



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

June 28, 2021

Board of Commissioners
Housing Authority of Kittitas County
Ellensburg, Washington

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

We have reviewed the audit report issued by a certified public accounting (CPA) firm on the financial statements and compliance with federal grant requirements of the Housing Authority of Kittitas County for the fiscal year ended December 31, 2019. The Housing Authority contracted with the CPA firm for this audit and requested that we accept it in lieu of performing our own audit.

Based on this review, we have accepted this report in lieu of the audit required by RCW 43.09.260. The Office of the Washington State Auditor did not audit the accompanying financial statements or the Housing Authority of Kittitas County's compliance with federal grant agreements and, accordingly, we do not express an opinion on those financial statements or on compliance.

This report is being published on the Office of the Washington State Auditor website as a matter of public record.

Sincerely,

Pat McCarthy, State Auditor
Olympia, WA

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HOUSING AUTHORITY OF KITTITAS COUNTY

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

FOR THE TWENTY ONE MONTH PERIOD ENDED DECEMBER 31, 2019

**WITH
REPORT OF INDEPENDENT AUDITORS**

HOUSING AUTHORITY OF KITTITAS COUNTY
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FOR THE TWENTY ONE MONTH PERIOD ENDED DECEMBER 31, 2019

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REPORT OF INDEPENDENT AUDITORS

To the Board of Commissioners of the
Housing Authority of Kittitas County:

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities (primary government) of the Housing Authority of Kittitas County (the "Authority") as of and for the twenty one month period ended December 31, 2019, and the related notes to the financial statements. We were not engaged to audit the financial statements of the aggregate discretely presented component units. These financial statements collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. Because of that matter described in the "Basis for Disclaimer of Opinion on the Aggregate Discretely Presented Component Units" paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the discretely presented component units.

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

Except for the matter described in the "Basis for Disclaimer of Opinion on the Aggregate Discretely Presented Component Units" paragraph, we believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Disclaimer of Opinion on the Aggregate Discretely Presented Component Units

The financial statements of Kittitas RAD, LLLP have not been audited, and we were not engaged to audit the financial statements as part of the Authority's basic financial statements. Kittitas RAD, LLLP's financial activities are included in the Authority's basic financial statements as a discretely presented component unit and represented 62.6%, 54.9%, and 69.5% of the assets, net position, and revenues, respectively, of the Authority's aggregate discretely presented component units.

Disclaimer of Opinion

Because of the significance of the matter described in the "Basis for Disclaimer of Opinion on the Aggregate Discretely Presented Component Units" paragraph, we have not been able to obtain sufficient audit evidence to provide a basis for an audit opinion on the financial statements of the aggregate discretely presented component units. Accordingly, we do not express an opinion on these financial statements.

Unmodified Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of the business-type activities (primary government) of the Authority as of December 31, 2019, and the changes in its net position and its cash flows for the twenty one month period then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required pension information 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The schedule of expenditures of federal awards is presented for the purpose of additional analysis as required by Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2020 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Novogradac & Company LLP

November 16, 2020
Toms River, New Jersey

MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview of the Housing Authority and Financial Statements

The Housing Authority of Kittitas County (the "Authority") was established in 1970 by Kittitas County, Washington. The Authority owns a Rural Rental Housing property, which is operated by a third-party property manager.

The Discretely Presented Component Units consist of two limited liability limited partnerships. The properties are eligible for low-income housing tax credits.

The mission of the Authority is to assist those it serves with safe, decent and affordable housing opportunities while serving to improve the quality of their lives. The Authority attempts to create opportunities for residents to increase their self-sufficiency and independence while assuring fiscal integrity in the programs it administers.

The Authority is proud to present its basic financial statements for the 21-month fiscal period ended December 31, 2019, which have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). GAAP requires the inclusion of three basic financial statements: The Statement of Net Position (balance sheet); the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows. In addition, GAAP requires the inclusion of a Management's Discussion and Analysis ("MD&A") section as required supplementary information.

The basic financial statements provide both long-term and short-term information about the Authority's overall financial condition. The basic financial statements also include notes that explain financial data reported in the statements and provide more detailed information related to those balances. The statements are followed by a section of other supplementary information that further explains and supports the information in the basic financial statements, including information required to be reported by the Authority's main oversight agency, the U.S. Department of Housing and Urban Development ("HUD").

Financial Analysis

Statement of Net Position

The Statement of Net Position presents the assets, liabilities, and net position of the Authority and its Component Units at the end of the fiscal year. The purpose of the Statement of Net Position is to give the financial statement readers a snapshot of the fiscal condition of the Authority as of a certain point in time. It presents end-of-year data for assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position.

Total assets of the Primary Government at December 31, 2019 are \$10,822,409. Current assets are comprised of several categories. Cash and cash equivalents include the cash and

Financial Analysis (continued)

investments maturing within 90 days. Accounts receivable include tenant receivables, receivables from other governments and receivables from component units. Prepaid expenses and inventory are also assets of the Authority. Non-current assets include capitalized costs, mortgages receivable, certain investments held for operating and replacement reserves and capital assets. Capital assets include land, buildings, construction in progress, equipment and accumulated depreciation of those assets. Additionally deferred outflows of resources related to GASB 68 total \$53,839.

Total liabilities of the Primary Government are \$1,693,454 at December 31, 2019. Liabilities are also presented in current and non-current portions. Current liabilities include accounts payable, other accrued liabilities, unearned revenue, retainage payable and current portions of long-term debt. A liability is considered to be current if it is due within one year. Long-term liabilities consist of notes and mortgages payable over a period of years. Additionally, deferred inflows of resources in the amount of \$100,117 are related to GASB 68.

Net position represents the Authority's equity, a portion of which is restricted for certain uses. Net position is divided into three major categories. The first category, invested in capital assets net of related debt, shows the equity in land, structures, construction in progress and equipment, net of related capital debt outstanding. The next net category is restricted net position. This component of net position has external limitations on the way in which it may be used. The last category is unrestricted net position. This component of net position is available to use for any lawful and prudent purpose of the Authority.

Statement of Revenues, Expenses and Changes in Net Position

The purpose of the statement of revenues, expenses and changes in net position is to present the revenues earned by the Authority, both operating and non-operating, and the expenses incurred, operating and non-operating, and any other revenues, expenses, gains, or losses received or spent by the Authority. Generally, the operating revenues are amounts received for providing housing to tenants. Non-operating revenues are funds received for which goods or services are not provided, except that non-operating revenues also include operating grants and subsidies. Capital contributions represent capital grants received to improve or develop capital assets of the Authority.

This section of the Authority's annual financial report presents our discussion and analysis of the Authority's financial performance during the 21-month fiscal period ended December 31, 2019, and includes financial information for the 12-month fiscal year ended March 31, 2018.

Financial Analysis (continued)

<u>STATEMENT OF NET POSITION</u>	<u>2019</u>	<u>2018</u>	<u>Variance</u>	<u>% Change</u>
<u>ASSETS</u>				
Cash & Cash Equivalents	7,990,486	1,849,684	6,140,802	331.99%
Accounts Receivable	890,562	3,637	886,925	24386.17%
Investments	-	-	-	100.00%
Other Current Assets	66,060	44,105	21,955	49.78%
TOTAL CURRENT ASSETS	8,947,108	1,897,426	7,049,682	371.54%
Capital Assets	1,875,301	3,400,571	(1,525,270)	-44.85%
Other Non-Current Assets	-	141,982	(141,982)	-100.00%
TOTAL NON-CURRENT ASSETS	1,875,301	3,542,553	(1,667,252)	-47.06%
Deferred Outflows Related to Pensions	53,839	39,365	14,474	36.77%
TOTAL ASSETS & DEFERRED OUTFLOWS	10,876,248	5,479,344	5,396,904	98.50%
<u>LIABILITIES & NET POSITION</u>				
Accounts Payable	11,550	23,432	(11,882)	-50.71%
Other Current Liabilities	9,330	189,357	(180,027)	-95.07%
Current Portion - Long Term Debt	77,364	-	77,364	100.00%
TOTAL CURRENT LIABILITIES	98,244	212,789	(114,545)	-53.83%
Long Term Debt - Commercial	1,458,721	317,000	1,141,721	360.16%
Net Pension Liability	93,159	118,408	(25,249)	-21.32%
Other non-current liabilities	43,330	-	43,330	100.00%
TOTAL NON-CURRENT LIABILITIES	1,595,210	435,408	1,159,802	266.37%
Deferred Inflows - Pensions	100,117	97,012	3,105	3.20%
TOTAL LIABILITIES & DEFERRED INFLOWS	1,793,571	745,209	1,048,362	140.68%
NET POSITION				
Unrestricted	4,867,035	819,706	4,047,329	493.75%
Restricted	3,808,392	688,876	3,119,516	452.84%
Invested in Capital	407,250	3,225,553	(2,818,303)	-87.37%
TOTAL NET POSITION	9,082,677	4,734,135	4,348,542	91.86%
TOTAL NET POSITION	9,082,677	4,734,135	4,348,542	91.86%
TOTAL LIABILITIES & NET POSITION	10,876,248	5,479,344	5,396,904	98.50%

Financial Analysis (continued)

STATEMENT OF REVENUES, EXPENSES, & CHANGES IN NET POSITION

	2019	2018	Variance	% Change
<u>REVENUES</u>				
Tenant Income	1,349,766	832,160	517,606	62.20%
Other Income	1,097,600	76,040	1,021,560	1343.45%
TOTAL OPERATING REVENUE	2,447,366	908,200	1,539,166	169.47%
Operating Subsidies & Other Grants	1,243,511	381,715	861,796	225.77%
Other Non-Operating Revenue	-	-	-	0.00%
TOTAL NON-OPERATING REVENUE	1,243,511	381,715	861,796	225.77%
GROSS REVENUE	3,690,877	1,289,915	2,400,962	186.13%
<u>EXPENSES</u>				
Payroll & Related Expenses	817,961	328,229	489,732	149.20%
Other Rental Operations Expenses	1,438,152	841,778	596,374	70.85%
TOTAL OPERATING EXPENSES	2,256,113	1,170,007	1,086,106	92.83%
Payments from Operating Subsidies	210,482	-	210,482	100.00%
Other Non-Operating (Income)/Expenses	(3,124,260)	(30,461)	(3,093,799)	10156.59%
TOTAL NON-OPERATING EXPENSES	(2,913,778)	(30,461)	(2,883,317)	9465.60%
TOTAL EXPENSES	(657,665)	1,139,546	(1,797,211)	-157.71%
INCOME (LOSS) BEFORE SPECIAL ITEMS	4,348,542	150,369	4,198,173	2791.91%
Special Items - Write down of notes receivable	-	-	-	0.00%
CHANGE IN NET POSITION	4,348,542	150,369	4,198,173	2791.91%
Prior Period Adjustments	-	-	-	0.00%
Equity Transfers	-	-	-	0.00%
Net Position at January 1, as restated	4,734,135	4,583,766	150,369	3.28%
NET POSITION AT DECEMBER 31	9,082,677	4,734,135	4,348,542	91.86%

Overall Financial Position and Results of Operations

The Authority's financial position is sound; the fundamental activities of housing performed routinely.

Financial Highlights Primary Government

- 1) The Housing Authority changed the fiscal reporting year-end from March to December effective with the period immediately following the fiscal year ending March 31, 2018. This change resulted in a 21-month fiscal period ending December 31, 2019. This is a one-time event.
- 2) In September 2019, the Authority transferred its Low-income Public Housing to Kittitas RAD, LLLP, a discretely presented component unit of the Authority, via HUD's RAD program. The project was eligible for Low-income Housing Tax Credits, which were granted in the amount of up to \$7,912,803. The funds are being used to rehabilitate the property. Construction is slated to be complete by the end of calendar year 2020.
- 3) In September 2019, the Authority sold its Alder Terrace property to Alder Terrace Affordable Housing, LLLP, a discretely presented component unit of the Authority. The project was eligible for Low-income Housing Tax Credits, which were granted in the amount of up to \$10,691,641. The funds are being used to rehabilitate the property. Construction is slated to be complete by the end of calendar year 2020.
- 4) In August 2019, the Authority acquired Pine Terrace Apartments, a Rural Rental Housing property. The Authority incurred \$1,153,378 of debt with the USDA to acquire the property. The property management and compliance are managed by a 3rd party property manager.

Capital Asset and Debt Administration

Kittitas RAD LLLP began an occupied-rehab of the property consisting of 110 units in September 2019. Kittitas RAD LLLP entered into loan agreements with the Authority that total \$7,500,000, not inclusive of the deferred gain on sale. Payment of these loans are contingent upon cash flow and have been secured by deeds of trust on the property.

Alder Terrace LLLP began an occupied-rehab of the property consisting of 51 units in September 2019. Alder Terrace LLLP entered into a loan agreement with the Authority that totals \$2,500,000, not inclusive of the deferred gain on sale. Payment of this loan is contingent upon cash flow and has been secured by a deed of trust on the property.

Economic Factors Affecting the Authority's Future

Availability of finance capital is essential for the Authority to meet its commitment to the growth of local housing opportunities. The current financial and political climate makes it steadily more challenging for the Authority to finance worthy projects. Federal tax credits for low-income housing are an especially important tool for attracting capital to low-income housing. The Washington State Housing Finance Commission ("WSHFC") establishes the priorities for the award of tax credits within the state. The Authority's service area has historically been classified as non-metro, typically putting local projects at a competitive disadvantage for WSHFC awards and increasing the challenge in raising capital.

Request for information

This financial report is designed to provide a general overview of the Authority and its Component Units for all those interested. Questions concerning any of the information presented in this report or requests for additional information should be addressed to:

Jennifer Ellis, Executive Director, at 107 West 11th Ave, Ellensburg WA 98926.

FINANCIAL STATEMENTS

HOUSING AUTHORITY OF KITTITAS COUNTY
STATEMENT OF NET POSITION
AS OF DECEMBER 31, 2019

ASSETS

	<u>Primary Government</u>	<u>Discretely Presented Component Units</u>	<u>Total Reporting Entity (Memorandum Only)</u>
Current assets:			
Cash and cash equivalents	\$ 7,855,150	\$ 327,316	\$ 8,182,466
Tenant security deposits	10,010	63,615	73,625
Accounts receivable, net	890,562	21,453	912,015
Other assets	40,573	50,791	91,364
Prepaid expenses	8,585	29,787	38,372
Inventories, net	<u>16,902</u>	<u>259</u>	<u>17,161</u>
Total current assets	<u>8,821,782</u>	<u>493,221</u>	<u>9,315,003</u>
Non-current assets:			
Restricted cash	125,326	1,536,971	1,662,297
Capital assets, net	<u>1,875,301</u>	<u>21,013,226</u>	<u>22,888,527</u>
Total non-current assets	<u>2,000,627</u>	<u>22,550,197</u>	<u>24,550,824</u>
Total assets	<u>10,822,409</u>	<u>23,043,418</u>	<u>33,865,827</u>

DEFERRED OUTFLOWS OF RESOURCES

State of Washington P.E.R.S.	<u>53,839</u>	<u>-</u>	<u>53,839</u>
Total assets and deferred outflows of resources	<u>\$ 10,876,248</u>	<u>\$ 23,043,418</u>	<u>\$ 33,919,666</u>

See accompanying notes to financial statements

HOUSING AUTHORITY OF KITTITAS COUNTY
STATEMENT OF NET POSITION (continued)
AS OF DECEMBER 31, 2019

LIABILITIES

	<u>Primary Government</u>	<u>Discretely Presented Component Units</u>	<u>Total Reporting Entity (Memorandum Only)</u>
Current liabilities:			
Accounts payable	\$ 11,550	\$ 1,732,869	\$ 1,744,419
Accrued expenses	31,327	-	31,327
Tenant security deposits	10,010	63,615	73,625
Prepaid rent	314	1,841	2,155
Accrued compensated absences, current	26,507	-	26,507
Notes payable, current	9,330	-	9,330
Accrued interest payable	<u>9,207</u>	<u>149,689</u>	<u>158,896</u>
Total current liabilities	<u>98,245</u>	<u>1,948,014</u>	<u>2,046,259</u>
Non-current liabilities:			
Accrued compensated absences, non-current	43,330	-	43,330
Accrued pension liability	93,159	-	93,159
Notes payable, non-current	1,458,720	19,748,341	21,207,061
Other non-current liabilities	<u>-</u>	<u>38,470</u>	<u>38,470</u>
Total non-current liabilities	<u>1,595,209</u>	<u>19,786,811</u>	<u>21,382,020</u>
Total liabilities	<u>1,693,454</u>	<u>21,734,825</u>	<u>23,428,279</u>

DEFERRED INFLOWS OF RESOURCES

State of Washington P.E.R.S.	<u>100,117</u>	<u>-</u>	<u>100,117</u>
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NET POSITION

Net position:			
Net investment in capital assets	407,250	1,264,885	1,672,135
Restricted	125,326	1,536,971	1,662,297
Unrestricted	<u>8,550,101</u>	<u>(1,493,263)</u>	<u>7,056,838</u>
Total net position	<u>9,082,677</u>	<u>1,308,593</u>	<u>10,391,270</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 10,876,248</u>	<u>\$ 23,043,418</u>	<u>\$ 33,919,666</u>

See accompanying notes to financial statements

HOUSING AUTHORITY OF KITTITAS COUNTY
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
FOR THE TWENTY ONE MONTH PERIOD ENDED DECEMBER 31, 2019

	<u>Primary Government</u>	<u>Discretely Presented Component Units</u>	<u>Total Reporting Entity (Memorandum Only)</u>
Operating revenues:			
Tenant revenue	\$ 1,349,766	\$ 438,812	\$ 1,788,578
HUD operating grants	1,243,511	-	1,243,511
Other revenues	<u>1,097,600</u>	<u>26,591</u>	<u>1,124,191</u>
Total operating revenues	<u>3,690,877</u>	<u>465,403</u>	<u>4,156,280</u>
Operating expenses:			
Administrative	606,656	121,286	727,942
Tenant services	73,375	6,149	79,524
Utilities	290,271	33,866	324,137
Ordinary repairs and maintenance	661,473	100,818	762,291
Insurance	44,872	15,028	59,900
General expenses	232,014	2,802	234,816
Housing assistance payments	210,482	-	210,482
Depreciation	<u>347,452</u>	<u>169,889</u>	<u>517,341</u>
Total operating expenses	<u>2,466,595</u>	<u>449,838</u>	<u>2,916,433</u>
Operating income	<u>1,224,282</u>	<u>15,565</u>	<u>1,239,847</u>
Non-operating revenues (expenses):			
Investment income	141,046	978	142,024
Mortgage interest income	12,057	-	12,057
Interest expense	(18,748)	(148,348)	(167,096)
Casualty losses, non-capitalized	(3,453)	-	(3,453)
Gain on sale of capital assets	<u>2,993,358</u>	<u>-</u>	<u>2,993,358</u>
Net non-operating revenues (expenses)	<u>3,124,260</u>	<u>(147,370)</u>	<u>2,976,890</u>
Gain (loss) before special items	4,348,542	(131,805)	4,216,737
Capital contributions	<u>-</u>	<u>1,440,398</u>	<u>1,440,398</u>
Change in net position	4,348,542	1,308,593	5,657,135
Total net position, beginning of period	<u>4,734,135</u>	<u>-</u>	<u>4,734,135</u>
Total net position, end of period	<u>\$ 9,082,677</u>	<u>\$ 1,308,593</u>	<u>\$ 10,391,270</u>

See accompanying notes to financial statements

HOUSING AUTHORITY OF KITTITAS COUNTY
STATEMENT OF CASH FLOWS
FOR THE TWENTY ONE MONTH PERIOD ENDED DECEMBER 31, 2019

	<u>Primary Government</u>
Cash Flows from Operating Activities:	
Cash received from tenants and others	\$ 1,500,395
Cash received from grantors	1,244,941
Cash paid to employees	(660,830)
Cash paid to vendors and suppliers	<u>(1,548,022)</u>
Net cash provided by operating activities	<u>536,484</u>
Cash Flows from Noncapital Financing Activities:	
Casualty losses	<u>(3,453)</u>
Net cash used in noncapital financing activities	<u>(3,453)</u>
Cash Flows from Capital and Related Financing Activities:	
Proceeds from issuance of notes	1,153,380
Principal payments of notes	(2,329)
Interest paid on long term debt	(9,541)
Purchase of capital assets	(1,380,000)
Proceeds from sale of capital assets	<u>5,693,158</u>
Net cash provided by capital and related financing activities	<u>5,454,668</u>
Cash Flows from Investing Activities:	
Investment income received	141,046
Interest received	<u>12,057</u>
Net cash provided by investing activities	<u>153,103</u>
Net increase in cash and cash equivalents and restricted cash	6,140,802
Cash and cash equivalents and restricted cash, beginning of period	<u>1,849,684</u>
Cash and cash equivalents and restricted cash, end of period	<u><u>\$ 7,990,486</u></u>
Reconciliation of cash and cash equivalents and restricted cash to the Statement of Net Position is as follows:	
Cash and cash equivalents	\$ 7,855,150
Tenant security deposits	10,010
Restricted cash	<u>125,326</u>
Cash and cash equivalents and restricted cash, end of period	<u><u>\$ 7,990,486</u></u>

See accompanying notes to financial statements

HOUSING AUTHORITY OF KITTITAS COUNTY
STATEMENT OF CASH FLOWS (continued)
FOR THE TWENTY ONE MONTH PERIOD ENDED DECEMBER 31, 2019

	<u>Primary Government</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 1,224,282
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	347,452
Bad debt expense - tenants	78,938
Bad debt expense - mortgages	125,888
Changes in operating assets, deferred outflows of resources, liabilities, and deferred inflows of resources:	
Accounts receivable, net	(1,091,751)
Prepaid expenses	23,882
Inventory, net	(5,264)
Other assets	(40,573)
Deferred outflows of resources	(14,474)
Accounts payable	(11,882)
Accrued expenses	(54,174)
Tenant security deposits liability	(50,993)
Prepaid rent	(9,053)
Accrued compensated absences	36,350
Accrued pension liability	(25,249)
Deferred inflows of resources	<u>3,105</u>
Net cash provided by operating activities	\$ <u>536,484</u>

See accompanying notes to financial statements

**HOUSING AUTHORITY OF KITTITAS COUNTY
COMBINING STATEMENT OF NET POSITION -
DISCRETELY PRESENTED COMPONENT UNITS
AS OF DECEMBER 31, 2019**

	ASSETS		
	Alder Terrace Affordable Housing, LLLP	Kittitas RAD Affordable Housing Portfolio, LLLP	Total Discretely Presented Component Units
Current assets:			
Cash and cash equivalents	\$ 64,397	\$ 262,919	\$ 327,316
Tenant security deposits	32,260	31,355	63,615
Accounts receivable, net	21,453	-	21,453
Other assets	50,791	-	50,791
Prepaid expenses	9,216	20,571	29,787
Inventories, net	<u>-</u>	<u>259</u>	<u>259</u>
Total current assets	<u>178,117</u>	<u>315,104</u>	<u>493,221</u>
Non-current assets:			
Restricted cash	547,495	989,476	1,536,971
Capital assets, net	<u>7,903,638</u>	<u>13,109,588</u>	<u>21,013,226</u>
Total non-current assets	<u>8,451,133</u>	<u>14,099,064</u>	<u>22,550,197</u>
Total assets	<u>\$ 8,629,250</u>	<u>\$ 14,414,168</u>	<u>\$ 23,043,418</u>

See accompanying notes to financial statements

HOUSING AUTHORITY OF KITTITAS COUNTY
COMBINING STATEMENT OF NET POSITION -
DISCRETELY PRESENTED COMPONENT UNITS (continued)
AS OF DECEMBER 31, 2019

LIABILITIES

	Alder Terrace Affordable Housing, LLLP	Kittitas RAD Affordable Housing Portfolio, LLLP	Total Discretely Presented Component Units
Current liabilities:			
Accounts payable	\$ 1,007,572	\$ 725,297	\$ 1,732,869
Tenant security deposits	32,260	31,355	63,615
Prepaid rent	1,026	815	1,841
Accrued interest payable	<u>65,759</u>	<u>83,930</u>	<u>149,689</u>
Total current liabilities	<u>1,106,617</u>	<u>841,397</u>	<u>1,948,014</u>
Non-current liabilities:			
Notes payable, non-current	6,873,929	12,874,412	19,748,341
Other non-current liabilities	<u>38,470</u>	<u>-</u>	<u>38,470</u>
Total non-current liabilities	<u>6,912,399</u>	<u>12,874,412</u>	<u>19,786,811</u>
Total liabilities	<u>8,019,016</u>	<u>13,715,809</u>	<u>21,734,825</u>

NET POSITION

Net position:			
Net investment in capital assets	1,029,709	235,176	1,264,885
Restricted	547,495	989,476	1,536,971
Unrestricted	<u>(966,970)</u>	<u>(526,293)</u>	<u>(1,493,263)</u>
Total net position	<u>610,234</u>	<u>698,359</u>	<u>1,308,593</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 8,629,250</u>	<u>\$ 14,414,168</u>	<u>\$ 23,043,418</u>

See accompanying notes to financial statements

HOUSING AUTHORITY OF KITTITAS COUNTY
COMBINING STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION -
DISCRETELY PRESENTED COMPONENT UNITS
FOR THE TWENTY ONE MONTH PERIOD ENDED DECEMBER 31, 2019

	Alder Terrace Affordable Housing, LLLP	Kittitas RAD Affordable Housing Portfolio, LLLP	Total Discretely Presented Component Units
Operating revenues:			
Tenant revenue	\$ 140,176	\$ 298,636	\$ 438,812
Other revenues	<u>1,123</u>	<u>25,468</u>	<u>26,591</u>
Total operating revenues	<u>141,299</u>	<u>324,104</u>	<u>465,403</u>
Operating expenses:			
Administrative	45,790	75,496	121,286
Tenant services	6,149	-	6,149
Utilities	14,656	19,210	33,866
Ordinary repairs and maintenance	37,633	63,185	100,818
Insurance	4,742	10,286	15,028
General expenses	1,667	1,135	2,802
Depreciation	<u>60,000</u>	<u>109,889</u>	<u>169,889</u>
Total operating expenses	<u>170,637</u>	<u>279,201</u>	<u>449,838</u>
Operating income (loss)	<u>(29,338)</u>	<u>44,903</u>	<u>15,565</u>
Non-operating revenues (expenses):			
Investment income	978	-	978
Interest expense	<u>(61,605)</u>	<u>(86,743)</u>	<u>(148,348)</u>
Net non-operating revenues (expenses)	<u>(60,627)</u>	<u>(86,743)</u>	<u>(147,370)</u>
Loss before special items	(89,965)	(41,840)	(131,805)
Capital contributions	<u>700,199</u>	<u>740,199</u>	<u>1,440,398</u>
Change in net position	610,234	698,359	1,308,593
Total net position, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>
Total net position, end of year	<u>\$ 610,234</u>	<u>\$ 698,359</u>	<u>\$ 1,308,593</u>

See accompanying notes to financial statements

HOUSING AUTHORITY OF KITTITAS COUNTY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization

The Housing Authority of Kittitas County (the "Authority") is a governmental, public corporation created under federal and state housing laws for the purpose of engaging in the development, acquisition and administrative activities of the low-income housing program and other programs with similar objectives for low and moderate income families residing in Kittitas County, Washington (the "County"). The Authority is responsible for operating certain low-rent housing programs in the City under programs administered by the U.S. Department of Housing and Urban Development ("HUD"). These programs provide housing for eligible families under the United States Housing Act of 1937, as amended.

The Authority is governed by a board of commissioners which is essentially autonomous, but is responsible to HUD. An executive director is appointed by the Authority's board of commissioners to manage the day-to-day operations of the Authority.

B. Basis of Accounting / Financial Statement Presentation

The Authority's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The Governmental Accounting Standards Board is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations).

The programs of the Authority are organized as separate accounting entities. Each program is accounted for by a separate set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position (program equity), revenues, and expenses. The individual programs account for the governmental resources allocated to them for the purpose of carrying on specific programs in accordance with laws, regulations, or other restrictions, including those imposed by HUD. The programs of the Authority are combined and considered an enterprise fund. An enterprise fund is used to account for activities that are operated in a manner similar to those found in the private sector.

The Authority's enterprise fund is accounted for using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, and losses from assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

The Authority's financial statements are prepared in accordance with GASB 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, as amended ("GASB 34"). GASB 34 requires the basic financial statements to be prepared using the economic resources measurement focus and the accrual basis of accounting and requires the presentation of a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position and Statement of Cash Flows. GASB 34 also requires the Authority to include Management's Discussion and Analysis as part of the Required Supplementary Information.

The Authority's primary source of non-exchange revenue relates to grants and subsidies. In accordance with GASB 33, *Accounting and Financial Reporting for Non-exchange Transactions* ("GASB 33"), grant and subsidy revenue are recognized at the time eligible program expenditures occur and/or the Authority has complied with the grant and subsidy requirements.

HOUSING AUTHORITY OF KITTITAS COUNTY
NOTES TO FINANCIAL STATEMENTS (continued)
DECEMBER 31, 2019

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Reporting Entity

In accordance with GASB 61, *The Financial Reporting Entity Omnibus - An Amendment of GASB Statement No. 14 and No. 34*, the Authority's basic financial statements include those of the Authority and any component units. Component units are legally separate organizations whose majority of officials are appointed by the primary government or the organization is fiscally dependent on the primary government and there is a potential for those organizations either to provide specific financial benefits to, or impose specific financial burdens on, the primary government. An organization has a financial benefit or burden relationship with the primary government if any one of the following conditions exist:

1. The primary government (Authority) is legally entitled to or can otherwise access the organization's resources.
2. The primary government is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization.
3. The primary government is obligated in some manner for the debt of the organization.

Based on the application of the above criteria, this report includes all programs and activities operated by the Authority, including the following discretely presented component units.

Kittitas RAD Affordable Housing Portfolio, LLLP

Kittitas RAD Affordable Housing Portfolio, LLLP ("Kittitas RAD") was formed as a limited partnership in May 2018 and began operations in September 2019. The Authority sold its Public and Indian Housing units to Kittitas RAD as part of the conversion to the Rental Assistance Demonstration Program ("RAD"). The purpose of Kittitas RAD is to rehabilitate and operate one hundred and ten (110) units for rental to persons of low to moderate income located in the County. The financial statements of Kittitas RAD are reported as of December 31, 2019 and for the period from inception (May 30, 2018) to December 31, 2019.

Alder Terrace Affordable Housing, LLLP

Alder Terrace Affordable Housing, LLLP ("Alder Terrace") was formed as a limited partnership in May 2018 and began operations in September 2019. The Authority sold its State & Local units to Alder Terrace as the units were eligible for Low-Income Housing Tax Credits. The purpose of Alder Terrace is to rehabilitate and operate fifty one (51) units for rental to persons of low to moderate income located in the County. The financial statements of Alder Terrace are reported as of December 31, 2019 and for the period from inception (May 30, 2018) to December 31, 2019.

There were no additional entities required to be included in the reporting entity under these criteria. Furthermore, the Authority is not included in any other reporting entity on the basis of such criteria.

D. Description of Programs

The Authority maintains its accounting records by program. A summary of the significant programs operated by the Authority is as follows:

Public and Indian Housing Program

The Public and Indian Housing Program is designed to provide low-cost housing within the County. Under this program, HUD provides funding via an annual contributions contract. These funds, combined with the rental income received from tenants, are available solely to meet the operating expenses of the program. During the twenty one month period ended December 31, 2019, the Authority converted all of its Public and Indian Housing units to project based vouchers through the RAD Program.

HOUSING AUTHORITY OF KITTITAS COUNTY
NOTES TO FINANCIAL STATEMENTS (continued)
DECEMBER 31, 2019

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Description of Programs (continued)

Public Housing Capital Fund Program

The purpose of the Public Housing Capital Fund Program is to provide another source of funding to cover the cost of physical and management improvements and rehabilitation on existing low-income housing and improving the central office facilities. Funding for this program is provided by grants from HUD.

Business Activities

The Business Activities Fund was created as part of the RAD conversion. The Business Activities Fund includes the interest in Kittitas RAD and Alder Terrace and the revenues recorded from these interests are recorded in this fund.

Rural Rental Housing Loans

Rural Rental Housing Loans are mortgages made by the United States Department of Agriculture ("USDA") to provide affordable rental housing for low and moderate income families, elderly persons, and persons with disabilities.

E. Use of Management Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets, deferred outflows of resources, liabilities and deferred inflows of resources, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates include the allowance for doubtful accounts, accrued expenses and other liabilities, depreciable lives of properties and equipment, amortization of leasehold improvements and contingencies. Actual results could differ significantly from these estimates.

F. Cash and Cash Equivalents

HUD requires housing authorities to invest excess funds in obligations of the United States, Certificates of Deposit or any other federally insured investment.

HUD also requires that deposits be fully collateralized at all times. Acceptable collateralization includes FDIC insurance and the market value of securities purchased and pledged to the political subdivision. Pursuant to HUD restrictions, obligations of the United States are allowed as security for deposits. Obligations furnished as security must be held by the Authority or with an unaffiliated bank or trust company for the account of the Authority.

For the statement of cash flows, cash and cash equivalents include all cash balances and highly liquid investments with a maturity of three months or less at time of purchase. It is the Authority's policy to maintain collateralization in accordance with state and HUD requirements.

HOUSING AUTHORITY OF KITTITAS COUNTY
NOTES TO FINANCIAL STATEMENTS (continued)
DECEMBER 31, 2019

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Accounts Receivable, Net

Rents are due from tenants on the first day of each month. As a result, tenants receivable balances primarily consist of rents past due and due from vacated tenants. An allowance for doubtful accounts is established to provide for accounts which may not be collected in the future for any reason. Collection losses on accounts receivable are charged against the allowance for doubtful accounts. Also, included in accounts receivable are those amounts that tenants owe the Authority as payment for committing fraud or misrepresentation. These charges usually consist of retroactive rent and other amounts that may be determined by a formal written agreement or by a court order.

The Authority recognizes a receivable from HUD and other governmental agencies for amounts earned and billed but not received and for amounts unbilled, but earned as of year end.

H. Allowance for Doubtful Accounts

The Authority periodically reviews all accounts receivable to determine the amount, if any, that may be uncollectable. If it is determined that an account or accounts may be uncollectable, the Authority prepares an analysis of such accounts and records an appropriate allowance against such amounts.

I. Notes Receivable

The Authority has utilized development funds in accordance with HUD guidelines to assist in the construction and redevelopment of numerous public housing developments through the issuance of mortgage notes. When preparing financial statements in accordance with generally accepted accounting principles, management is required to make estimates as to the collectability of such mortgage notes. When estimating collectability, management analyzes the value of the underlying mortgaged property; the property's ability to generate positive cash flow, and current economic trends and conditions. Management utilizes these estimates and judgments in connection with establishing an allowance for uncollectable amounts during an accounting period.

J. Prepaid Expenses

Prepaid expenses represent amounts paid as of year-end that will benefit future operations.

K. Inventories, Net

Inventory consists of miscellaneous supplies and appliances and are valued at cost using the first in first out method. If inventory falls below cost due to damage, deterioration, or obsolescence, the Authority writes down inventory to its net realizable value through the establishment of an allowance for obsolete inventory. As of December 31, 2019, management has determined an allowance to not be necessary.

HOUSING AUTHORITY OF KITTITAS COUNTY
NOTES TO FINANCIAL STATEMENTS (continued)
DECEMBER 31, 2019

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

L. Capital Assets

Capital assets are stated at cost. Expenditures for repairs and maintenance are charged directly to expense as they are incurred. Expenditures determined to represent additions or betterments are capitalized. Upon the sale or retirement of fixed assets, the cost and related accumulated depreciation is eliminated from the accounts and any related gain or loss is reflected in the Statement of Revenues, Expenses and Changes in Net Position.

Depreciation is calculated using the straight-line method based on the estimated useful lives of the following asset groups:

•	Buildings	50 Years
•	Leasehold Improvements	15 - 25 Years
•	Vehicles and Equipment	3 - 8 Years

The Authority has established a capitalization threshold of \$5,000

M. Impairment of Long Lived Assets

The Authority evaluates events or changes in circumstances affecting long-lived assets to determine whether an impairment of its assets has occurred. If the Authority determines that a capital asset is impaired, and that impairment is significant and other-than-temporary, then an impairment loss will be recorded in the Authority's financial statements. During the twenty one months ended December 31, 2019 there were no impairments losses incurred.

N. Accounts Payable and Accrued Liabilities

The Authority recognizes a liability for goods and services received but not paid for as of year-end. The Authority recognizes a liability for wages and fringe benefits related to services performed at year-end but not yet paid to employees or taxing authorities.

O. Prepaid Rent

The Authority's prepaid rent primarily consists of the prepayment of rent by residents applicable to future periods.

P. Compensated Absences

Compensated absences are those absences for which employees will be paid in accordance with the Authority's Personnel Policy. A liability for compensated absences that is attributable to services already rendered and that are not contingent on a specific event that is outside the control of the Authority and its employees, is accrued as employees earn the rights to the benefits. Compensated absences that relate to future services or that are contingent on a specific event that is outside the control of the Authority and its employees are accounted for in the period in which such services are rendered or in which such event take place.

HOUSING AUTHORITY OF KITTITAS COUNTY
NOTES TO FINANCIAL STATEMENTS (continued)
DECEMBER 31, 2019

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Q. 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 the Washington State Public Employees' Retirement System ("PERS") and additions to/deductions from PERS's fiduciary net position have been determined on the same basis as they are reported by PERS. 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.

R. Deferred Outflows and Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources until that time.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources until that time.

S. Equity Classifications

Equity is classified as net position and displayed in three components:

Net investment in capital assets - Consists of resources including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction or improvement of those assets.

Restricted net position - Consists of resources with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

Unrestricted net position - All other net position that do not meet the definition of "restricted" or "net investment in capital assets."

T. Operating Revenues and Expenses

The Authority defines its operating revenues as income derived from charges to residents and others for services provided as well as government subsidies and grants used for operating purposes. The Authority receives annual operating subsidies from HUD, subject to limitations prescribed by HUD. Operating subsidies from HUD are recorded when received and are accounted for as revenue. Other contributions from HUD that are for development and modernization of capital assets are reflected separately in the accompanying financial statements as capital grants.

Operating expenses are costs incurred in the operation of its program activities to provide services to residents and others. The Authority classifies all other revenues and expenses as non-operating.

HOUSING AUTHORITY OF KITTITAS COUNTY
NOTES TO FINANCIAL STATEMENTS (continued)
DECEMBER 31, 2019

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

U. Taxes

The Authority is a unit of local government under the State of Washington law and is exempt from real estate, sales and income taxes by both the federal and state governments. However, the Authority will pay a payment in lieu of taxes to cover municipal services provided by the local government for certain properties owned throughout the County.

V. Economic Dependency

The Public and Indian Housing program of the Authority is economically dependent on grants and subsidies from HUD. The programs operate at a loss prior to receiving the grants.

W. Risk Management

The Authority is exposed to various risks related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Significant losses are covered by commercial insurance for all major programs and there have been no significant reductions in insurance coverage. Claims expenditures and liabilities are reported when it is probable that a loss has occurred, the amount of the loss can be reasonably estimated, and said amount exceeds insurance coverage. Settlement amounts have not exceeded insurance coverage for the last three years.

NOTE 2. CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

As of December 31, 2019, the primary government had funds on deposit in checking, savings, and money market accounts. The carrying amount of the primary government's cash and cash equivalents (including restricted cash) was \$7,990,486, and the bank balances approximated \$8,003,975.

<u>Cash Category</u>	<u>Primary Government</u>	<u>Discretely Presented Component Units</u>	<u>Total Reporting Entity (Memorandum Only)</u>
Unrestricted	\$ 7,855,150	\$ 327,316	\$ 8,182,466
Tenant security deposits	10,010	63,615	73,625
Restricted	<u>125,326</u>	<u>1,536,971</u>	<u>1,662,297</u>
Total cash and cash equivalents	\$ <u>7,990,486</u>	\$ <u>1,927,902</u>	\$ <u>9,918,388</u>

Of the primary government's bank balances, \$500,000 was covered by federal depository insurance and the remaining \$7,503,975 was collateralized with the pledging financial institutions as of December 31, 2019.

Custodial credit risk is the risk that, in the event of a bank failure, the government's deposits may not be returned to it. The Authority does not have a formal policy for custodial credit risk. As of December 31, 2019, the Authority's bank balances were not exposed to custodial credit risk.

HOUSING AUTHORITY OF KITTITAS COUNTY
NOTES TO FINANCIAL STATEMENTS (continued)
DECEMBER 31, 2019

NOTE 3. ACCOUNTS RECEIVABLE, NET

Accounts receivable, net consists of the following at December 31, 2019:

<u>Description</u>	<u>Primary Government</u>	<u>Discretely Presented Component Units</u>	<u>Total Reporting Entity (Memorandum Only)</u>
Accounts receivable - tenants, net	\$ 130	\$ -	\$ 130
Accounts receivable - miscellaneous	<u>890,432</u>	<u>21,453</u>	<u>911,885</u>
Total accounts receivable, net	<u>\$ 890,562</u>	<u>\$ 21,453</u>	<u>\$ 912,015</u>

Accounts Receivable - Tenants, Net

Tenant accounts receivable represents amounts owed to the Authority by tenants for outstanding rent. The balance is shown net of an allowance for doubtful accounts of \$55,731.

Accounts Receivable - Miscellaneous

Accounts receivable - miscellaneous consists of amounts owed to the the Authority for management fees, developer fees, and reimbursement of expenditures from Kittitas RAD and Alder Terrace. Management estimates the amounts to be fully collectible and therefore no allowance for doubtful accounts has been established.

NOTE 4. RESTRICTED DEPOSITS

As of December 31, 2019, restricted deposits consisted of the following:

<u>Cash Category</u>	<u>Primary Government</u>	<u>Discretely Presented Component Units</u>	<u>Total Reporting Entity (Memorandum Only)</u>
Replacement reserves	\$ 112,182	\$ -	\$ 112,182
Construction reserves	-	1,536,971	1,536,971
Operating reserves	11,956	-	11,956
Tax and insurance reserves	1,188	-	1,188
Tenant security deposits	<u>10,010</u>	<u>63,615</u>	<u>73,625</u>
Total restricted deposits	<u>\$ 135,336</u>	<u>\$ 1,600,586</u>	<u>\$ 1,735,922</u>

Replacement reserves are required to be set aside to fund major repairs, capital expenditures, and replacement of capital items of Authority.

Construction reserves represent funds that are restricted for payments of construction and rehabilitation costs for Alder Terrace and Kittitas RAD.

Operating reserves represent funds that are restricted in the case that the Authority encounters an operating deficit.

Tax and insurance reserves are restricted for payments of real estate taxes and insurance expenditures of the Authority.

HOUSING AUTHORITY OF KITTITAS COUNTY
NOTES TO FINANCIAL STATEMENTS (continued)
DECEMBER 31, 2019

NOTE 4. RESTRICTED DEPOSITS (continued)

Tenant security deposits represent amounts held by the Authority on behalf of tenants. Upon termination from the Authority, the tenant is due amounts deposited plus interest earned less any amounts charged for damage to the unit.

NOTE 5. CAPITAL ASSETS, NET

The following is a summary of the primary government's changes in capital assets during the twenty one month period ended December 31, 2019:

Description	March 31, 2018	Additions	Dispositions	Transfers	December 31, 2019
<u>Non-depreciable:</u>					
Land	\$ 774,791	\$ 92,220	\$ (424,791)	\$ -	\$ 442,220
Construction in progress	141,982	-	(141,982)	-	-
Subtotal	<u>916,773</u>	<u>92,220</u>	<u>(566,773)</u>	<u>-</u>	<u>442,220</u>
<u>Depreciable:</u>					
Buildings and improvements	10,558,125	1,287,780	(10,558,125)	-	1,287,780
Furniture and equipment	642,310	-	(471,299)	-	171,011
Subtotal	<u>11,200,435</u>	<u>1,287,780</u>	<u>(11,029,424)</u>	<u>-</u>	<u>1,458,791</u>
Less: accumulated depreciation	<u>8,574,655</u>	<u>347,452</u>	<u>(8,896,397)</u>	<u>-</u>	<u>25,710</u>
Net capital assets	<u>\$ 3,542,553</u>	<u>\$ 1,032,548</u>	<u>\$ (2,699,800)</u>	<u>\$ -</u>	<u>\$ 1,875,301</u>

Depreciation expense of the primary government for the twenty one month period ended December 31, 2019 amounted to \$347,452.

The following is a summary of the discretely presented component units' changes in capital assets during the twenty one month period ended December 31, 2019:

Description	March 31, 2018	Additions	Dispositions	Transfers	December 31, 2019
<u>Non-depreciable:</u>					
Construction in progress	\$ -	\$ 5,893,115	\$ -	\$ -	\$ 5,893,115
Subtotal	<u>-</u>	<u>5,893,115</u>	<u>-</u>	<u>-</u>	<u>5,893,115</u>
<u>Depreciable:</u>					
Buildings and improvements	-	15,290,000	-	-	15,290,000
Subtotal	<u>-</u>	<u>15,290,000</u>	<u>-</u>	<u>-</u>	<u>15,290,000</u>
Less: accumulated depreciation	<u>-</u>	<u>169,889</u>	<u>-</u>	<u>-</u>	<u>169,889</u>
Net capital assets	<u>\$ -</u>	<u>\$ 21,013,226</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 21,013,226</u>

Depreciation expense of the discretely presented component units' for the twenty one month period ended December 31, 2019 amounted to \$169,889.

HOUSING AUTHORITY OF KITTITAS COUNTY
NOTES TO FINANCIAL STATEMENTS (continued)
DECEMBER 31, 2019

NOTE 6. NOTES RECEIVABLE

Outstanding notes receivable of the primary government as of December 31, 2019 consisted of the following:

On August 28, 2019, the Authority issued a seller take-back loan to Kittitas RAD in the amount of \$7,250,000, related to the sale of the public housing units. The loan accrues interest at 3.00% per annum and is due from available cash flow. The loan matures on August 1, 2059, at which time the entire balance of principal and interest shall be due and payable in full. The loan is secured by a Leasehold Deed of Trust, Assignment of Rent and Leases, Security Agreement, and Fixture Filing. Accrued interest on the loan totaled \$72,773.	\$ 7,250,000
On September 12, 2019, the Authority issued a seller take-back loan to Alder Terrace in the amount of \$2,500,000, related to the sale of the state and local units. The loan accrues interest at 7.00% per annum and is due from available cash flow. The loan matures on September 1, 2059, at which time the entire balance of principal and interest shall be due and payable in full. The loan is secured by a Leasehold Deed of Trust, Assignment of Rent and Leases, Security Agreement, and Fixture Filing. Accrued interest on the loan totaled \$53,115 as of December 31, 2019.	<u>2,500,000</u>
Total notes receivable	9,750,000
Less: deferred gain on sale (see Note 12.)	<u>9,750,000</u>
Notes receivable, net of deferred gain on sale	\$ <u>-</u>

As of December 31, 2019, accrued interest totaled \$125,888 on the aforementioned notes receivable and is shown net of an allowance for uncollectible amounts totaling \$125,888.

NOTE 7. ACCOUNTS PAYABLE

As of December 31, 2019, accounts payable consisted of the following:

<u>Description</u>	<u>Primary Government</u>	<u>Discretely Presented Component Units</u>	<u>Total Reporting Entity (Memorandum Only)</u>
Accounts payable - vendors	\$ 10,120	\$ 1,732,869	\$ 1,742,989
Accounts payable - other governments	<u>1,430</u>	<u>-</u>	<u>1,430</u>
Total accounts payable	\$ <u>11,550</u>	\$ <u>1,732,869</u>	\$ <u>1,744,419</u>

Accounts Payable - Vendors

Accounts payable - vendors represents the amounts payable to contractors and vendors for materials received or services rendered and amounts owed to the the Authority for management fees, developer fees, and reimbursement of expenditures from Kittitas RAD and Alder Terrace.

Accounts Payable - Other Governments

Accounts payable - other governments represents amounts due and payable to the County for payments in lieu of taxes.

HOUSING AUTHORITY OF KITTITAS COUNTY
NOTES TO FINANCIAL STATEMENTS (continued)
DECEMBER 31, 2019

NOTE 8. NOTES PAYABLE

Notes payable of the primary government consisted of the following as of December 31, 2019:

<u>Description</u>	<u>Amount</u>
On February 2, 2018, the Authority entered into a loan agreement with the Washington State Housing Finance Commission in the original amount of \$317,000, as part of the Washington State Affordable Housing Program. The loan bears interest at a rate of 1.00% per annum and matures on February 28, 2026, at which time the principal and accrued interest will be due and payable in full. The loan is secured by a Promissory Note and a Deed of Trust.	\$ 317,000
On August 30, 2019, the Authority entered into a Rural Rental Housing loan agreement with the USDA in the original amount of \$947,847. The loan accrues interest at a rate of 3.125% and is due in monthly principal and interest payments of \$2,011. The loan matures on August 1, 2049 and is secured by an interest in the property.	945,948
On August 30, 2019, the Authority entered into a Rural Rental Housing loan agreement with the USDA in the original amount of \$205,531. The loan accrues interest at a rate of 3.125% and is due in monthly principal and interest payments of \$448. The loan matures on August 1, 2049 and is secured by an interest in the property.	<u>205,102</u>
Total notes payable	1,468,050
Less: current portion	<u>9,330</u>
Notes payable, net of current portion	<u>\$ 1,458,720</u>

Annual debt service for principal and interest over the next five years and in five-year increments thereafter are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 9,330	\$ 36,328	\$ 45,658
2021	9,712	35,946	45,658
2022	10,024	35,634	45,658
2023	10,346	35,313	45,659
2024	10,596	35,062	45,658
2025-2029	375,652	196,294	571,946
2030-2034	68,679	159,613	228,292
2035-2039	80,422	147,869	228,291
2040-2044	94,111	134,178	228,289
2045-2049	<u>799,179</u>	<u>110,685</u>	<u>909,864</u>
	<u>\$ 1,468,051</u>	<u>\$ 926,922</u>	<u>\$ 2,349,315</u>

Interest expense for the primary government for the twenty one months ended December 31, 2019 totaled \$18,294.

HOUSING AUTHORITY OF KITTITAS COUNTY
NOTES TO FINANCIAL STATEMENTS (continued)
DECEMBER 31, 2019

NOTE 8. NOTES PAYABLE (continued)

Notes payable of the discretely presented component units consisted of the following as of December 31, 2019:

<u>Description</u>	<u>Amount</u>
On August 28, 2019, the Authority issued a seller take-back loan to Kittitas RAD Affordable Housing Portfolio LLLP in the amount of \$7,250,000, related to the sale of the public housing units. The loan accrues interest at 3.00% per annum and is due from available cash flow. The loan matures on August 1, 2059, at which time the entire balance of principal and interest shall be due and payable in full. The loan is secured by a Leasehold Deed of Trust, Assignment of Rent and Leases, Security Agreement, and Fixture Filing.	\$ 7,250,000
On August 1, 2019, Kittitas RAD entered into a loan agreement with Chase Bank in the amount of \$13,050,000. The loan bears interest at a variable rate and is due in monthly payments of principal and interest starting on the date of conversion. The loan matures in September 2021, at which time the remaining principal will be due in full. The loan is secured by a Deed of Trust.	5,624,412
On September 12, 2019, the Authority issued a seller take-back loan to Alder Terrace in the amount of \$2,500,000, related to the sale of the state and local units. The loan accrues interest at 7.00% per annum and is due from available cash flow. The loan matures on September 1, 2059, at which time the entire balance of principal and interest shall be due and payable in full. The loan is secured by a Leasehold Deed of Trust, Assignment of Rent and Leases, Security Agreement, and Fixture Filing.	2,500,000
On September 1, 2019, Alder Terrace entered into a loan agreement with Chase Bank in the amount of \$10,230,000. The loan bears interest at a variable rate and is due in monthly payments of principal and interest starting on the date of conversion. The loan matures in October 2021, at which time the remaining principal will be due in full. The loan is secured by a Deed of Trust.	<u>4,373,929</u>
Total notes payable	<u>\$ 19,748,341</u>

Interest expense for the discretely presented component units for the twenty one months ended December 31, 2019 totaled \$148,348.

NOTE 9. PENSION PLAN

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, *Accounting and Financial Reporting for Pensions* as of and for the year ended June 30, 2019:

A. State Sponsored Pension Plans

Substantially all of the 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 KITTITAS COUNTY
NOTES TO FINANCIAL STATEMENTS (continued)
DECEMBER 31, 2019

NOTE 9. PENSION PLAN (continued)

A. State Sponsored Pension Plans (continued)

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

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

B. Public Employees' Retirement System

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

PERS Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation ("AFC") times the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service.

Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of-living adjustment ("COLA"), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions

The PERS Plan 1 member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates.

The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for year ended June 30, 2019 were as follows:

PERS Plan 1

<u>Actual Contribution Rates:</u>	<u>Employer</u>	<u>Employee</u>
PERS Plan 1	7.52%	6.00%
PERS Plan 1 UAAL	5.13%	0.00%
Administrative Fee	0.18%	0.00%
Total	12.83%	6.00%

HOUSING AUTHORITY OF KITTITAS COUNTY
NOTES TO FINANCIAL STATEMENTS (continued)
DECEMBER 31, 2019

NOTE 9. PENSION PLAN (continued)

B. Public Employees' Retirement System (continued)

The Authority's actual contributions to PERS Plan 1 were \$13,100 for the year ended June 30, 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.

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

<u>Actual Contribution Rates:</u>	<u>Employer</u>	<u>Employee</u>
2019	12.83%	7.41%
Employee PERS Plan 3	12.83%	varies

HOUSING AUTHORITY OF KITTITAS COUNTY
NOTES TO FINANCIAL STATEMENTS (continued)
DECEMBER 31, 2019

NOTE 9. PENSION PLAN (continued)

B. Public Employees' Retirement System (continued)

The Authority's actual contributions to the PERS Plan 2/3 were \$19,262 for the year ended June 30, 2019.

C. 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 3.750% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- Investment rate of return: 7.40%

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.

D. Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.4 percent. To determine that rate, an asset sufficiency test included an assumed 7.5 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Consistent with the long-term expected rate of return, a 7.4 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3, PSERS 2, SERS 2/3, and TRS 2/3 employers, whose rates include a component for the PERS 1, and TRS 1 plan liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.4 percent was used to determine the total liability.

E. 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. The Washington State Investment Board ("WSIB") used a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, including inflation) to develop each major asset class. Those expected returns make up one component of WSIB's capital market assumptions. The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various future times. The long-term expected rate of return of 7.4 percent approximately equals the median of the simulated investment returns over a 50-year time horizon.

HOUSING AUTHORITY OF KITTITAS COUNTY
NOTES TO FINANCIAL STATEMENTS (continued)
DECEMBER 31, 2019

NOTE 9. PENSION PLAN (continued)

F. 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, 2019, 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.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>% Long-Term Expected Real Rate of Return Arithmetic</u>
Fixed Income	20.00%	2.20%
Tangible Assets	7.00%	5.10%
Real Estate	18.00%	5.80%
Global Equity	32.00%	6.30%
Private Equity	23.00%	9.30%

G. Sensitivity of Net Pension Liability

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

Authority's proportionate share of the net pension liability	1% Decrease (6.40%)	Discount Rate (7.40%)	1% Increase (8.40%)
PERS 1	\$ <u>87,981</u>	\$ <u>70,255</u>	\$ <u>54,875</u>
PERS 2/3	\$ <u>175,666</u>	\$ <u>22,904</u>	\$ <u>(102,447)</u>

H. Pension Plan Fiduciary Net Position

Detailed information about the State of Washington's pension plans' fiduciary net position is available in the separately issued DRS financial report.

I. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2019, the Authority reported a total pension liability of \$93,159 for its proportionate share of the net pension liabilities as follows:

<u>Plan</u>	<u>Pension Liability</u>
PERS 1	\$ 70,255
PERS 2/3	<u>22,904</u>
Total	\$ <u>93,159</u>

HOUSING AUTHORITY OF KITTITAS COUNTY
NOTES TO FINANCIAL STATEMENTS (continued)
DECEMBER 31, 2019

NOTE 9. PENSION PLAN (continued)

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

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

	<u>Proportionate Share</u> <u>June 30, 2018</u>	<u>Proportionate Share</u> <u>June 30, 2019</u>	<u>Change in Proportion</u>
PERS 1	0.001945%	0.001827%	-0.000118%
PERS 2/3	0.002461%	0.002358%	-0.000103%

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30, 2019 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 Non-employer Allocations*.

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

J. Pension Expense

For the year ended June 30, 2019, the Authority recognized pension expense as follows:

<u>Plan</u>	<u>Pension</u> <u>Expense</u>
PERS 1	\$ 3,382
PERS 2/3	<u>4,901</u>
Total	<u>\$ 8,283</u>

K. Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2019, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>PERS Plan 1</u>	<u>Deferred</u> <u>Outflows of</u> <u>Resources</u>	<u>Deferred</u> <u>Inflows of</u> <u>Resources</u>
Changes of assumptions	\$ -	\$ -
Changes in proportionate share	-	-
Differences between expected and actual experience	-	-
Net differences between projected and actual investment earnings on pension plan investments	<u>-</u>	<u>4,694</u>
Total PERS Plan 1	<u>\$ -</u>	<u>\$ 4,694</u>

HOUSING AUTHORITY OF KITTITAS COUNTY
NOTES TO FINANCIAL STATEMENTS (continued)
DECEMBER 31, 2019

NOTE 9. PENSION PLAN (continued)

K. Deferred Outflows of Resources and Deferred Inflows of Resources (continued)

<u>PERS Plan 2/3</u>	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions	\$ 587	\$ 9,610
Changes in porportionate share	24,078	47,550
Differences between expected and actual experience	6,562	4,924
Net differences between projected and actual investment earnings on pension plan investments	-	33,339
Subsequent contributions	<u>22,612</u>	<u>-</u>
Total PERS Plan 2/3	<u>\$ 53,839</u>	<u>\$ 95,423</u>
Total PERS Plans 1,2 and 3	<u>\$ 53,839</u>	<u>\$ 100,117</u>

Deferred outflows of resources related to pensions resulting from the Authority's contributions subsequent to the measurement date were recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending June 30:	<u>PERS 1</u>	<u>PERS 2/3</u>
2020	\$ (1,036)	\$ (11,829)
2021	(2,455)	(17,612)
2022	(876)	(8,474)
2023	<u>(327)</u>	<u>(3,669)</u>
	<u>\$ (4,694)</u>	<u>\$ (41,584)</u>

NOTE 10. NON-CURRENT LIABILITIES

Non-current liabilities of the primary government as of December 31, 2019 consisted of the following:

Description	March 31, 2018	Additions	Payments/ Retirements	December 31, 2019	Amounts due within one Year
Notes payable	\$ 317,000	\$ 1,153,380	\$ (2,329)	\$ 1,468,051	\$ 9,330
Accrued pension liability	118,408	-	(25,249)	93,159	-
Accrued compensated absences	<u>33,487</u>	<u>71,814</u>	<u>(35,464)</u>	<u>69,837</u>	<u>26,507</u>
Total non-current liabilities	<u>\$ 468,895</u>	<u>\$ 1,225,194</u>	<u>\$ (63,042)</u>	<u>\$ 1,631,047</u>	<u>\$ 35,837</u>

HOUSING AUTHORITY OF KITTITAS COUNTY
NOTES TO FINANCIAL STATEMENTS (continued)
DECEMBER 31, 2019

NOTE 10. NON-CURRENT LIABILITIES (continued)

Non-current liabilities of the discretely presented component units as of December 31, 2019 consisted of the following:

Description	March 31, 2018	Additions	Payments/ Retirements	December 31, 2019	Amounts due within one Year
Notes payable	\$ -	\$ 19,748,341	\$ -	\$ 19,748,341	\$ -
Developer fees	-	88,470	(50,000)	38,470	-
Total non-current liabilities	\$ -	\$ 19,836,811	\$ (50,000)	\$ 19,786,811	\$ -

NOTE 11. RESTRICTED NET POSITION

Restricted net position consists of the following as of December 31, 2019:

Description	Primary Government	Discretely Presented Component Units	Total Reporting Entity (Memorandum Only)
Replacement reserves	\$ 112,182	\$ -	\$ 112,182
Construction reserves	-	1,536,971	1,536,971
Operating reserves	11,956	-	11,956
Tax and insurance reserves	1,188	-	1,188
Total restricted net position	\$ 125,326	\$ 1,536,971	\$ 1,662,297

Replacement reserves are required to be set aside to fund major repairs, capital expenditures, and replacement of capital items in the projects of Authority.

Construction reserves represent funds that are restricted for payments of construction and rehabilitation costs for Alder Terrace and Kittitas RAD.

Operating reserves represent funds that are restricted in the case that the projects of the Authority encounter an operating deficit.

Tax and insurance reserves are restricted for payments of real estate taxes and insurance for the projects of the Authority.

NOTE 12. GAIN ON SALE OF CAPITAL ASSETS

The Authority converted 110 of its public housing units to project based vouchers through HUD's RAD program and sold the units to Kittitas RAD. As part of the sale, the Authority issued a seller take-back mortgage in the amount of \$7,250,000 to Kittitas RAD and in accordance with GASB Statement No. 62, the Authority deferred the gain on the sale of the units in this amount.

HOUSING AUTHORITY OF KITTITAS COUNTY
NOTES TO FINANCIAL STATEMENTS (continued)
DECEMBER 31, 2019

NOTE 12. GAIN ON SALE OF CAPITAL ASSETS (continued)

The recognized gain on sale for the 110 units sold to Kittitas RAD totaled \$744,220 and is calculated as follows:

<u>Description</u>	<u>Amount</u>
Sales proceeds	\$ 9,890,000
Less: Cost of capital assets sold	<u>(1,895,780)</u>
Gain on sale of 110 public housing units	<u>7,994,220</u>
Deferred gain on sale	<u>7,250,000</u>
Recognized gain on sale	<u><u>\$ 744,220</u></u>

The Authority sold 51 state and local units to Alder Terrace. As part of the sale the Authority issued a seller take-back mortgage in the amount of \$2,500,000 to Alder Terrace and accordingly deferred the gain on the sale of the units in this amount. The recognized gain on sale for the 51 units sold to Alder Terrace totaled \$2,249,138 and is calculated as follows:

<u>Description</u>	<u>Amount</u>
Sales proceeds	\$ 5,400,000
Less: Cost of capital assets sold	(656,253)
Less: Other expenses	(6,226)
Add: Other reimbursements	<u>11,617</u>
Gain on sale of 51 state and local units	<u>4,749,138</u>
Deferred gain on sale	<u>2,500,000</u>
Recognized gain on sale	<u><u>\$ 2,249,138</u></u>

NOTE 13. CONTINGENCIES

The Authority receives financial assistance from HUD in the form of grants and subsidies. Entitlement to the funds is generally conditional upon compliance with terms and conditions of the grant agreements and applicable regulations, including the expenditure of the funds for eligible purposes. Substantially all grants, entitlements and cost reimbursements are subject to financial and compliance audits by HUD. As a result of these audits, costs previously reimbursed could be disallowed and require payments to HUD. As of December 31, 2019, the Authority estimates that no material liabilities will result from such audits.

HOUSING AUTHORITY OF KITTITAS COUNTY
NOTES TO FINANCIAL STATEMENTS (continued)
DECEMBER 31, 2019

NOTE 14. SUBSEQUENT EVENTS

Events that occur after the financial statement date but before the financial statements were available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the financial statement date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the financial statement date require disclosure in the accompanying notes to the financial statements. Subsequent events have been evaluated through November 16, 2020, which is the date the financial statements were available to be issued. The spread of a novel strain of coronavirus ("COVID-19") in 2020 has caused significant volatility in U.S. markets. There is significant uncertainty around the breadth and duration of business disruptions related to COVID-19, as well as its impact on the U.S. economy. The extent of the impact of COVID-19 on the Authority's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, and the impact on tenants, employees and vendors, all of which are uncertain and cannot be determined at this time.

