		\$110	\$245
95500 Employee Benefit Contributions - Protective Services					
95000 Total Protective Services	\$0	\$135	\$0	\$110	\$245
96110 Property Insurance	\$106,801				\$106,801
96120 Liability Insurance		\$5,560		\$1,761	\$7,321
96130 Workmen's Compensation					
96140 All Other Insurance		\$2,606		\$585	\$3,191
96100 Total Insurance Premiums	\$106,801	\$8,166	\$0	\$2,346	\$117,313

HA Of Grays Harbor County (WA018)

Aberdeen, WA

Program Revenue and Expense Summary

Submission Type: Audited/Single Audit

Fiscal Year End: 12/31/2019

	6.1 Component Unit - Discretely Presented	1 Business Activities	14.195 Section 8 Housing Assistance Payments Program Special Allocations	14.871 Housing Choice Vouchers	Total
96200 Other General Expenses				\$14,151	\$14,151
96210 Compensated Absences		\$89,529		\$23,368	\$112,897
96300 Payments in Lieu of Taxes					
96400 Bad debt - Tenant Rents	\$4,469				\$4,469
96500 Bad debt - Mortgages					
96600 Bad debt - Other			\$13,711		\$13,711
96800 Severance Expense					
96000 Total Other General Expenses	\$4,469	\$89,529	\$0	\$51,230	\$145,228
96710 Interest of Mortgage (or Bonds) Payable	\$1,702,344	\$12,852			\$1,715,196
96720 Interest on Notes Payable (Short and Long Term)					
96730 Amortization of Bond Issue Costs	\$38,161				\$38,161
96700 Total Interest Expense and Amortization Cost	\$1,740,505	\$12,852	\$0	\$0	\$1,753,357
96900 Total Operating Expenses	\$4,542,078	\$960,201	\$0	\$460,688	\$5,962,967
97000 Excess of Operating Revenue over Operating Expenses	-\$1,265,574	\$3,648,715	\$0	\$2,778,529	\$5,161,670
97100 Extraordinary Maintenance					
97200 Casualty Losses - Non-capitalized					
97300 Housing Assistance Payments				\$2,571,286	\$2,571,286
97350 HAP Portability-In				\$10,672	\$10,672
97400 Depreciation Expense	\$2,074,404	\$17,035		\$936	\$2,092,375
97500 Fraud Losses					

HA Of Grays Harbor County (WA018)

Aberdeen, WA

Program Revenue and Expense Summary

Submission Type: Audited/Single Audit

Fiscal Year End: 12/31/2019

	6.1 Component Unit - Discretely Presented	1 Business Activities	14.195 Section 8 Housing Assistance Program Special Allocations	14.871 Housing Choice Vouchers	Total
97600 Capital Outlays - Governmental Funds					
97700 Debt Principal Payment - Governmental Funds					
97800 Dwelling Units Rent Expense					
90000 Total Expenses	\$6,616,482	\$977,236	\$0	\$3,043,582	\$10,637,300
10010 Operating Transfer In					
10020 Operating transfer Out					
10030 Operating Transfers from/to Primary Government					
10040 Operating Transfers from/to Component Unit					
10050 Proceeds from Notes, Loans and Bonds					
10060 Proceeds from Property Sales					
10070 Extraordinary Items, Net Gain/Loss					
10080 Special Items (Net Gain/Loss)					
10091 Inter Project Excess Cash Transfer In					
10092 Inter Project Excess Cash Transfer Out					
10093 Transfers between Program and Project - In					
10094 Transfers between Project and Program - Out					
10100 Total Other financing Sources (Uses)	\$0	\$0	\$0	\$0	\$0
10000 Excess (Deficiency) of Total Revenue Over (Under) Total	-\$3,339,978	\$3,631,680	\$0	\$195,635	\$487,337
11020 Required Annual Debt Principal Payments	\$0	\$15,561	\$0	\$0	\$15,561
11030 Beginning Equity	\$1,696,097	\$29,089,145	\$0	\$37,744	\$30,822,986
11040 Prior Period Adjustments, Equity Transfers and	\$672,469				\$672,469

HA Of Grays Harbor County (WA018)