**INDEPENDENT AUDITORS' 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***

To the Board of Commissioners of the
Housing Authority of Kittitas County:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities (primary government) of the Housing Authority of Kittitas County (the "Authority") as of and for the twenty one month period ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the Authority's financial statements, and have issued our report thereon dated November 16, 2020. We were not engaged to audit the financial statements of the aggregate discretely presented component units.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Novogradac & Company LLP

November 16, 2020
Toms River, New Jersey

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Commissioners of
Housing Authority of Kittitas County:

Report on Compliance for Each Major Federal Program

We have audited Housing Authority of Kittitas County's (the "Authority") compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on each of the Authority's major federal programs for the twenty one month period ended December 31, 2019. The Authority's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

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

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

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

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.

Novogradec & Company LLP

November 16, 2020
Toms River, New Jersey

SUPPLEMENTARY INFORMATION

**HOUSING AUTHORITY OF KITTITAS COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE TWENTY ONE MONTH PERIOD ENDED DECEMBER 31, 2019**

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Grant Expenditures</u>
U.S. Department of Housing and Urban Development:		
Public and Indian Housing Program	14.850	\$ 476,866
Public Housing Capital Fund Program	14.872	<u>766,645</u>
Total U.S Department of Housing and Urban Development		<u>1,243,511</u>
U.S. Department of Agriculture:		
Rural Rental Housing Loans Program	10.415	<u>1,153,378</u>
Total U.S Department of Agriculture		<u>1,153,378</u>
Total Expenditures of Federal Awards		<u>\$ 2,396,889</u>

See Notes to Schedule of Expenditures of Federal Awards

HOUSING AUTHORITY OF KITTITAS COUNTY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE TWENTY ONE MONTH PERIOD ENDED DECEMBER 31, 2019

NOTE 1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal grant activity of the Authority under programs of the federal government for the twenty one month period ended December 31, 2019. The information in the Schedule is presented in accordance with the 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). Because the Schedule presents only a selected portion of operations of the Authority, it is not intended to and does not present the financial position, changes in net position or cash flows of the Authority. Therefore, some amounts presented in the Schedule may differ from amounts presented in, or used in the preparation of the financial statements.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

NOTE 3. INDIRECT COST RATE

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

NOTE 4. RURAL RENTAL HOUSING LOANS PROGRAM

The Rural Rental Housing Loans Program (Mortgage) listed subsequently is administered by the U.S. Department of Agriculture, and balance and transactions relating to the program are included in the Authority's basic financial statements. Loans outstanding at the beginning of the year and loans made during the year are included in the federal expenditures presented in the Schedule. The balance of the loan outstanding at December 31, 2019 consisted of:

<i>CFDA Number</i>	<i>Program Name</i>	<i>Outstanding Balance at December 31, 2019</i>
10.415	Rural Rental Housing Loans Program (Mortgage)	\$ <u>1,151,050</u>

HOUSING AUTHORITY OF KITTITAS COUNTY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (continued)
FOR THE TWENTY ONE MONTH PERIOD ENDED DECEMBER 31, 2019

NOTE 5. SCHEDULE OF CAPITAL FUND COSTS AND ADVANCES

	<u>501-17</u>	<u>501-18</u>	<u>501-19</u>	<u>Total</u>
Budget	\$ <u>183,473</u>	\$ <u>286,313</u>	\$ <u>296,859</u>	\$ <u>766,645</u>
<u>Advances:</u>				
Cumulative through 3/31/2018	\$ -	\$ -	\$ -	\$ -
Current period	<u>183,473</u>	<u>286,313</u>	<u>296,859</u>	<u>766,645</u>
Cumulative through 12/31/2019	<u>183,473</u>	<u>286,313</u>	<u>296,859</u>	<u>766,645</u>
<u>Costs:</u>				
Cumulative through 3/31/2018	-	-	-	-
Current period	<u>183,473</u>	<u>286,313</u>	<u>296,859</u>	<u>766,645</u>
Cumulative through 12/31/2019	<u>183,473</u>	<u>286,313</u>	<u>296,859</u>	<u>766,645</u>
Excess / (Deficiency)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>

Capital Fund Grant Nos. WA01P009501-17, WA01P009501-18, and WA01P009501-19 with approved fundings of \$183,473, \$286,313, and \$296,859, respectively, have been fully drawn down and expended as per Capital Fund Grant Regulations.

**HOUSING AUTHORITY OF KITTITAS COUNTY
SCHEDULE OF FINDING AND QUESTIONED COSTS
FOR THE TWENTY ONE MONTH PERIOD ENDED DECEMBER 31, 2019**

I. Summary of Auditors' Results

Financial Statement Section

- | | | |
|----|---|---------------|
| 1. | Type of auditors' report issued: | Unmodified |
| 2. | Internal control over financial reporting | |
| a. | Material weakness(es) identified? | No |
| b. | Significant deficiency(ies) identified? | None reported |
| 3. | Noncompliance material to the financial statements? | No |

Federal Awards Section

- | | | |
|----|--|---------------|
| 1. | Internal Control over compliance: | |
| a. | Material weakness(es) identified? | No |
| b. | Significant deficiency(ies) identified? | None reported |
| 2. | Type of auditors' report on compliance for major programs: | Unmodified |
| 3. | Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? | No |
| 4. | Identification of major programs: | |

CFDA Number

Name of Federal Program

14.872
10.415

Public Housing Capital Fund Program
Rural Rental Housing Loans Program

- | | | |
|----|--|-----------|
| 5. | Dollar threshold used to distinguish between Type A and Type B Programs: | \$750,000 |
| 6. | Auditee qualified as low-risk Auditee? | No |

See accompanying notes to financial statements

**HOUSING AUTHORITY OF KITTITAS COUNTY
SCHEDULE OF FINDING AND QUESTIONED COSTS (continued)
FOR THE TWENTY ONE MONTH PERIOD ENDED DECEMBER 31, 2019**

II. Financial Statement Findings

There were no findings or questioned costs relating to the financial statements.

III. Federal Award Findings and Questioned Costs

There were no findings or questioned costs relating to federal awards.

IV. Schedule of Prior Year Federal Audit Findings

There were no prior year audit findings.

See accompanying notes to financial statements

HOUSING AUTHORITY OF KITTITAS COUNTY
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
FOR THE TWENTY ONE MONTH PERIOD ENDED DECEMBER 31, 2019

PERS #1

	March 31, 2015	March 31, 2016	March 31, 2017	March 31, 2018	December 31, 2019
Employer's proportion of the net pension liability	0.002860%	0.002737%	0.002658%	0.001285%	0.001827%
Employer's proportionate share of the net pension liability	\$ 144,074	\$ 143,171	\$ 142,747	\$ 60,974	\$ 70,255
Covered employee payroll*	\$ -	\$ -	\$ -	\$ -	\$ -
Employer's proportionate share of the net pension liability as a percentage of its covered payroll	- %	- %	- %	- %	- %
Plan fiduciary net position as a percentage of the total pension liability	61.19 %	59.10 %	57.03 %	61.24 %	67.12 %

PERS #2/3

	March 31, 2015	March 31, 2016	March 31, 2017	March 31, 2018	December 31, 2019
Employer's proportion of the net pension liability	0.003682%	0.003536%	0.003410%	0.001653%	0.002358%
Employer's proportionate share of the net pension liability	\$ 74,427	\$ 126,343	\$ 171,691	\$ 57,434	\$ 22,904
Covered employee payroll*	\$ 304,593	\$ 303,139	\$ 202,890	\$ 239,515	\$ 337,837
Employer's proportionate share of the net pension liability as a percentage of its covered payroll	24.43 %	41.68 %	84.62 %	23.98 %	6.78 %
Plan fiduciary net position as a percentage of the total pension liability	93.29 %	89.20 %	85.82 %	90.97 %	97.77 %

* Covered payroll is the payroll on which contributions to a pension plan are based (GASB 82, par. 5)
Until a full 10-year trend is compiled, governments should present information only for those years for which information is available.

**HOUSING AUTHORITY OF KITITAS COUNTY
SCHEDULE OF EMPLOYER CONTRIBUTIONS**
FOR THE TWENTY ONE MONTH PERIOD ENDED DECEMBER 31, 2019**

PERS #1

	March 31, 2015	March 31, 2016	March 31, 2017	March 31, 2018	December 31, 2019
Contractually required contribution	\$ 12,658	\$ 12,581	\$ 15,073	\$ 7,733	\$ 13,100
Contributions in relation to the contractually required contributions	<u>12,658</u>	<u>12,581</u>	<u>15,073</u>	<u>7,733</u>	<u>13,100</u>
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered employee payroll*	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Contribution as a percentage of covered payroll	<u>- %</u>	<u>- %</u>	<u>- %</u>	<u>- %</u>	<u>- %</u>

PERS #2/3

	March 31, 2015	March 31, 2016	March 31, 2017	March 31, 2018	December 31, 2019
Contractually required contribution	\$ 15,553	\$ 15,751	\$ 19,686	\$ 10,099	\$ 19,262
Contributions in relation to the contractually required contributions	<u>15,553</u>	<u>15,751</u>	<u>19,686</u>	<u>10,099</u>	<u>19,262</u>
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered employee payroll*	<u>304,593</u>	<u>303,139</u>	<u>202,890</u>	<u>239,515</u>	<u>337,837</u>
Contribution as a percentage of covered payroll	<u>5.11 %</u>	<u>5.20 %</u>	<u>9.70 %</u>	<u>4.22 %</u>	<u>5.70 %</u>

* Covered payroll is the payroll on which contributions to a pension plan are based (GASB 82, par. 5)
Until a full 10-year trend is compiled, governments should present information only for those years for which information is available.