Aberdeen, WA

Program Revenue and Expense Summary

Submission Type: Audited/Single Audit

Fiscal Year End: 12/31/2019

	6.1 Component Unit - Discretely Presented	1 Business Activities	14.195 Section 8 Housing Assistance Program Special Allocations	14.874 Housing Choice Vouchers	Total
11050 Changes in Compensated Absence Balance					
11060 Changes in Contingent Liability Balance					
11070 Changes in Unrecognized Pension Transition Liability					
11080 Changes in Special Term/Severance Benefits Liability					
11090 Changes in Allowance for Doubtful Accounts - Dwelling					
11100 Changes in Allowance for Doubtful Accounts - Other					
11170 Administrative Fee Equity				\$69,865	\$69,865
11180 Housing Assistance Payments Equity				\$163,514	\$163,514
11190 Unit Months Available	5976	0		7416	13392
11210 Number of Unit Months Leased	5852	0		7225	13077
11270 Excess Cash					
11610 Land Purchases					
11620 Building Purchases					
11630 Furniture & Equipment - Dwelling Purchases					
11640 Furniture & Equipment - Administrative Purchases					
11650 Leasehold Improvements Purchases					
11660 Infrastructure Purchases					
13510 CFFP Debt Service Payments					
13901 Replacement Housing Factor Funds					

**Housing Authority of Grays Harbor County
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2019**

	Federal Agency (Pass-Through Agency)	Expenditures							
		Federal Program	CFDA Number	Other Award Number	From Pass- Through Awards	From Direct Awards	Total	Passed through to Subrecipients	Note
Section 8 Project-Based Cluster									
ASST SECRETARY FOR HOUSING--FEDERAL HOUSING COMMISSIONER, HOUSING AND URBAN DEVELOPMENT, DEPARTMENT OF	Section 8 Housing Assistance Payments Program	14.195	WA19M000074	-	-	273,341	273,341	-	1,2,4
		14.195	WA190019002	-	-	127,937	127,937	-	1,2,4
		14.195	WA190069005	-	-	123,779	123,779	-	1,2,4
Total Section 8 Project-Based Cluster:				-	-	525,057	525,057	-	
HUD	Public and Indian Housing	14.850	SF219	-	-	93,177	93,177	-	1,2,4
Housing Voucher Cluster									
HUD	Section 8 Housing Choice Vouchers	14.871	WA018-VO	-	-	3,017,752 #	3,017,752	-	1,2,4
		Total Housing Voucher Cluster:				-	-	3,017,572 #	3,017,572
HUD	Public Housing Capital Fund	14.872	Capital Fund 2018	-	-	8,300	8,300	-	1,2,4
		Total Federal Awards Expended:				-	-	3,644,106 #	3,644,106

HOUSING AUTHORITY OF GRAYS HARBOR COUNTY

Notes To the Schedule of Expenditures of Federal Awards

December 31, 2019

NOTE 1-BASIS OF ACCOUNTING AND PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal award activity of the Housing Authority of Grays Harbor County and is presented on the accrual basis of accounting, which is the same basis of accounting the Housing Authority uses for the financial statements.

NOTE 2-PROGRAM COSTS

The amounts shown as current year expenditures represent only the federal grant portion of the program costs. Entire program costs, including the Housing Authority's portion, are more than shown. Such expenditures are recognized following, as applicable, either the cost principles in the OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3-LOANS OUTSTANDING

The Housing Authority had the following state program loan and recoverable grant balances outstanding at December 31, 2019. All of the balances were expended prior to 2019.

Program Title	<u>Amount Outstanding</u>
	<u>Primary Government</u>
Housing Trust Fund Program-- Amortized Loan (Riverside III)	\$ 188,200
Housing Trust Fund Program-- Amortized Loan (Emerson Manor)	799,263
Housing Trust Fund Program-- Deferred Loan	460,500
Housing Trust Fund Program-- Recoverable Grant	<u>656,000</u>
Total balances outstanding	<u>\$ 2,103,963</u>

NOTE 4-INDIRECT COST RATE

The Housing Authority has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

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.

Contact information for the State Auditor's Office	
Public Records requests	PublicRecords@sao.wa.gov
Main telephone	(564) 999-0950
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov