Office of the Washington State Auditor
Pat McCarthy

November 30, 2023

Board of Commissioners
Housing Authority City of Kennewick
Kennewick, 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 City of Kennewick for the fiscal year ended June 30, 2022. 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 City of Kennewick'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

Pat McCarthy, State Auditor

Olympia, WA

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HOUSING AUTHORITY CITY OF KENNEWICK

FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022

TABLE OF CONTENTS

FINNEY, NEILL & COMPANY, P.S.
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Housing Authority City of Kennewick
Kennewick, Washington

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of the Housing Authority City of Kennewick (the Authority) as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of the Housing Authority City of Kennewick as of June 30, 2022 and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Housing Authority City of Kennewick and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 to 9, the schedule of the Authority's proportionate share of the net pension liability on page 43, the schedule of employer contributions on page 44, the pension-related note disclosures on page 45, and OPEB schedules on page 46, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Awards Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Financial Data Schedule presented on pages 49 through 53, as required by HUD, is presented for the purposes of additional analysis and is also not a required part of the basic financial statements.

INDEPENDENT AUDITORS' REPORT, CONTINUED

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

Emphasis of Matter

As described in Note 1 to the financial statements, during the year ended June 30, 2022, the Authority adopted new accounting guidance, GASB Statement No. 87, *Leases*. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2023, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance. The financial statements of the discretely presented component units, Kennewick Affordable Housing LLLP and Nueva Vista Phase II LLLP, were not audited in accordance with *Government Auditing Standards*.

Finney, Neill & Company, P.S.

March 27, 2023
Seattle, Washington

The management of the Housing Authority City of Kennewick (the Housing Authority) offers readers of the Housing Authority's basic financial statements this narrative overview and analysis of the financial activities of the Housing Authority for the fiscal year ended June 30, 2022. The intent of this discussion and analysis is to look at the Housing Authority's financial performance. Readers should also review the notes to the financial statements and the basic financial statements to enhance their understanding of the Housing Authority's financial performance.

Financial Highlights

- The assets of the Housing Authority exceeded its liabilities at the close of the most recent fiscal year by $7,744,619 (net position).
- The Housing Authority's total net position increased by $241,509.
- The unrestricted category of net position is ($29,594) at June 30, 2022. Unrestricted net position represents the amount the authority can use to meet the ongoing obligations of the citizens and creditors.

Overview of the Basic Financial Statements

This discussion and analysis are intended to serve as an introduction to the Housing Authority's basic financial statements. The Housing Authority's basic financial statements are comprised of two components: 1) fund financial statements, and 2) notes to the financial statements. The Housing Authority is a special-purpose government agency engaged only in business-type activities. Accordingly, only fund financial statements are presented as the basic financial statements.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Housing Authority, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All the funds of the Housing Authority are reported as proprietary funds or enterprise funds.

The financial statements consist of a statement of net position, statement of revenues, expenses, and changes in fund net position, and a statement of cash flows.

The statement of net position presents information on the Housing Authority's assets, deferred outflows, liabilities, and deferred inflows, with the difference between these items reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Housing Authority is improving or deteriorating. The statement of net position can be found on pages 10 - 11 of this report.

The statement of revenues and expenses combined with the statement of changes in fund net position presents information showing how the Housing Authority's net position changed during the most recent fiscal year. changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods. The statements of revenues, expenses and changes in fund net position can be found on page 12 of this report.

The statement of cash flows presents the change in the Housing Authority's cash and cash equivalents during the most recent fiscal year. The statement of cash flows can be found on pages 13 and 14 of this report.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the fund financial statements. The notes to the financial statements can be found beginning on page 15 of this report.

Financial Analysis

Our analysis below focuses on the net position and the change in net position of the Housing Authority as a whole.

Table 1

Housing Authority City of Kennewick, Net Position

	June 30, 2022	June 30, 2021
Current and Other Assets	$ 3,418,381	2,336,474
Capital Assets	9,995,780	9,804,808
Total Assets	13,414,161	12,141,282
Deferred Outflows of Resources	164,156	186,766
Total Assets and Deferred Outflows	$ 13,578,317	12,328,048
Current Liabilities	$ 321,115	1,098,830
Long-term Liabilities	4,043,919	3,609,010
Total Liabilities	4,365,034	4,707,840
Deferred Inflows of Resources	1,468,664	117,098
Net Position		
Net Investment in Capital Assets	6,765,606	7,013,485
Restricted	1,008,607	289,006
Unrestricted	(29,594)	200,619
Total Net Position	7,744,619	7,503,110
Total Liabilities, Deferred Inflows, and Net Position	$ 13,578,317	12,328,048

Total assets increased by $1,272,879 or 10%. Current and other assets increased by $1,081,907 or 46%, with most of this being an increase in net pension assets. In 2022, the Authority received funds to cover costs not reimbursed as of FYE 2021 as well as funds reimbursing for activity through FY 2022.

Liabilities decreased by $342,806 in fiscal year 2022. Accounts payable at year-end decreased by $747,623, and net pension liability decreased by $289,765. This was partially offset by a $1,236,145 increase in loans payable for the Microhome project.

The Housing Authority's net position was $7,744,619 at June 30, 2022. This is an increase of $241,509 from the previous year. The largest portion of the Housing Authority's net position $6,765,606, reflects its investment in capital assets (e.g., land, buildings, improvements, machinery, and equipment), net of related debt. The Housing Authority uses these capital assets to provide services to program participants; consequently, these assets are not available for future spending.

Restricted net position increased as the Housing Authority increased reserves for net pension assets. Unrestricted net position at June 30, 2022 is ($29,594) which is a decrease of $230,213 from June 30, 2021.

The overall financial position of the Housing Authority has increased from the previous year. The Housing Authority presents an operating loss of $149,379 and a total decrease over prior year of $841,559 when considering the $844,154 decrease in capital contributions and changes in other non-operating revenues and expenses.

Operating revenues decreased 4% or $363,965 from FY21 to FY22. The decrease is primarily from the decrease in HUD Subsidy funding. Operating expenses decreased 4% or by $330,799.

Table 2
Housing Authority City of Kennewick, Changes in Net Position

	June 30, 2022	June 30, 2021
Operating Revenues		
Rental and Other	$ 981,718	1,052,477
HUD PHA Operating Grants	7,924,128	8,217,334
Total Operating Revenue	8,905,846	9,269,811
Non-Operating Revenues		
Fraud Recovery	25,916	56,622
Non Operating Income	186,643	95,193
Interest Income	31,865	29,583
Total Non-Operating Revenue	244,424	181,398
Total Revenue	9,150,270	9,451,209
Operating Expenses		
Administration	1,127,676	1,643,911
Utilities	254,819	190,740
Ordinary Maintenance and Operations	500,626	430,429
General Expenses	163,619	74,748
Housing Assistance Payments	6,551,957	6,638,884
Depreciation	456,528	407,312
Total Operating Expenses	9,055,225	9,386,024
Non-Operating Expenses		
Interest Expense	28,387	1,122
Total expenses	9,083,612	9,387,146
Change in Net Position Before Contributions	66,658	64,063
Contributions and Grants - Capital	174,851	1,019,005
Change in Net Position	241,509	1,083,068
Net Position, beginning	7,503,110	6,420,042
Net Position, ending	$ 7,744,619	7,503,110

Capital Assets and Long-Term Debt

CAPITAL ASSETS

The Housing Authority's investment in capital assets as of June 30, 2022 amounts to $10.0 million (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings, building improvements, equipment, and intangible assets. See Note 3 of the financial statements for additional information.

Capital Assets at Year-End

	June 30, 2022	June 30, 2021
Land	$ 1,045,758	1,045,758
Construction in Progress	-	3,277,943
Total Non-Depreciable Capital Assets	1,045,758	4,323,701
Buildings	19,095,828	15,186,707
Equipment, Dwelling	313,597	299,910
Office/Maintenance Equipment	505,868	505,868
Total Depreciable Capital Assets	19,915,293	15,992,485
Accumulated Depreciation	10,965,271	10,511,378
Total Depreciable Capital Assets, net	8,950,022	5,481,107
Intangible, Right to Use Asset, net	9,001	-
Total Capital Assets, net	$ 10,004,781	9,804,808

LONG-TERM DEBT

At June 30, 2022, the Housing Authority had total debt outstanding of approximately $3.2 million compared to $2.0 million at June 30, 2021. The increase is heavily driven by an increased capital loan debt of $1,252,224 for the Microhomes project costs. Long-term debt is primarily made up of real estate mortgages and government loans.

Additional information on the Housing Authority's long-term debt can be found in Note 6.

Economic Factors and Next Year's Budgets and Rates

The Housing Authority is dependent upon HUD for the funding of operations; therefore, the Housing Authority is affected more by the federal budget than by local economic conditions.

The Housing Authority will explore public housing conversion options over the next 18-24 months. This could include Rental Assistance Demonstration/Section 18 Blend for Small Housing Authorities to convert. Conversion would allow the housing authority more options to rehabilitate or redevelop the public housing units and existing infrastructure. The Authority applied for the FSS grant renewal for 2023 and has applied for an allocation of Stabilization vouchers and applied for an allocation of Veterans Affairs Supporting Housing (VASH) vouchers this year. The authority has also added 16 Micro Home units that serve homeless families and individuals. The Authority took over management of the two tax credit projects on May 1, 2022. The Authority is also working on a joint collaborative project with the city of Kennewick to develop approximately 52 units of affordable housing in Kennewick in 2024.

Requests for Information

This financial report is designed to provide a general overview of the Housing Authority City of Kennewick's finances for all those with an interest in the authority's finances. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to Executive Director, Housing Authority City of Kennewick, 1915 W 4th Place, Kennewick, Washington, 99336.

Housing Authority City of Kennewick

Statement of Net Position

June 30, 2022

(With Component Unit presentation as of December 31, 2021)

	Primary Government	Component Units
Assets and Deferred Outflows of Resources		
Assets		
Current Assets:		
Cash - Unrestricted	$ 1,554,300	420,368
Accounts Receivable - Tenants - Dwelling	34,167	42,805
Accounts Receivable - Fraud Recovery	35,774	-
Accounts Receivable - Miscellaneous	32,484	7,657
Current Portion, Lease Receivable	18,265	-
Accounts Receivable - HUD	102,661	-
Prepaid Expenses	8,955	26,751
Restricted Assets:		
Cash - Restricted	152,504	294,472
FSS Escrow	70,514	-
Tenant Security Deposits	42,431	10,636
Total Restricted Assets	265,449	305,108
Total Current Assets	2,052,055	802,689
Noncurrent Assets:		
Capital Assets, at cost:		
Land	1,045,758	996,796
Buildings and Improvements	19,095,828	10,325,783
Equipment, Dwelling	313,597	469,152
Office/Maintenance Equipment	505,868	-
Less: Accumulated Depreciation	(10,965,271)	(1,950,017)
Total Capital Assets, net	9,995,780	9,841,714
Notes Receivable - Due from Component Unit	441,359	-
Intangible, Right to Use Assets, amortized	9,001	-
Net Pension Asset	856,102	-
Lease Receivable, net of current portion	59,864	-
Other Long Term Assets	-	129,702
Total Noncurrent Assets	11,362,106	9,971,416
Total Assets	13,414,161	10,774,105
Deferred Outflows of Resources		
Amounts Related to Pension	162,631	-
Amounts Related to OPEB	1,525	-
Total Deferred Outflows of Resources	164,156	-
Total Assets and Deferred Outflows of Resources	$ 13,578,317	10,774,105

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

HOUSING AUTHORITY CITY OF KENNEWICK
STATEMENT OF NET POSITION, CONTINUED
June 30, 2022
(With Component Unit presentation as of December 31, 2021)

Liabilities, Deferred Inflows of Resources, and Net Position	Primary Government	Component Units
Liabilities		
Current Liabilities:		
Accounts Payable	$ 89,132	13,651
Accrued Payroll Taxes	33,153	-
Current Portion, Compensated Absences	50,530	-
Current Portion, Accrued Interest	-	1,727
Unearned Revenue	89,100	-
Accrued Liabilities - Other	-	57,295
Current Portion, Long-Term Debt	15,244	1,805
Current Portion, OPEB Liability	1,525	-
Tenant Security Deposits	42,431	10,636
Total Current Liabilities	321,115	85,114
Noncurrent Liabilities:		
Long-Term Debt, net of current portion	3,223,931	2,699,781
Compensated Absences, net of current portion	75,795	-
Net Pension Liability	81,749	-
Other Postemployment Benefits (OPEB), net of current portion	565,674	-
Accrued Interest, net of current portion	26,257	194,864
Other Long-Term Liabilities	70,513	-
Total Noncurrent Liabilities	4,043,919	2,894,645
Total Liabilities	4,365,034	2,979,759
Deferred Inflows of Resources		
Amounts Related to Leases	569,652	-
Amounts Related to Pension	899,012	-
Total Deferred Inflows of Resources	1,468,664	-
Net Position		
Invested in capital assets, net of related debt	6,765,606	7,140,128
Restricted	1,008,607	294,472
Unrestricted	(29,594)	359,746
Total Net Position	7,744,619	7,794,346
Total Liabilities, Deferred Inflows of Resources, and Net Position	$ 13,578,317	10,774,105

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

HOUSING AUTHORITY CITY OF KENNEWICK

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
Year Ended June 30, 2022
(With Component Unit presentation for the year ended December 31, 2021)

	Primary Government	Component Units
Operating Revenues		
Net Rental Revenue	$ 643,750	519,030
Tenant Revenue - Other	24,850	-
HUD PHA Operating Grants	7,924,128	-
Other Income	313,118	4,361
Total Operating Revenues	8,905,846	523,391
Operating Expenses		
Administrative	1,116,095	149,040
Tenant Services	11,581	28,928
Utilities	254,819	115,278
Maintenance	500,626	76,233
Protective Services	8,588	1,787
Insurance Premiums	55,934	19,593
Other General Expenses	99,097	9,998
Housing Assistance Payments	6,551,957	-
Depreciation	456,528	388,311
Total Operating Expenses	9,055,225	789,168
Operating Income (Loss)	(149,379)	(265,777)
Non-Operating Revenues (Expenses)		
Investment Income	31,865	-
Fraud Recovery	25,916	-
Other Nonoperating Income	186,643	-
Interest Expense	(28,387)	(73,329)
Total Non-Operating Revenues (Expenses)	216,037	(73,329)
Changes in Net Position Before Contributions	66,658	(339,106)
Contributions		
Contributions and Grants - Capital	174,851	-
Total Contributions	174,851	-
Change in Net Position	241,509	(339,106)
Net Position, Beginning of Year	7,503,110	8,133,452
Net Position, End of Year	$ 7,744,619	7,794,346

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

HOUSING AUTHORITY CITY OF KENNEWICK
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2022

		Primary Government
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Tenants	$	648,810
Cash Received from Other Activities		535,389
Cash Received from HUD Operating Grants		7,880,557
Cash Paid to Suppliers		(883,704)
Cash Paid to Employees		(1,511,265)
Cash Paid to Landlords		(6,551,957)
Net Cash Provided by Operating Activities		117,830
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Cash Received from Related Parties		10,647
Net Cash Provided By Non-Capital Financing Activities		10,647
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of Capital Assets		(644,865)
Proceeds from Issuance of Long-Term Debt		460,910
Principal Paid on Leases		(2,471)
Principal Paid on Capital Debt		(17,386)
Interest Paid		(2,130)
Capital Grants Received		184,707
Net Cash Provided by Capital and Related Financing Activities		(21,235)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received		2,991
Net Cash Provided by Investing Activities		2,991
NET INCREASE (DECREASE) IN CASH		110,233
CASH, beginning of year		1,709,516
CASH, end of year	$	1,819,749
RECONCILIATION OF CASH TO THE STATEMENT OF NET POSITION		
Cash - Unrestricted	$	1,554,300
Cash - Restricted		152,504
FSS Escrow		70,514
Tenant Security Deposits		42,431
Cash, total	$	1,819,749

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

HOUSING AUTHORITY CITY OF KENNEWICK
STATEMENT OF CASH FLOWS, CONTINUED
For the Year Ended June 30, 2022

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES:

Operating Income (Loss)	$	(149,379)
Adjustments to Reconcile Net Operating Income (Loss) to Net Cash from Operating Activities:		
Depreciation and amortization		456,528
Other Income		212,559
Forgiveness of Note Payable		(4,837)
(Increase) Decrease in Cash Due to Changes in Assets:		
Tenant Receivables		(33,068)
Other Receivables		(78,191)
Prepaid Expenses and Other Assets		(17,632)
Increase (Decrease) in Cash Due to Changes in Liabilities:		
Accounts Payable		43,691
Change in Pension Activities		(340,359)
Change in OPEB		(49,947)
Accrued Liabilities - Other		102,168
Tenant Security Deposits		(25,753)
Compensated Absences		2,050
Total Adjustments		267,209
Net Cash Provided (Used) by Operating Activities	$	117,830

Noncash Transactions:

Notes Payable Forgiven	$	4,837
Lease Income in Lieu of Liability		5,038
Capital assets financed by Authority payable to the developer		791,314
Capital assets financed by Authority loans and grants drawn by the developer		791,314

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Housing Authority City of Kennewick (the Authority) conform to U.S. generally accepted accounting principles (GAAP) as applicable to proprietary funds of governments. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

The following is a summary of the most significant policies, including identification of those policies which result in departures from generally accepted accounting principles.

Reporting Entity
The Authority is a municipal corporation governed by a six-member board. Five of the members are appointed by the Mayor of the City of Kennewick and one of the members is a resident assisted commissioner appointed by the Authority Commissioners. As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity. These financial statements present the Authority (the Primary Government) and its discretely presented Component Units. The component units are included in the Authority's reporting entity because of the significance of their operational or financial relationships with the Authority.

Discretely Presented Component Units:
Kennewick Affordable Housing Limited Liability Limited Partnership (Partnership) was formed as a limited partnership under the laws of the State of Washington on January 1, 2014, and was syndicated on December 22, 2014, for the purpose of constructing and operating an affordable rental housing project located at 386 North Union Street in the City of Kennewick. The Partnership consists of one general partner, Housing Authority City of Kennewick (the General Partner), with .01% ownership interest, and two investment limited partners, PNC Real Estate Tax Credit Capital Institutional Fund 56 LLC and Columbia Housing SLP Corporation, with the remaining 99.99% ownership interest. Per the partnership agreement, covenants exist between the general partner and the Investment Limited Partners related to the delivery of tax credits, partnership operations, and other business matters. The project is eligible for the Affordable Housing Tax Credits established under the program described in Section 42 of the Internal Revenue Code. The construction of this project was completed at the end of December 2015 and units were leased in January 2016.

Nueva Vista Phase II Limited Liability Limited Partnership (Partnership) was formed as a limited partnership under the laws of the State of Washington on December 27, 2016, for the purpose of constructing and operating an affordable rental housing project located at 384 North Union Street in the City of Kennewick. The partnership consists of one general partner, Housing Authority City of Kennewick (The General Partner) with ownership interest of .01% and investment limited partners, PNC Real Estate Tax Credit Capital Institutional Fund 65 LLC, a Delaware limited liability company, and Columbia Housing SLP, an Oregon corporation, with ownership interest of 99.99% Per the partnership agreement, covenants exist between the general partner and the Investment Limited Partners related to the delivery of tax credits, partnership operations, and other business matters. The project is eligible for the Affordable Housing Tax Credits established under the program described in Section 42 of the Internal Revenue Code. The construction of this project was completed December 2018.

The Component Units are presented with balances as of December 31, 2021, their fiscal year end. This presentation results in accounts receivable and accounts payable between component units and the primary government to not be equal as they are being presented at different dates.

The Component Unit financial statements for each limited partnership may be obtained from the administrative office of the Authority.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Basis of Accounting

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

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

Proprietary funds are used to account for activities that are operated in a manner similar to private enterprise business. Under this method, revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred. All assets and all liabilities associated with the operation of these funds are included on the statement of net position. The Authority's assets and liabilities are segregated between current and long-term with its equity reported as net position.

Debt may at various times be used to fund capital construction costs and the financing costs are secured through these same charges. The Authority uses the enterprise fund to capture the cost of providing its services or its capital maintenance costs using the economic resources measurement focus.

Generally, inter-program activity, such as due to (from) other programs, is eliminated from the financial statements.

For the most part, the Authority reports operating revenues as defined in GASB 9. Enterprise funds distinguish operating revenues and expenses from nonoperating items. Operating revenues include fees and charges from providing services in connection with the ongoing operations of providing low-income housing. Operating revenues also include operating subsidies and grants provided by the U.S. Department of Housing and Urban Development (HUD). The use of this classification is based on guidance from HUD, the primary user of the financial statements, and is a departure from GAAP. Operating expenses are those expenses that are directly incurred while in the operation of providing low-income housing. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

This presentation results in an operating income that is higher than a nonoperating revenue presentation by the amount of the subsidies and grants. Overall, it does not affect presentation of net income or the change in net position in the statement of revenues, expenses and changes in fund net position, or the presentation of cash and cash equivalents in the statement of cash flows.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

In the Schedule of Expenditures of Federal Awards (SEFA), housing authorities must report U.S. Department of Housing and Urban Development (HUD) ACC budget authority received during the fiscal year instead of expenditures on all programs, as prescribed in the HUD Accounting Issue #10, which is an exception to GAAP reporting requirements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

The Primary Government column represents the business-type activities of the Authority and contains the following programs:

The Low Rent-Public Housing program comprises 190 HUD subsidized Public Housing Units and includes an annual fund for capital and other operating needs of the Public Housing portfolio.

Business Activities program is comprised of the 6-unit Mitchell Manor project, Delafield DVS duplex, 16 micro-home units (Lilac Homes), and other business activities of the Authority.

Section 8 Housing Choice Voucher (HCV) program has an ACC contract with the Federal Department of Housing & Urban Development (HUD) for a maximum of 1,014 vouchers.

Mainstream Voucher Program has an ACC contract with HUD for a maximum of 56 vouchers.

Emergency Housing Voucher Program has an annual contribution contract with HUD for a maximum of 28 vouchers.

Veterans Affairs Supportive Housing has an ACC contract with HUD for a maximum of 20 vouchers.

Budgeting
The Authority follows the guidelines set forth in the Low Rent Housing Financial Management Handbook (RHA 7475.1) issued by HUD. The Authority budgets using the accrual basis which is in accordance with U.S. Generally Accepted Accounting Principles (GAAP).

Cash and Cash Equivalents
For purposes of the Statement of Cash Flows, the Authority considers all highly liquid investments (including restricted assets) with maturity of three months or less when purchased to be cash equivalents. There were no cash equivalents as of June 30, 2022.

Restricted Assets
In accordance with loan and regulatory agreements, separate restricted accounts are required to be established. The assets held in these accounts are restricted for specific uses, including construction, debt service, and other special reserve requirements.

The Authority has several types of restricted and unrestricted funds related to a specific project. Each related project is to use its own unrestricted funds for all operating expenses. Restricted funds are used for payment assistance or for capital improvements only; there are cases that unrestricted funds can be used to pay for payment assistance and capital improvements if restricted funds are exhausted.

As of June 30, 2022, restricted assets consisted of the following:

Replacement Reserves	$ 71,574
Emergency Housing Vouchers	79,426
Scholarship	1,504
FSS Escrow	70,514
Tenant Security Deposits	42,431
	$ 265,449

These notes are an integral part of the financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Receivables

Accounts receivable are presented net of allowances for doubtful accounts, and consist of amounts owed from developer fees and tenants for housing services, including repayment agreements, move-out charges, rent, and miscellaneous charges. When all efforts to collect directly from the tenant fail, the account is turned over to a collection agency and the account is charged to collection loss. The allowance for doubtful accounts is estimated based upon knowledge of the tenant and percentage of prior uncollectible receivables. As of June 30, 2022, the allowance for doubtful accounts was $29,235.

Receivables due from HUD consist of capital and operating grants and housing subsidies.

Receivables from component units represent amounts due for interest, developer activity, and normal operating receivables.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses in the Authority's financial statements.

Lease Receivables and Deferred Inflows of Resources

Lease receivables consist of the present value of future lease payments expected to be received in future years, in compliance with GASB 87, *Leases*. Deferred Inflows of Resources are recorded as the sum of the lease payments received to date and the lease receivables and are amortized over the life of the lease. See Note 5 – Leases for more information.

Capital Assets

Capital asset purchases greater than $5,000 are capitalized and recorded at cost. Donations are recorded at acquisition value at the time of donation. Capitalized purchases may also include capital leases and major repairs that increase useful lives. Maintenance, repair, and minor renewals are accounted for as expenditures when incurred.

The original cost of disposed property, less salvage, is removed from the capital asset accounts, accumulated depreciation is charged with the accumulated depreciation related to the property disposed, and the net gain or loss on disposition is credited or charged to income.

The Authority has acquired certain assets with funding provided by federal assistance programs. Depending on the terms of the agreements involved, the federal government could retain an equity interest in these assets. However, the Authority has sufficient legal interest to accomplish the purposes for which the assets were acquired and has included such assets within the applicable accounting group or fund.

Depreciation is charged to operations to allocate the cost of capital assets over their estimated useful lives, using the straight-line method with useful lives of 3 to 40 years.

Preliminary costs incurred for proposed capital projects are recorded in "Construction in Progress" pending completed construction of the facility. Costs relating to projects ultimately constructed are transferred to the project capital accounts; charges related to abandoned projects are expensed.

See Note 3 – Capital Assets for further detail.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Accounts Payable

Accounts payable consists of invoices less than 90 days old which the Authority has accrued as of June 30, 2022.

Accrued Payroll Taxes

These amounts consist of the amounts owing for the June 2022 payroll and 2nd quarter 2022 payroll taxes.

Tenant Security Deposits

These accounts reflect the liability for net monetary assets being held by the Authority in its trustee or agency capacity.

Accrued Compensated Absences

Compensated Absences are absences which employees may be paid vacation/and or sick leave. The Authority records unpaid leave for compensated absences as an expense when incurred and a liability at year end for accrued compensated absences due.

Exempt and Non-Exempt employees' annual vacation leave accumulates according to the following schedule per years of service:

1 – 5 years	10 hours/month (to maximum of 320 hours)
6 – 10 years	12 hours/month (to maximum of 320 hours)
11 – 15 years	14 hours/month (to maximum of 320 hours)
16 + years	16 hours/month (to maximum of 320 hours)

Exempt and Non-Exempt Employees annual sick leave:

8 hours/month (to maximum of 560 hours)
Part-time employees accrue leave on a pro-rated basis.

Vacation leave is 100% payable and sick leave is payable at 25% on termination of employment unless terminated for gross misconduct or without giving at least a two (2) week notice prior to terminating employment.

Lease Liabilities and Intangible Right-to-Use Assets

Lease liabilities consist of the present value of future lease payments expected to be paid in future years, in compliance with GASB 87, *Leases,* and are included in long-term debt balances. Intangible right-to-use assets are calculated as the sum of the lease payments made to date and the lease payables, and are amortized over the life of the lease. See Note 5 – Leases for more information.

Other Long-Term Liabilities

Other Long-Term Liabilities consist of family self-sufficiency escrow. The Family Self-Sufficiency program (FSS) is an incentive program for low-income persons receiving subsidies to help them find ways to increase their income through schooling, technical training, etc. The Authority sets aside in an escrow account the difference between the participants' starting subsidy and their declining subsidy as their wages increase. When the participants achieve an income level at which they no longer receive subsidies in accordance with program guidelines, they will receive the escrow balance in cash. If the participants fail to comply with the program requirements, their escrow balance is forfeited.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Total Other Post Employment Benefit (OPEB) Liability
See Note 10, Defined Benefit Other Post Employment Benefit (OPEB) Plans.

Deferred Outflows of Resources and Deferred Inflows of Resources
A Deferred Outflows of Resources is a consumption of net position that are applicable to future periods. Deferred Inflow of Resources are acquisitions of net position in one period that are applicable to future periods. These are distinguished from assets and liabilities in the statement of net position. The Authority recognizes Deferred Outflows and Deferred Inflows related to pension liability, leases, and OPEB liability.

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

For the purpose of calculating the restricted net position related to the net pension asset, the Authority includes the net pension asset only.

Use of Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Tax Exemption
The Authority is qualified as a tax-exempt organization under the provisions of Section 115(1) of the Internal Revenue Code. Under state law (RCW 35.82.210) the Authority is exempt from all income taxes imposed by cities, counties, the state, or any political subdivision thereof. Accordingly, no provision for income taxes is reflected in the accompanying statements.

Implementation of New Accounting Pronouncements
At July 1, 2021, the Authority implemented the following GASB Statements:

GASB Statement No. 87, *Leases*, the objective of which is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. This statement establishes a single model for lease accounting based on the foundational principle that leases are financings of the rights to use an underlying asset. A lessee is required to recognize a lease liability and an intangible right-to-use asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

As a result of implementing GASB Statement No. 87, *Leases*, the Authority recorded a lease receivable and deferred inflows of resources as of July 1, 2021 of $99,902. The Authority also moved the prepaid leases previously recognized as unearned rent to deferred inflows of resources in the amount of $489,731. Additionally, the authority has recorded intangible right-to-use assets and lease liability of $11,636.

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, the objective of which is to enhance the relevance and comparability of information about capital assets and the cost of borrowing, and to simplify accounting for interest cost incurred before the end of a construction period. Under this statement, governments are required to expense interest costs incurred on construction loans during the construction period. The Authority's adoption of this standard did not have a material impact on the financial statements.

Statement No. 98, *The Annual Comprehensive Financial Report*, establishes the term annual comprehensive financial report and its acronym ACFR. That new term and acronym replace instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments. The Authority's adoption of this GASB Standard did not have a material impact on the financial statements.

New Accounting Standards to be Adopted in Future Years

GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements,* is effective for fiscal years beginning after June 15, 2022. Its objective is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs), and to provide guidance for accounting and financial reporting for availability payment arrangements (APAs).

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements,* is effective for fiscal years beginning after June 15, 2022. Its objective is to provide guidance on the accounting and financial reporting for subscription-based information technology arrangements for government end users.

GASB Statement No. 101, *Compensated Absences*, is effective for fiscal years beginning after December 15, 2023. Its objective is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences by aligning the recognition and measurement guidance under a unified model.

The Authority is currently evaluating these new standards to determine what impact, if any, they will have on the Authority and its financial statements and related disclosures.

NOTE 2 – DEPOSITS AND INVESTMENTS

Deposits

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

The Authority has no formal investment policy nor a policy related to custodial credit risk; however, all deposits and investments are insured or collateralized with securities held by the entity or by the agent in the Authority's name.

NOTE 2 – DEPOSITS AND INVESTMENTS, continued

Investments

The Authority investments are reported at fair value in accordance with GASB statement No. 72, *Fair Value Measurement and Application*. Accordingly, the change in fair value of investments is recognized as an increase or decrease to investment assets and investment income. As of the year ended June 30, 2022, the Authority had no funds that were considered investments.

NOTE 3 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2022 was as follows:

	Beginning Balance 06/30/21	Additions	Disposals	Transfers	Ending Balance 06/30/22
Land	$ 1,045,758	-	-	-	1,045,758
Construction in Progress	3,277,943	491,496	-	(3,769,439)	-
Total non-depreciable capital assets	4,323,701	491,496	-	(3,769,439)	1,045,758
Buildings	15,186,707	139,682	-	3,769,439	19,095,828
Equipment, Dwelling	299,910	13,687	-	-	313,597
Office/Maintenance Equipment	505,868	-	-	-	505,868
Total depreciable capital assets	15,992,485	153,369	-	3,769,439	19,915,293
Accumulated Depreciation	(10,511,378)	(453,893)	-	-	(10,965,271)
Total depreciable capital assets, net	5,481,107	(300,524)	-	3,769,439	8,950,022
Total capital assets, net	$ 9,804,808	190,972	-	-	9,995,780

Capital asset activity for the Component Units for the year ended December 31, 2021 was as follows:

	Beginning Balance 06/30/21	Additions	Disposals	Transfers	Ending Balance 06/30/22
Land	$ 996,796	-	-	-	996,796
Total non-depreciable capital assets	996,796	-	-	-	996,796
Building	10,325,783	-	-	-	10,325,783
Equipment, Dwelling	469,152	-	-	-	469,152
Total depreciable capital assets	10,794,935	-	-	-	10,794,935
Accumulated Depreciation	(1,574,442)	(375,575)	-	-	(1,950,017)
Total depreciable capital assets, net	9,220,493	(375,575)	-	-	8,844,918
Total capital assets, net	$ 10,217,289	(375,575)	-	-	9,841,714

These notes are an integral part of the financial statements.

NOTE 4 – PENSION PLANS

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, *Accounting and Financial Reporting for Pensions* for the fiscal year ended June 30, 2022:

Pension liabilities	$ 81,749
Pension assets	856,102
Deferred outflows of resources	162,631
Deferred inflows of resources	899,012
Pension expense/expenditures	(229,557)

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

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

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

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

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

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

NOTE 4 – PENSION PLAN, continued

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 the fiscal year 2022 were as follows:

PERS Plan 1		
Actual Contribution Rates:	**Employer**	**Employee**
July 2021 - June 2022:		
PERS Plan 1	6.36%	6.00%
PERS Plan 1 UAAL	3.71%	
Administrative Fee	0.18%	
Total	**10.25%**	**6.00%**

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

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

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

PERS Plan 3 defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions. PERS Plan 3 members choose their contribution rate upon joining membership and have a chance to change rates upon changing employers. As established by statute, Plan 3 required defined contribution rates are set at a minimum of 5 percent and escalate to 15 percent with a choice of six options. Employers do not contribute to the defined contribution benefits. PERS Plan 3 members are immediately vested in the defined contribution portion of their plan.

NOTE 4 – PENSION PLANS, continued

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 the fiscal year 2022 were as follows:

PERS Plan 2/3		
Actual Contribution Rates:	**Employer**	**Employee**
July 2021 - June 2022:		
PERS Plan 2/3	6.36%	6.36%
PERS Plan 1 UAAL	3.71%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
Total	**10.25%**	**6.36%**

The Authority's actual PERS plan contributions were $40,821 to PERS Plan 1 and $69,979 to PERS Plan 2/3 for the year ended June 30, 2022.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2021 with a valuation date of June 30, 2020. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2013-2018 Experience Study* and the *2019 Economic Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2020 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2021. Plan liabilities were rolled forward from June 30, 2020, to June 30, 2021, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

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

Mortality rates were developed using the Society of Actuaries' Pub. H-2010 mortality rates, which vary by member status, as the base table. The OSA applied age offsets for each system, as appropriate, to better tailor the mortality rates to the demographics of each plan. OSA applied the long-term MP-2017 generational improvement scale, also developed by the Society Actuaries, to project mortality rates for every year after the 2010 base table. 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.

NOTE 4 – PENSION PLANS, continued

There were no changes in assumptions since the last valuation. There were changes in methods since the last valuation:

- For purposes of the June 30, 2020 Actuarial Valuation Report (AVR), a non-contribution rate setting valuation under current funding policy, the Office of the State Actuary (OSA) introduced temporary method changes to produce asset and liability measures as of the valuation date. See high-level summary below. OSA will revert back to the methods outlined in the 2019 AVR when preparing the 2021 AVR, a contribution rate-setting valuation, which will serve as the basis for 2022 ACFR results.
- To produce measures at June 30, 2020, unless otherwise noted in the 2020 AVR, OSA relied on the same data, assets, methods, and assumptions as the June 30, 2019 AVR. OSA projected the data forward one year reflecting assumed new hires and current members exiting the plan as expected. OSA estimated June 30, 2020, assets by relying on the fiscal year end 2019 assets, reflecting actual investment performance over FY 2020, and reflecting assumed contribution amounts and benefit payments during FY 2020. OSA reviewed the actual June 30, 2020, participant and financial data to determine if any material changes to projection assumptions were necessary. OSA also considered any material impacts to the plans from 2021 legislation. See the 2020 AVR for more information.

Discount Rate
The discount rate used to measure the total pension liability for all DRS plans was 7.4 percent.

To determine that rate, an asset sufficiency test was completed to test whether each pension plan's fiduciary net position was sufficient to make all projected future benefit payments for current plan members. Based on OSA's assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.4 percent was used to determine the total liability.

Long-Term Expected Rate of Return
The long-term expected rate of return on the DRS pension plan investments of 7.4 percent was determined using a building-block-method. In selecting this assumption, the Office of the State Actuary (OSA) reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered Capital Market Assumptions (CMA's) and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the CMA's and their target asset allocation to simulate future investment returns at various time horizons.

Estimated Rates of Return by Asset Class
Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2021, 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.

NOTE 4 – PENSION PLANS, continued

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

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

	1% Decrease 6.40%	Current Rate 7.40%	1% Increase 8.40%
Pers 1	$ 139,265	$ 81,749	$ 31,590
Pers 2/3	(243,886)	(856,102)	(1,360,259)

Pension Plan Fiduciary Net Position
Detailed information about the State's pension plans' fiduciary net position is available in the separately issued DRS financial report.

Pension Liabilities (Assets), Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions

At June 30, 2022, the Authority reported its proportionate share of the net pension liability (asset) as follows:

Plan	Liability (Asset)
PERS 1	$ 81,749
PERS 2/3	(856,102)

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

	Proportionate Share 6/30/20	Proportionate Share 6/30/21	Change in Proportion
PERS 1	0.00716%	0.00669%	-0.00046%
PERS 2/3	0.00929%	0.00859%	-0.00069%

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30, 2021 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* for all plans.

NOTE 4 – PENSION PLANS, continued

The collective net pension liability was measured as of June 30, 2021, and the actuarial valuation date on which the total pension liability is based was as of June 30, 2020, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended June 30, 2022, the Authority recognized pension expense as follows:

	Pension Expense
PERS 1	$ (31,829)
PERS 2/3	(197,728)
TOTAL	$ (229,557)

Deferred Outflows of Resources and Deferred Inflows of Resources

At June 30, 2022, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following:

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings on pension plan investments	$ -	$ (90,714)
Contributions subsequent to the measurement date	40,821	-
TOTAL	$ 40,821	$ (90,714)

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 41,580	$ (10,495)
Net difference between projected and actual investment earnings on pension plan investments	-	(715,499)
Changes of assumptions	1,251	(60,797)
Changes in proportion and differences between contributions and proportionate share of contributions	9,000	(21,507)
Contributions subsequent to the measurement date	69,979	-
TOTAL	$ 121,810	$ (808,298)

NOTE 4 – PENSION PLANS, continued

TOTAL ALL PLANS	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 41,580	$ (10,495)
Net difference between projected and actual investment earnings on pension plan investments	-	(806,213)
Changes of assumptions	1,251	(60,797)
Changes in proportion and differences between contributions and proportionate share of contributions	9,000	(21,507)
Contributions subsequent to the measurement date	110,800	-
TOTAL	$ 162,631	$ (899,012)

Deferred outflows of resources related to pensions resulting from the Authority's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2023. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years ending June 30:	PERS 1	PERS 2/3
2022	$ (24,030)	(199,255)
2023	(22,020)	(186,400)
2024	(20,821)	(178,080)
2025	(23,842)	(189,527)
2026	-	(2,542)
Thereafter	-	(663)

NOTE 5 – LEASE COMMITMENTS

Authority as Lessor

At June 30, 2022, the Authority has three long-term lease agreements in which it is acting as Lessor:

In June 2001, the Authority entered into a 5-year lease with up to 20 years of extensions. The lease is with Mericom Corporation, now Sprint/Nextel, for use of land and a cell tower. The Authority is assuming the full extension period will be used. The lease requires annual lease payments ranging from $10,500 to $21,770.

The Authority's lease receivable will be reduced as repayments are received. Annual requirements to reduce lease receivable and related interest are as follows:

	Principal	Interest	Total Requirements
2023	$ 18,265	3,508	21,773
2024	19,085	2,688	21,773
2025	19,942	1,831	21,773
2026	20,837	936	21,773
	$ 78,129	8,963	87,092

These notes are an integral part of the financial statements.

NOTE 5 – LEASES, continued

The Authority has a lease agreement with Kennewick Affordable Housing LLLP where the Authority is leasing the land where the Tax Credit property was built. Kennewick Affordable Housing LLLP has paid $126,860 for a lease that is to expire December 31, 2114. The Authority has recorded this amount as a deferred inflow of resources related to leases and will amortize it over the lease term. The unamortized amount at June 30, 2022, is $117,984.

The Authority also has a lease agreement with Nueva Vista II LLLP where the Authority is leasing the land where the Tax Credit property was built. Nueva Vista II LLLP has paid $386,926 for the lease that is to expire December 31, 2116. The Authority has recorded this amount as a deferred inflow of resources and will amortize it over the course of the lease. The unamortized amount at June 30, 2022, is $371,747.

Lease revenue included in other nonoperating income totaled $30,245 for the year ended June 30, 2022.

Authority as Lessee
At June 30, 2022, the Authority has one lease in which it is acting as the lessee for office equipment:

The office equipment lease includes the use of two copiers, requires monthly lease payments, and the lease term ends November 10, 2025. Refer to Note 6, Capital Assets, for information related to the Right-to-Use assets related to these leases.

The Authority's schedule of future payments included in the measurement of the lease liability included in long-term debt is as follows for years ending June 30:

	Principal	Interest	Total Requirements
2023	$ 2,539	360	2,899
2024	2,655	243	2,898
2025	2,777	122	2,899
2026	1,194	13	1,207
	$ 9,165	738	9,903

NOTE 6 – LONG-TERM DEBT

The Authority has real estate mortgages and governmental loans to finance the construction of capital assets. These loans are direct borrowings which are secured by the financed property. The loan descriptions are as follows:

Mitchell Manor Bank Loan was refinanced with Banner Bank as of April 30, 2019 for a loan balance of $112,000 with a 10-year term, amortized for 15 years. The loan is payable for 120 Benton St. for Mitchell Manor Project with monthly payment of $907 which includes $150 paid towards Replacement Reserves required by Banner Bank. Interest for this loan is at 2.70%, the loan is secured by the real estate and is due on March 31, 2028. Prepayment of this loan is allowable; however, Banner Bank will calculate and charge a prepayment fee enabling the bank to receive the same investment yield as if all payments were made under the loan. The balance at June 30, 2022 is $48,155.

NOTE 6 – LONG-TERM DEBT, continued

Mitchell Manor WA Housing Trust Fund recoverable grant is conditional on Mitchell Manor project providing low-income households with physically disabled individuals who at the time of initial occupancy have gross annual incomes at or below 50% of the median income for the Tri Cities MSA, as adjusted annually by HUD. Rents charged to tenants may not exceed 30% of the monthly income of the target population. The length of commitment to serve the target population will be 40 (forty) years ending February 28, 2045. The recoverable grant is secured by the Mitchell Manor property. This is a 0% interest grant, and no annual payments are due for a commitment of forty years. If the Authority does not comply with the terms and conditions of the property, the State of Washington has the right to recapture funds in an amount equivalent to the extent of noncompliance. The recapture payment must be made within 30 days of demand. The balance at June 30, 2022 is $268,183.

Mitchell Manor Home Loan recoverable grant is conditional on Mitchell Manor project providing low-income households with physically disabled individuals who at the time of initial occupancy have gross annual incomes at or below 50% of the median income for the Tri Cities MSA, as adjusted annually by HUD. Rents charged to tenants may not exceed 30% of the monthly income of the target population. The length of commitment to serve the target population will be 20 (twenty) years ending April 1, 2025. The length of commitment to serve the target population will be 20 (twenty) years ending April 1, 2025. The recoverable grant is secured by the Mitchell Manor property. This is a 0% interest grant, and no annual payments are due for a commitment of twenty years and forgivable at the amount of 5% per year as long as the conditions described above are meet. The note becomes immediately due and payable upon sale or transfer of the property. Further, if the Authority fails to perform any obligation required, the full amount of the loan becomes immediately due and payable. The balance at June 30, 2022 is $14,965.

Microhomes Housing Trust Fund recoverable grant is conditional on the Microhomes project places 13 project-based vouchers at the property with set-asides for homeless veterans, homeless persons with disabilities referred by DSHS and homeless families with children dedicating at least fifty percent (50%) of their low-income housing units or beds to at least one of the following three population categories to ensure full loan principal and interest payment deferral; households earning up to 30% of the area median income in urban areas or 50% of the area median income in rural areas, people who are homeless-at-entry (i.e., at the time they occupy the unit), or people requiring permanent supportive housing. The length of commitment to serve the target population will be 40 (forty) years ending June 30, 2061. The recoverable grant is secured by the Microhomes development. This is a 1% interest, and no annual payments are due for a commitment of forty years. If the Authority does not comply with the terms and conditions of the property, the State of Washington has the right to recapture funds in an amount equivalent to the extent of noncompliance. The recapture payment must be made within 30 days of demand. The balance at June 30, 2022 is $2,138,109.

Microhomes Home Loan recoverable grant is conditional on Microhomes development of a total of 16 units for homeless families and individuals and places (4) two bedroom set aside HOME-assisted units. Gross annual incomes at or below 50% of the median income for the Tri Cities MSA, as adjusted annually by HUD. Rents charged to tenants may not exceed 30% of the monthly income of the target population. The length of commitment to serve the target population will be 20 (twenty years ending August 31, 2041. The recoverable grant is secured by the Microhomes development. This is a 1% interest grant, and no annual payments are due for a commitment of twenty years. Loan principal and accrued interest are forgivable at the end of the commitment period, as long as the conditions described above are met. The note becomes immediately due and payable upon sale or transfer of the property. Further, if the Authority fails to perform any obligation required, the full amount of the loan becomes immediately due and payable. The balance at June 30, 2022 is $760,598.

NOTE 6 – LONG-TERM DEBT, continued

Principal payments due over the next five years and thereafter for the direct placement borrowings are as follows:

Years Ending June 30	Principal	Interest	Required Debt Service
2023	$ 12,705	1,220	13,925
2024	12,921	1,005	13,926
2025	13,601	778	14,379
2026	8,541	548	9,089
2027	8,778	311	9,089
2028-2032	6,573	74	6,647
2033-2037	-	-	-
2038-2042	760,598	149,504	910,102
2043-2047	268,183	-	268,183
2048-2052	-	-	-
2053-2057	-	-	-
2058-2062	2,138,110	855,185	2,993,295
	3,230,010	1,008,625	4,238,635
Short-term portion	(12,705)	(1,220)	(13,925)
Long-term portion	$ 3,217,305	1,007,405	4,224,710

Changes in long-term liabilities for the year ended June 30, 2022 are as follows:

	Balance 07/01/21	Additions	Reductions	Balance 06/30/22	Due Within One Year
Direct Borrowing					
Real estate mortgages	$ 65,541	-	(17,386)	48,155	$ 7,868
Government loans	1,934,468	1,252,224	(4,837)	3,181,855	4,837
Total direct borrowings	2,000,009	1,252,224	(22,223)	3,230,010	12,705
Lease liability	-	11,636	(2,471)	9,165	2,539
Total long-term debt	2,000,009	1,263,860	(24,694)	3,239,175	15,244
Compensated absences	133,458	-	(7,133)	126,325	50,530
Accrued interest	-	26,257	-	26,257	-
Net pension liability	371,514	-	(289,765)	81,749	-
Total OPEB liability	616,162	-	(48,963)	567,199	1,525
FSS escrow deposits	59,246	21,843	(10,576)	70,513	-
Total	$ 3,180,389	1,311,960	(381,131)	4,111,218	$ 67,299

NOTE 6 – LONG-TERM DEBT, continued

Component Unit Long-Term Debt

PNC Bank Mortgage for **Kennewick Affordable Housing LLLP** is secured by leasehold improvements and property, current and future rents, tax credits and partnership rights and interests. The original loan amount of $368,620 with an interest rate of 5.5% was converted to a permanent loan in November 2016, with monthly payments of interest and principal of $2,093 beginning January 2017 and maturing in November 2031. The balance at December 31, 2021 was $342,460.

Second Mortgage Loan - **Kennewick Affordable Housing LLLP** from the Washington State Department of Commerce is non-recourse with a maximum principal of $1,107,270 and is secured by a mortgage deed of trust. At December 31, 2021, the balance outstanding was $1,107,270. At December 31, 2021, accrued interest payable on the loan was $57,319. Upon completion of construction and leasing of units, the loan will bear interest at a fixed rate not to exceed 1%. No payments are due under the loan until December 31, 2047, at which time annual payments of principal and interest in the amount of $157,355 will be due each December 31st through December 31, 2056, on which date the loan is fully due and payable.

WA Housing Trust Fund Loan for **Nueva Vista Phase II LLLP** is secured by a leasehold deed of trust. Interest of one percent, compounding annually, beginning October 1, 2018. Payments have been deferred for 20 years from October 11, 2017, at which time annual payments of principal and interest are required. The loan balance, together with accrued interest, matures September 30, 2058. Original loan amount is $750,000. The full $750,000 is outstanding as of December 31, 2021. Accrued interest payable of $24,663 is outstanding as of December 31, 2021.

Housing Authority of the City of Kennewick Loan for **Nueva Vista Phase II LLLP** in the original amount of $320,000 bears interest at 7%, compounding annually. Payments are due from net cash flow as defined in the Partnership Agreement, and all remaining principal and interest outstanding are due on October 1, 2057. This loan is secured by mortgage deed of trust. The full $320,000 is outstanding as of December 31, 2021. Accrued interest payable of $101,344 is outstanding as of December 31, 2021.

Tri-Cities HOME Mortgage for **Nueva Vista Phase II LLLP** for a total of $300,000 bears 1% annual simple interest. Interest and payment is deferred for 37 years, due on September 1, 2054. The full $300,000 has been drawn on this loan as of December 31, 2021. Accrued interest payable of $11,538 is outstanding as of December 31, 2021.

NOTE 6 – LONG-TERM DEBT, continued

Principal payments due over the next five years and thereafter for these direct borrowings of the component units are as follows:

Years ending December 31	Principal	Interest	Required debt service
2022	$ 6,176	19,274	25,450
2023	6,529	18,940	25,469
2024	6,850	18,587	25,437
2025	7,295	18,265	25,560
2026	7,712	17,821	25,533
2027-2031	307,898	82,400	390,298
2032-2036	-	14,934	14,934
2037-2041	125,961	26,178	152,139
2042-2046	218,431	35,134	253,565
2047-2051	957,232	89,848	1,047,080
2052-2056	855,646	596,330	1,451,976
2057-2058	320,000	4,259,738	4,579,738
	2,819,730	5,197,449	8,017,179
Short-term portion	(6,176)	(19,274)	(25,450)
Long-term portion	$ 2,813,554	5,178,175	7,991,729

Changes in the component units' long-term liabilities for the twelve-month period ended December 31, 2021 are as follows:

	Balance 01/01/21	Additions	Reductions	Balance 12/31/21	Due within one year
Direct Borrowing:					
Real estate mortgages	$ 348,301	-	(5,840)	342,461	$ 6,176
Governmental loans	2,477,269	-	-	2,477,269	-
Total Direct Borrowings	2,825,570	-	(5,840)	2,819,730	6,176
Debt issuance costs	(122,515)	-	4,371	(118,144)	(4,371)
Total Direct Borrowings, net	2,703,055	-	(1,469)	2,701,586	1,805
Accrued Interest	146,907	49,684	-	196,591	1,727
Total	$ 2,849,962	49,684	(1,469)	2,898,177	$ 3,532

These notes are an integral part of the financial statements.

NOTE 7 – CONTINGENCIES AND LITIGATION

The Authority participates in federally assisted programs. These programs are subject to audit by the grantors or their representatives. Such audits could result in disallowed requests for expenditure reimbursement to grantor agencies, under the terms of the grants. The Authority's management believes that such disallowances, if any, are immaterial.

NOTE 8 – COMMITMENTS

General Partner Commitments Regarding the Component Units
The Housing Authority City of Kennewick (the "General Partner") shall be obligated, without the requirement of notice or demand, to advance all funds necessary during the Operating Deficit Guarantee (ODG) Period up to the ODG Cap (exclusive of any amounts funded from the Operating Reserve Account) in order to enable the Partnerships to pay and satisfy Operating Deficits.

The General Partner, for the period commencing on the Closing Date and ending upon the termination of the Compliance Period, agrees and guarantees to advance, without the requirement of notice or demand by the Partnerships, any Partner or other party, an amount equal to the lesser of (i) the funds that would have been received under the HAP Contract with respect to the period of the Operating Deficit but for such loss or reduction of the rental assistance; and (ii) the amount of the operating Deficit.

From the Closing Date continuously through the ODG Period End Date, the General Partner has and shall maintain an aggregate net worth exclusive of the General Partner's interest in the Partnerships or any sums owed to the General Partner by the Partnerships equal to at least $2,000,000, of which at least $500,000 shall be liquid assets. Liquid Assets shall mean unrestricted cash and unencumbered marketable securities held solely in the name of the General Partner.

Development Duties, Covenants and Obligations: The General Partner shall promptly take all action which may be necessary or appropriate for the timely and proper rehabilitation as applicable, maintenance and operation of both discretely presented component unit Projects in accordance with the provisions of this Agreement, the Project Documents and all applicable laws and regulations.

NOTE 9 – PARTICIPATION IN HOUSING AUTHORITY RISK RETENTION POOL

The Authority is a member of the Housing Authorities Risk Retention Pool (HARRP). Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 (Interlocal Cooperation Act), fifty-five public housing authorities in the states of Washington, Oregon and California originally formed HARRP in March 1987. HARRP was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and/or jointly contracting for risk management services. HARRP is a U.S. Department of Housing and Urban Development (HUD) approved self-insurance entity for utilization by public housing authorities. HARRP has a total of eighty-two member/owner housing authorities in the states of Washington, Oregon, California and Nevada. Thirty-five of the eighty-two members are Washington State public housing entities.

New members are underwritten at their original membership and thereafter automatically renew on an annual basis. Members may quit upon giving notice to HARRP prior to their renewal date. Members terminating membership are not eligible to rejoin HARRP for three years. HARRP can terminate the members after giving a sixty (60) day notice prior to the renewal date. Termination does not relieve a former member from its unresolved losses incurred during membership.

NOTE 9 – PARTICIPATION IN HOUSING AUTHORITY RISK RETENTION POOL, continued

General and Automobile Liability Coverage is written on an occurrence basis, without member deductibles. Errors and Omissions coverage (which includes Employment Practices Liability) is written on claims made basis, and the members are responsible for 10% of the incurred costs of the claims. The Property coverage offered by HARRP is on a replacement cost basis, with deductibles ranging from $1,000 to $25,000. (Due to special underwriting circumstances, some members may be subject to greater deductibles and E & O co-payments). Fidelity coverage is also offered, with limits of $100,000 (with options up to $500,000) for employee dishonesty, forgery or alteration and $10,000 for theft with deductibles similar to the retention of Property Coverage limits for General Liability, as well as Errors and Omissions are $2,000,000 per occurrence with no annual aggregate. Property limits are offered on an agreed amount, based on each structure's value. Limits for Automobile Liability are covered at $2,000,000, with no aggregate. HARRP self-insures $2 million of coverage for liability lines. For property, HARRP retains the first $2 million and then purchases $45 million of excess insurance from Munich Reinsurance for a combined total of $47,000,000. The HARRP Board of Directors determines the limits and coverage terms, at its sole discretion.

HARRP provides loss control and claim services with in-house staff and retained third party contractors.

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

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

NOTE 10 – OTHER POST EMPLOYMENT BENEFITS

The following table represents the aggregate OPEB amounts for all plans subject to the requirements of GASB 75 as of and for the year ended June 30, 2022:

Aggregate OPEB Amounts - All Plans		
OPEB Liabilities	$	567,199
Deferred Outflows of Resources		1,525
OPEB Expense		(47,450)

OPEB Plan Description

The Authority administers a Post-Retirement Health Care Program under a single-employer defined benefit Other Post Employment Benefit (OPEB) plan. This plan is administered by the Health Care Authority (HCA) per RCW 41.05.065, the Public Employees Benefits Board (PEBB) created within the HCA, is authorized to design benefits and determine the terms and conditions of employee and retired employee participation and coverage, including establishment of eligibility criteria for both active and retired employees. PEBB programs include medical, dental, life and long-term disability. Benefits are offered to retirees at a subsidized rate.

The benefits are provided in accordance with a substantive plan, in which the plan terms are understood by the employers and plan member, but not formalized in a contract or plan document. The PEBB retiree OPEB plan is available to employees who elect to continue coverage and pay the administratively established premiums at the time they retire under the provisions of the retirement system to which they belong.

NOTE 10 – OTHER POST EMPLOYMENT BENEFITS, continued

At June 30, 2022, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	0
Inactive employees entitled to but not yet receiving benefits	0
Active employees	24
	24

The plan is funded on a pay-as-you-go basis and there are no assets accumulated in a qualifying trust.

Assumptions and Other Input
The actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Examples include assumptions about retirement ages, mortality, and the healthcare cost trend. The actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

The Authority's total OPEB liability of $567,199 was measured as of June 30, 2021, with a valuation date of June 30, 2021. The alternative method permitted under GASB 75 was used to calculate the liability instead of an actuarial valuation. The Entry Age actuarial cost method and the recognized immediately amortization method were used in this calculation. There are no assets in this plan, therefore, no asset valuation method was used.

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

Discount Rate - Beginning of Measurement Year	2.21%
Discount Rate - End of Measurement Year	2.16%
Projected Salary Changes	3.5% + service based increases
Healthcare Trend Rates	Initial rate ranges from about 2-11%, reaching an ultimate rate of approximately 4.3% in 2075.
Inflation Rate	2.75%
Post-Retirement Participation Percentage	65%
Percentage with Spouse Coverage	45%

The source of the discount rate is the Bond Buyer General Obligation 20- Bond Municipal Index.

Mortality rates were based on the Pub. H-2010 healthy and disabled tables. The Society of Actuaries publishes this document. The Washington State Actuary applied offsets to the base table and recognized future improvements in mortality by projections using RPEC MP-2017 long-term rates. No age offset was applied. 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.

These notes are an integral part of the financial statements.

NOTE 10 – OTHER POST EMPLOYMENT BENEFITS, continued

Specific assumptions are as follows:

It was assumed that two thirds of members will select a Uniform Medical Plan (UMP) and one third will select a Kaiser Permanente (KP) plan. The specific assumptions are as follows:

- UMP pre and post Medicare costs and premiums are equal to the Uniform Medical Plan Classic.
- The KP pre-Medicare costs and premiums are 50/50 blend of KP classic and KP value.
- The KP post-Medicare costs and premiums are equal to KP WA Medicare.

The estimated retirement service for each active cohort was based on the average entry age of 35, with a maximum service of 1 year. For example, an age 47 member is assumed to have 12 years of service. Service is a component of benefit eligibility. Assumptions for retirement, disability, termination and mortality are based on the 2020 PEBB OPEB Actuarial Valuation Report (AVR). For simplicity, Plan 2 decrement rates were assumed. Additionally, all employees were assumed to be retirement eligible at age 55 and all employees retire at age 70. Based on an average expected retirement age of 65, an active mortaility rate for ages less than 65 and retiree mortality rate for ages 65+ was applied. Each cohort is assumed to be a 50/50 male/female split It was further assumed that eligible spouses are the same age as the primary member.

Dental benefits are not included when calculating the Total OPEB Liability, as dental benefits represent less than 2 percent of the accrued benefit obligations under the 2020 PEBB OPEB AVR.

Sensitivity Rates

GASB 75 requires an analysis of the impact of changing the Healthcare Trend and Discount rate assumptions by 100 basis points. The following tables present the total OPEB liability of the Authority at June 30, 2022, adjusted for that assumption change:

Health Care Trend Rate Sensitivity

1% Decrease	Current Health Care Trend Rate	1% Increase
$ 428,197	$ 567,199	$ 763,729

Discount Rate Sensitivity

1% Decrease	Current Discount Rate	1% Increase
$ 717,834	$ 567,199	$ 452,919

These notes are an integral part of the financial statements.

NOTE 10 – OTHER POST EMPLOYMENT BENEFITS, continued

Changes in the Total OPEB Liability

At the measurement date June 30, 2021, the changes in the total OPEB liability are as follows:

Service cost	$	69,437
Interest cost		15,135
Changes in assumptions		(132,022)
Benefit payments		(1,513)
Net change in total OPEB liability		(48,963)
Total OPEB liability - beginning		616,162
Total OPEB liability - ending	$	567,199

The Authority reported ($47,450) as OPEB expense for the fiscal year 2022.

At June 30, 2022, the Authority reported deferred outflows of resources only for deferred outflows subsequent to the measurement date in the amount of $1,525. This will be recognized as a reduction of OPEB liability in the period ending June 30, 2023.

NOTE 11 – COMPONENT UNIT CONDENSED STATEMENTS

Condensed Statement of Net Position
As of December 31, 2021

	Kennewick Affordable Housing LLLP	Nueva Vista II LLLP	Total
Assets			
Current assets	$ 468,477	334,212	802,689
Other Assets	65,311	64,391	129,702
Capital Assets (net)	4,320,533	5,521,181	9,841,714
Total Assets	$ 4,854,321	5,919,784	10,774,105
Liabilities			
Current Liabilities	$ 55,921	29,193	85,114
Noncurrent Liabilities	1,417,556	1,477,089	2,894,645
Total Liabilities	$ 1,473,477	1,506,282	2,979,759
Net Position			
Net Invested in Capital Assets	$ 2,958,491	4,181,637	7,140,128
Restricted Net Position	170,835	123,637	294,472
Unrestricted Net Position	251,518	108,228	359,746
Total Net Position	$ 3,380,844	4,413,502	7,794,346

NOTE 11 – COMPONENT UNIT CONDENSED STATEMENTS, continued

Condensed Statement of Revenues, Expenses, and Changes in Fund Net Position
For the Year Ended December 31, 2021

	Kennewick Affordable Housing LLLP	Nueva Vista II LLLP	Total
Operating Revenues	$ 261,151	262,240	523,391
Depreciation Expense	(215,487)	(172,824)	(388,311)
Other Operating Expense	(216,291)	(184,566)	(400,857)
Operating Income (Loss)	(170,627)	(95,150)	(265,777)
Non-Operating Revenues (Expenses)			
Interest Expense	(34,266)	(39,063)	(73,329)
Change in Net Position	(204,893)	(134,213)	(339,106)
Beginning Net Position	3,585,737	4,547,715	8,133,452
Ending Net Position	$ 3,380,844	4,413,502	7,794,346

Condensed Statement of Cash Flows
For the Year Ended December 31, 2021

	Kennewick Affordable Housing LLLP	Nueva Vista II LLLP	Total
Net Cash Provided (Used) By:			
Operating activities	$ 39,601	46,049	85,650
Capital and related financing activities	(5,840)	-	(5,840)
Investing activities	-	-	-
Net increase (decrease)	33,761	46,049	79,810
Beginning cash	417,765	227,901	645,666
Ending cash	$ 451,526	273,950	725,476

NOTE 12 – SHORT-TERM DEBT

The Authority obtained a line of credit through a direct borrowing effective July 3, 2019 in the amount of $300,000 through Banner Bank for construction purposes. The interest rate on this line of credit is variable, Prime + 1%; as of the date of the loan the interest rate was 6.5%. The line of credit expires on July 15, 2022. As of June 30, 2022, no amount had been drawn on this loan.

NOTE 13 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

State law requires that the Authority maintain occupancy at specified percentages of low-income families. State law also requires the Authority to deposit all of its funds with banking institutions in accordance with the terms of the State of Washington Public Deposit Protection Act.

The Authority is in compliance with state law with respect to the percentage of low-income families served and the Authority makes all investments pursuant to the requirements of Washington State law in Chapter 39.58 RCW, and the investment policies it has adopted.

NOTE 14 – COVID 19 PANDEMIC

In February 2020, the Governor of the state of Washington declared a state of emergency in response to the spread of a COVID-19. Precautionary measures to slow the spread of the virus continued throughout 2022. These measures included limitations on business operations, public events, gatherings, travel, and in-person interactions.

The length of time these measures will continue to be in place, and the full extent of the financial impact on the Authority is unknown at this time.

NOTE 15 – SUBSEQUENT EVENTS

The Authority signed an Interlocal Agreement with the City of Kennewick in order to negotiate the acquisition of a 3.7-acre parcel of land in east Kennewick. The Authority will be negotiating this acquisition in order to develop a 52 +/- unit affordable housing community. The Authority has agreed to apply for Benton County 2060 and 1406 funds or for other housing funds to purchase the parcel from the City in late 2022 or early 2023. Construction financing is anticipated to be via the 4% tax credit/bond program, the Housing Trust Fund, and possibly the Federal Home Loan Bank Affordable Housing Program. The Authority also plans to apply for CDBG funding for off-site infrastructure for this community. This is a joint effort with the City of Kennewick to increase affordable housing opportunities in our community.

The Authority has engaged a Developer and Architectural and Engineering Services firm for the development of the Gum Street project. The Authority was awarded $3,000,000 in Economic Development Initiative – Community Project Funding (CPF) grants through Congressionally Directed Spending for the development of the Gum Street project. Construction is anticipated to start in early 2024.

SUPPLEMENTARY INFORMATION

HOUSING AUTHORITY CITY OF KENNEWICK
REQUIRED SUPPLEMENTARY INFORMATION RELATED TO PENSION
SCHEDULES OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

PERS 1
AS OF JUNE 30
LAST NINE FISCAL YEARS

Year Ended June 30,	Employer's proportion of the net pension liability (asset)	Employer's proportionate share of the net pension liability	Employer's covered payroll	Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	Plan fiduciary net position as a percentage of the total pension liability
2021	0.006694%	$ 81,749	$ 1,027,923	7.95%	88.74%
2020	0.007159%	252,751	1,007,450	25.09%	68.64%
2019	0.006838%	262,945	965,702	27.23%	67.12%
2018	0.006906%	308,424	918,799	33.57%	63.22%
2017	0.007241%	343,591	906,778	37.89%	61.24%
2016	0.007353%	394,891	893,001	44.22%	57.03%
2015	0.006350%	332,164	800,831	41.48%	59.10%
2014	0.006793%	342,201	702,587	48.71%	61.19%
2013	0.008783%	513,213	670,211	76.57%	N/A

PERS 2/3
AS OF JUNE 30
LAST NINE FISCAL YEARS

Year Ended June 30,	Employer's proportion of the net pension liability (asset)	Employer's proportionate share of the net pension liability (asset)	Employer's covered payroll	Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	Plan fiduciary net position as a percentage of the total pension liability
2021	0.008594%	$ (856,102)	$ 1,027,923	-83.28%	120.29%
2020	0.009286%	118,763	1,007,450	11.79%	97.22%
2019	0.008833%	85,798	965,702	8.88%	97.77%
2018	0.008824%	150,662	918,799	16.40%	95.77%
2017	0.009315%	323,652	906,778	35.69%	90.97%
2016	0.009410%	473,786	893,001	53.06%	85.82%
2015	0.008199%	292,956	800,831	36.58%	89.20%
2014	0.008745%	176,768	702,587	25.16%	93.29%
2013	0.008631%	368,545	670,211	54.99%	N/A

See Independent Auditors' Report.

HOUSING AUTHORITY CITY OF KENNEWICK
REQUIRED SUPPLEMENTARY INFORMATION RELATED TO PENSION
SCHEDULES OF EMPLOYER CONTRIBUTIONS

PERS 1
AS OF JUNE 30
LAST NINE FISCAL YEARS

Year Ended June 30,	Statutorily or contractually required contributions	Contributions in relation to the statutorily or contractually required contributions	Contribution deficiency (excess)	Employer's covered payroll	Contributions as a percentage of covered employee payroll
2022	$ 40,821	$ (40,821)	$ -	$ 1,100,301	3.71%
2021	49,866	(49,866)	-	1,027,923	4.85%
2020	47,954	(47,954)	-	1,007,450	4.76%
2019	49,387	(49,387)	-	965,702	5.11%
2018	46,216	(46,216)	-	918,799	5.03%
2017	43,253	(43,253)	-	906,778	4.77%
2016	42,597	(42,597)	-	893,001	4.77%
2015	32,110	(32,110)	-	800,831	4.01%
2014	28,465	(28,465)	-	702,587	4.05%

PERS 2/3
AS OF JUNE 30
LAST NINE FISCAL YEARS

Year Ended June 30,	Statutorily or contractually required contributions	Contributions in relation to the statutorily or contractually required contributions	Contribution deficiency (excess)	Employer's covered payroll	Contributions as a percentage of covered employee payroll
2022	$ 69,979	$ (69,979)	$ -	$ 1,100,301	6.36%
2021	81,412	(81,412)	-	1,027,923	7.92%
2020	79,790	(79,790)	-	1,007,450	7.92%
2019	72,575	(72,575)	-	965,702	7.52%
2018	68,818	(68,818)	-	918,799	7.49%
2017	56,492	(56,492)	-	906,778	6.23%
2016	55,635	(55,635)	-	893,001	6.23%
2015	40,204	(40,204)	-	800,831	5.02%
2014	34,977	(34,977)	-	702,587	4.98%

See Independent Auditors' Report.

NOTE 1 – Information Provided

GASB Statement No. 68 was implemented for the year ended June 30, 2014, therefore there is no date available for years prior to 2014. Eventually, the schedules will show ten years' data.

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

NOTE 2 – Significant Factors

There were no changes of benefit terms, significant changes in the employees covered under the benefit terms, or in the use of different assumptions.

NOTE 3 – Covered Payroll

Covered payroll has been presented in accordance with GASB Statement No. 82, *Pensions Issues*. Covered payroll includes all payroll on which a contribution is based.

NOTE 4 – Change in Contribution Rate

Rates in effect during the periods covered by the Required Supplementary Information are below:

PERS 1

From This Date	Through this date	Employer Rate	
9/1/2013	6/30/2015	9.21%	
7/1/2015	6/30/2017	11.18%	
7/1/2017	8/31/2018	12.70%	
9/1/2018	6/30/2019	12.83%	
7/1/2019	8/31/2020	12.86%	
9/1/2020	6/30/2021	12.97%	
7/1/2021	current	10.25%	*

*Employer Contribution rate includes an administrative expense rate of 0.18%

PERS 2/3

From This Date	Through this date	Employer Rate
9/1/2013	6/30/2015	9.21%
7/1/2015	6/30/2017	11.18%
7/1/2017	8/31/2018	12.70%
9/1/2018	6/30/2019	12.83%
7/1/2019	8/31/2020	12.86%
9/1/2020	6/30/2021	12.97%
7/1/2021	current	10.25%

*Employer Contribution rate includes an administrative expense rate of 0.18%

See Independent Auditors' Report.

HOUSING AUTHORITY CITY OF KENNEWICK
REQUIRED SUPPLEMENTARY INFORMATION – OPEB

SCHEDULE OF CHANGES IN TOTAL LIABILITY AND RELATED RATIOS
AS OF JUNE 30
LAST FOUR FISCAL YEARS

Total OPEB Liability	2022	2021	2020	2019
Service cost	$ 69,437	$ 43,801	$ 38,549	$ 38,549
Interest	15,135	16,188	13,340	10,099
Changes in experience data and assumptions	(132,022)	137,707	62,100	-
Benefit payments	(1,513)	(502)	(2,310)	(2,310)
Net change in total OPEB liability	(48,963)	197,194	111,679	46,338
Total OPEB liability beginning	616,162	418,968	307,289	260,951
Total OPEB liability ending	$ 567,199	$ 616,162	$ 418,968	$ 307,289
Covered employee payroll	$ 1,142,801	$ 1,038,711	$ 1,078,410	$ 1,007,048
Total OPEB liability as a percentage of covered employee payroll	49.63%	59.32%	38.85%	30.51%

Notes to schedule

1. Changes of assumptions
Changes of assumptions and other inputs reflect the effects of changes in the discount rate each period. The following are the discount rates used in each period.

2021	2.16%
2020	2.21%
2019	3.50%
2018	3.87%

2. The Authority implemented GASB 75 in FY2019, therefore no data is presented before then. Eventually, ten years of data will be presented.

3. There are no assets accumulated in a trust that meets the critera of GASB 75, to pay related benefits.

See Independent Auditors' Report.

HOUSING AUTHORITY CITY OF KENNEWICK
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2022

Grantor Agency	Program Name	Federal Assistance Listing Number	Grant No. or Other ID	Total Direct Funds	
US Department of Housing and Urban Development Direct Programs					
	HOME Investment Partnerships Program	14.239	133-20	$ 760,598	*
	Public and Indian Housing - Subsidy	14.850	WA01200000120D	228,106	
	Public and Indian Housing - Subsidy	14.850	WA01200000119D	423,634	
	Total Public and Indian Housing			651,740	
	Section 8 Housing Choice Voucher	14.871	WA012VO	6,785,212	
	COVID-19: Section 8 Housing Choice Voucher	14.871	WA012VO	20,967	
	Emergency Housing Vouchers	14.871		105,659	
	Main Stream Vouchers	14.879	WA012	66,352	
	Main Stream Vouchers - CARES	14.879		44,555	
	Total Housing Choice Voucher Cluster			7,022,745	*
	PIH Family Self Sufficiency Program	14.896	FSS18WA2779-01-0	71,493	
	Public Housing Capital Fund - 2021	14.872	WA01P012501-21	144,031	
	Public Housing Capital Fund - 2020	14.872	WA01P012501-20	187,285	
	Total Capital Funds			331,316	
	Total US Department of Housing and Urban Development Direct Programs			$ 8,837,892	

* Denotes Major Program

See Independent Auditors' Report

NOTE 1 – BASIS OF ACCOUNTING

The Schedule of Expenditures of Federal Awards is prepared on the same basis of accounting as the Housing Authority City of Kennewick (the Authority) financial statements. The Authority uses the accrual basis of accounting. The Authority's accounting records are maintained in accordance with the methods prescribed by the State Auditor under the authority of Washington State law, Chapter 43.09 RCW. The Authority uses the revenue and expenditure classifications contained in the Financial and Accounting Handbooks prescribed by the Department of Housing and Urban Development (HUD).

NOTE 2 – PROGRAM COSTS

The amounts shown as current year expenditures represent only the federal grant portion of the program costs for FY 2022. Entire program costs, including the Authority's portion, may be more than shown.

NOTE 3 – INDIRECT COSTS

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

NOTE 4 – SUBRECIPIENTS

The Authority did not grant funds to sub-recipients.

NOTE 5 – YEAR-END LOAN BALANCES

As of June 30, 2022, the balance outstanding on the HOME Loan for the MicroHomes project was $760,598.

HA City of Kennewick (WA012)

KENNEWICK, WA

Entity Wide Balance Sheet Summary

Submission Type: Audited/Single Audit　　　　Fiscal Year End: 06/30/2022

	Project Total	6.1 Component Unit Discretely Presented	14.896 PIH Family Self-Sufficiency Program	1 Business Activities	14.879 Mainstream Vouchers	14.871 Housing Choice Vouchers	14.EHV Emergency Housing Voucher	14.HCC HCV CARES Act Funding	14.MSC Mainstream CARES Act Funding	Subtotal	ELIM	Total
111 Cash - Unrestricted	$381,348	$420,368		$554,269	$2,301	$598,438	$17,944			$1,974,668		$1,974,668
112 Cash - Restricted - Modernization and Development		$294,472		$73,078						$367,550		$367,550
113 Cash - Other Restricted						$70,514	$79,426			$149,940		$149,940
114 Cash - Tenant Security Deposits	$37,904	$10,636		$4,527						$53,067		$53,067
115 Cash - Restricted for Payment of Current Liabilities												
100 Total Cash	$419,252	$725,476	$0	$631,874	$2,301	$668,952	$97,370	$0	$0	$2,545,225	$0	$2,545,225
121 Accounts Receivable - PHA Projects												
122 Accounts Receivable - HUD Other Projects	$76,665				$3,273	$22,723				$102,661		$102,661
124 Accounts Receivable - Other Government	$601	$7,657		$423						$8,681		$8,681
125 Accounts Receivable - Miscellaneous	$47,872			$1,854						$49,726		$49,726
126 Accounts Receivable - Tenants	$28,591	$42,805		$9,724	$0					$81,120		$81,120
126.1 Allowance for Doubtful Accounts -Tenants	-$4,148	$0		$0	$0					-$4,148		-$4,148
126.2 Allowance for Doubtful Accounts - Other	$0	$0		$0	$0	$0				$0		$0
127 Notes, Loans, & Mortgages Receivable - Current												
128 Fraud Recovery	$5,802					$29,972				$35,774		$35,774
128.1 Allowance for Doubtful Accounts - Fraud	$0					$0				$0		$0
129 Accrued Interest Receivable												
120 Total Receivables, Net of Allowances for Doubtful Accounts	$155,383	$50,462	$0	$12,001	$3,273	$52,695	$0	$0	$0	$273,814	$0	$273,814
131 Investments - Unrestricted												
132 Investments - Restricted												
135 Investments - Restricted for Payment of Current Liability												
142 Prepaid Expenses and Other Assets	$4,752	$26,751		$4,033		$170				$35,706		$35,706
143 Inventories												
143.1 Allowance for Obsolete Inventories												
144 Inter Program Due From	$16,895			$8,363		$5,322				$30,580	-$30,580	$0
145 Assets Held for Sale												
150 Total Current Assets	$596,282	$802,689	$0	$656,271	$5,574	$727,139	$97,370	$0	$0	$2,885,325	-$30,580	$2,854,745
161 Land	$50,247	$996,796		$995,511						$2,042,554		$2,042,554
162 Buildings	$14,598,838	$10,325,783		$4,496,990						$29,421,611		$29,421,611
163 Furniture, Equipment & Machinery - Dwellings	$275,512	$469,152		$38,085						$782,749		$782,749
164 Furniture, Equipment & Machinery - Administration	$505,349			$519						$505,868		$505,868
165 Leasehold Improvements												
166 Accumulated Depreciation	-$10,450,012	-$1,950,017		-$515,259						-$12,915,288		-$12,915,288
167 Construction in Progress				$0						$0		$0
168 Infrastructure												
160 Total Capital Assets, Net of Accumulated Depreciation	$4,979,934	$9,841,714	$0	$5,015,846	$0	$0	$0	$0	$0	$19,837,494	$0	$19,837,494
171 Notes, Loans and Mortgages Receivable - Non-Current				$441,359						$441,359		$441,359
172 Notes, Loans, & Mortgages Receivable - Non Current - Past Due												
173 Grants Receivable - Non Current												
174 Other Assets	$389,644	$129,702		$104,299		$431,024				$1,054,669		$1,054,669
176 Investments in Joint Ventures												
180 Total Non-Current Assets	$5,369,578	$9,971,416	$0	$5,561,504	$0	$431,024	$0	$0	$0	$21,333,522	$0	$21,333,522
200 Deferred Outflow of Resources	$62,424			$19,892		$81,840				$164,156		$164,156

HA City of Kennewick (WA012)

KENNEWICK, WA

Entity Wide Balance Sheet Summary

Submission Type: Audited/Single Audit Fiscal Year End: 06/30/2022

	Project Total	6.1 Component Unit Discretely Presented	14.896 PIH Family Self-Sufficiency Program	1 Business Activities	14.879 Mainstream Vouchers	14.871 Housing Choice Vouchers	14.EHV Emergency Housing Voucher	14.HCC HCV CARES Act Funding	14.MSC Mainstream CARES Act Funding	Subtotal	ELIM	Total
290 Total Assets and Deferred Outflow of Resources	$6,028,284	$10,774,105	$0	$6,237,667	$5,574	$1,240,003	$97,370	$0	$0	$24,383,003	-$30,580	$24,352,423
311 Bank Overdraft												
312 Accounts Payable <= 90 Days	$42,391	$16,131		$1,007		$45,734				$105,263		$105,263
313 Accounts Payable >90 Days Past Due												
321 Accrued Wage/Payroll Taxes Payable	$27,938			$1,301		$3,914				$33,153		$33,153
322 Accrued Compensated Absences - Current Portion	$26,119			$6,623		$17,788				$50,530		$50,530
324 Accrued Contingency Liability												
325 Accrued Interest Payable		$196,591		$26,257						$222,848		$222,848
331 Accounts Payable - HUD PHA Programs												
332 Account Payable - PHA Projects												
333 Accounts Payable - Other Government												
341 Tenant Security Deposits	$37,904	$10,636		$4,527						$53,067		$53,067
342 Unearned Revenue	$4,645			$39,186		$0	$45,269			$89,100		$89,100
343 Current Portion of Long-term Debt - Capital Projects/Mortgage Revenue		$6,176		$12,705						$18,881		$18,881
344 Current Portion of Long-term Debt - Operating Borrowings												
345 Other Current Liabilities	$1,371	$54,815				$1,168				$57,354		$57,354
346 Accrued Liabilities - Other												
347 Inter Program - Due To	$0			$12,724		$17,856				$30,580	-$30,580	$0
348 Loan Liability - Current				$0						$0		$0
310 Total Current Liabilities	$140,368	$284,349	$0	$104,330	$0	$86,460	$45,269	$0	$0	$660,776	-$30,580	$630,196
351 Long-term Debt, Net of Current - Capital Projects/Mortgage Revenue		$2,695,410		$3,217,305						$5,912,715		$5,912,715
352 Long-term Debt, Net of Current - Operating Borrowings												
353 Non-current Liabilities - Other	$3,578			$0		$73,561				$77,139		$77,139
354 Accrued Compensated Absences - Non Current	$39,179			$9,934		$26,682				$75,795		$75,795
355 Loan Liability - Non Current												
356 FASB 5 Liabilities												
357 Accrued Pension and OPEB Liabilities	$291,088			$39,637		$318,223				$648,948		$648,948
350 Total Non-Current Liabilities	$333,845	$2,695,410	$0	$3,266,876	$0	$418,466	$0	$0	$0	$6,714,597	$0	$6,714,597
300 Total Liabilities	$474,213	$2,979,759	$0	$3,371,206	$0	$504,926	$45,269	$0	$0	$7,375,373	-$30,580	$7,344,793
400 Deferred Inflow of Resources	$421,126			$599,258		$448,280				$1,468,664		$1,468,664
508.4 Net Investment in Capital Assets	$4,979,845	$7,140,128		$1,785,836		-$75				$13,905,734		$13,905,734
511.4 Restricted Net Position	$324,920	$294,472		$177,377		$426,883	$79,426			$1,303,078		$1,303,078
512.4 Unrestricted Net Position	-$171,820	$359,746	$0	$303,990	$5,574	-$140,011	-$27,325	$0	$0	$330,154		$330,154
513 Total Equity - Net Assets / Position	$5,132,945	$7,794,346	$0	$2,267,203	$5,574	$286,797	$52,101	$0	$0	$15,538,966	$0	$15,538,966
600 Total Liabilities, Deferred Inflows of Resources and Equity - Net	$6,028,284	$10,774,105	$0	$6,237,667	$5,574	$1,240,003	$97,370	$0	$0	$24,383,003	-$30,580	$24,352,423

HA City of Kennewick (WA012)

KENNEWICK, WA

Entity Wide Revenue and Expense Summary

Submission Type: Audited/Single Audit   Fiscal Year End: 06/30/2022

	Project Total	6.1 Component Unit - Discretely Presented	14.896 PIH Family Self-Sufficiency Program	1 Business Activities	14.879 Mainstream Vouchers	14.871 Housing Choice Vouchers	14.EHV Emergency Housing Voucher	14.HCC HCV CARES Act Funding	14.MSC Mainstream CARES Act Funding	Subtotal	ELIM	Total
70300 Net Tenant Rental Revenue	$582,489	$519,030		$193,243						$1,294,762	-$131,982	$1,162,780
70400 Tenant Revenue - Other	$24,850									$24,850		$24,850
70500 Total Tenant Revenue	$607,339	$519,030	$0	$193,243	$0	$0	$0	$0	$0	$1,319,612	-$131,982	$1,187,630
70600 HUD PHA Operating Grants	$829,890		$71,493		$66,352	$6,785,212	$105,659	$20,967	$44,555	$7,924,128		$7,924,128
70610 Capital Grants	$153,166			$21,685						$174,851		$174,851
70710 Management Fee												
70720 Asset Management Fee												
70730 Book Keeping Fee												
70740 Front Line Service Fee												
70750 Other Fees				$14,881						$14,881		$14,881
70700 Total Fee Revenue				$14,881						$14,881	$0	$14,881
70800 Other Government Grants												
71100 Investment Income - Unrestricted	$718	$34		$28,984		$186				$29,922		$29,922
71200 Mortgage Interest Income												
71300 Proceeds from Disposition of Assets Held for Sale												
71310 Cost of Sale of Assets												
71400 Fraud Recovery				$18		$25,898				$25,916		$25,916
71500 Other Revenue	$58,207	$4,327		$128,435		$298,235				$489,204		$489,204
71600 Gain or Loss on Sale of Capital Assets												
72000 Investment Income - Restricted				$1,977						$1,977		$1,977
70000 Total Revenue	$1,649,320	$523,391	$71,493	$389,223	$66,352	$7,109,531	$105,659	$20,967	$44,555	$9,980,491	-$131,982	$9,848,509
91100 Administrative Salaries	$377,133	$36,180	$52,282	$100,600		$362,669	$3,617	$20,967		$953,448		$953,448
91200 Auditing Fees	$15,794	$14,800		$465		$30,195				$61,254		$61,254
91300 Management Fee		$29,686		$10,000						$39,686		$39,686
91310 Book-keeping Fee												
91400 Advertising and Marketing		$2,467		$744		$2,261				$5,472		$5,472
91500 Employee Benefit contributions - Administrative	-$103,254	$6,273	$18,916	$3,929		$9,688	$2,533			-$61,915		-$61,915
91600 Office Expenses	$11,230	$14,053		$20,584	$159	$138,712	$506			$185,244		$185,244
91700 Legal Expense	$1,911	$7,114		$1,003		$2,612				$12,640		$12,640
91800 Travel	$29,501		$295	$199		$847				$30,842		$30,842
91810 Allocated Overhead												
91900 Other		$38,465								$38,465		$38,465
91000 Total Operating - Administrative	$332,315	$149,038	$71,493	$137,524	$159	$546,984	$6,656	$20,967	$0	$1,265,136	$0	$1,265,136
92000 Asset Management Fee												
92100 Tenant Services - Salaries	$4,050									$4,050		$4,050
92200 Relocation Costs												
92300 Employee Benefit Contributions - Tenant Services												
92400 Tenant Services - Other	$4,272	$28,928					$3,259			$36,459		$36,459
92500 Total Tenant Services	$8,322	$28,928	$0	$0	$0	$0	$3,259	$0	$0	$40,509	$0	$40,509
93100 Water	$135,441	$40,608		$15,735						$191,784		$191,784
93200 Electricity	$33,618	$60,582		$7,374						$101,574		$101,574
93300 Gas	$2,433			$1						$2,434		$2,434
93400 Fuel		$14,088								$14,088		$14,088

HA City of Kennewick (WA012)

KENNEWICK, WA

Entity Wide Revenue and Expense Summary

Submission Type: Audited/Single Audit Fiscal Year End: 06/30/2022

	Project Total	6.1 Component Unit - Discretely Presented	14.896 PIH Family Self-Sufficiency Program	1 Business Activities	14.879 Mainstream Vouchers	14.871 Housing Choice Vouchers	14.EHV Emergency Housing Voucher	14.HCC HCV CARES Act Funding	14.MSC Mainstream CARES Act Funding	Subtotal	ELIM	Total
93500 Labor												
93600 Sewer												
93700 Employee Benefit Contributions - Utilities												
93800 Other Utilities Expense	$56,275			$3,942						$60,217		$60,217
93000 Total Utilities	$227,767	$115,278	$0	$27,052	$0	$0	$0	$0	$0	$370,097	$0	$370,097
94100 Ordinary Maintenance and Operations - Labor	$202,286	$14,276		$23,008	$240					$239,810		$239,810
94200 Ordinary Maintenance and Operations - Materials and Other	$81,810	$4,286		$6,627						$92,723		$92,723
94300 Ordinary Maintenance and Operations Contracts	$59,946	$59,458		$12,544		$2,450				$134,398		$134,398
94500 Employee Benefit Contributions - Ordinary Maintenance	$103,409			$8,302						$111,711		$111,711
94000 Total Maintenance	$447,451	$78,020	$0	$50,481	$240	$2,450	$0	$0	$0	$578,642	$0	$578,642
95100 Protective Services - Labor												
95200 Protective Services - Other Contract Costs	$7,367			$1,112		$29				$8,508		$8,508
95300 Protective Services - Other												
95500 Employee Benefit Contributions - Protective Services	$40			$40						$80		$80
95000 Total Protective Services	$7,407	$0	$0	$1,152	$0	$29	$0	$0	$0	$8,588	$0	$8,588
96110 Property Insurance		$19,593								$19,593		$19,593
96120 Liability Insurance	$46,398			$2,560		$3,297				$52,255		$52,255
96130 Workmen's Compensation												
96140 All Other Insurance	$2,435			$81		$1,163				$3,679		$3,679
96100 Total insurance Premiums	$48,833	$19,593	$0	$2,641	$0	$4,460	$0	$0	$0	$75,527	$0	$75,527
96200 Other General Expenses				$83,171						$83,171		$83,171
96210 Compensated Absences	-$3,006			-$6		-$4,120				-$7,132		-$7,132
96300 Payments in Lieu of Taxes		$5,147								$5,147		$5,147
96400 Bad debt - Tenant Rents	$4,105	$4,853		-$222		$19,175				$27,911		$27,911
96500 Bad debt - Mortgages												
96600 Bad debt - Other												
96800 Severance Expense												
96000 Total Other General Expenses	$1,099	$10,000	$0	$82,943	$0	$15,055	$0	$0	$0	$109,097	$0	$109,097
96710 Interest of Mortgage (or Bonds) Payable	$231			$27,959		$197				$28,387		$28,387
96720 Interest on Notes Payable (Short and Long Term)		$72,500								$72,500		$72,500
96730 Amortization of Bond Issue Costs		$829								$829		$829
96700 Total Interest Expense and Amortization Cost	$231	$73,329	$0	$27,959	$0	$197	$0	$0	$0	$101,716	$0	$101,716
96900 Total Operating Expenses	$1,073,425	$474,186	$71,493	$329,752	$399	$569,175	$9,915	$20,967	$0	$2,549,312	$0	$2,549,312
97000 Excess of Operating Revenue over Operating Expenses	$575,895	$49,205	$0	$59,471	$65,953	$6,540,356	$95,744	$0	$44,555	$7,431,179	-$131,982	$7,299,197
97100 Extraordinary Maintenance												
97200 Casualty Losses - Non-capitalized												
97300 Housing Assistance Payments					$120,421	$6,202,035	$54,843		$44,555	$6,421,854	-$131,982	$6,289,872
97350 HAP Portability-In						$262,085				$262,085		$262,085
97400 Depreciation Expense	$361,738	$388,311		$93,576		$1,212				$844,837		$844,837
97500 Fraud Losses												

HA City of Kennewick (WA012)

KENNEWICK, WA

Entity Wide Revenue and Expense Summary

Submission Type: Audited/Single Audit   Fiscal Year End: 06/30/2022

	Project Total	6.1 Component Unit - Discretely Presented	14.896 PIH Family Self-Sufficiency Program	1 Business Activities	14.879 Mainstream Vouchers	14.871 Housing Choice Vouchers	14.EHV Emergency Housing Voucher	14.HCC HCV CARES Act Funding	14.MSC Mainstream CARES Act Funding	Subtotal	ELIM	Total
97600 Capital Outlays - Governmental Funds												
97700 Debt Principal Payment - Governmental Funds												
97800 Dwelling Units Rent Expense												
90000 Total Expenses	$1,435,163	$862,497	$71,493	$423,328	$120,820	$7,034,507	$64,758	$20,967	$44,555	$10,078,088	-$131,982	$9,946,106
10010 Operating Transfer In	$177,317									$177,317	-$177,317	$0
10020 Operating transfer Out	-$177,317									-$177,317	$177,317	$0
10030 Operating Transfers from/to Primary Government												
10040 Operating Transfers from/to Component Unit												
10050 Proceeds from Notes, Loans and Bonds												
10060 Proceeds from Property Sales												
10070 Extraordinary Items, Net Gain/Loss												
10080 Special Items (Net Gain/Loss)												
10091 Inter Project Excess Cash Transfer In												
10092 Inter Project Excess Cash Transfer Out												
10093 Transfers between Program and Project - In												
10094 Transfers between Project and Program - Out												
10100 Total Other financing Sources (Uses)	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
10000 Excess (Deficiency) of Total Revenue Over (Under) Total Expenses	$214,157	-$339,106	$0	-$34,105	-$54,468	$75,024	$40,901	$0	$0	-$97,597	$0	-$97,597
11020 Required Annual Debt Principal Payments	$0	$0	$0	$12,328	$0	$0	$0	$0	$0	$12,328		$12,328
11030 Beginning Equity	$4,918,788	$8,133,452	$0	$2,301,308	$60,042	$211,773	$11,200	$0	$0	$15,636,563		$15,636,563
11040 Prior Period Adjustments, Equity Transfers and Correction of Errors	$0				$0				$0	$0		$0
11050 Changes in Compensated Absence Balance												
11060 Changes in Contingent Liability Balance												
11070 Changes in Unrecognized Pension Transition Liability												
11080 Changes in Special Term/Severance Benefits Liability												
11090 Changes in Allowance for Doubtful Accounts - Dwelling Rents												
11100 Changes in Allowance for Doubtful Accounts - Other												
11170 Administrative Fee Equity						$286,797				$286,797		$286,797
11180 Housing Assistance Payments Equity						$0				$0		$0
11190 Unit Months Available	2237	720		288	672	12408	336			16661		16661
11210 Number of Unit Months Leased	2169	708		283	280	9803	80			13323		13323
11270 Excess Cash	$374,544									$374,544		$374,544
11610 Land Purchases	$0									$0		$0
11620 Building Purchases	$631,178									$631,178		$631,178
11630 Furniture & Equipment - Dwelling Purchases	$13,687									$13,687		$13,687
11640 Furniture & Equipment - Administrative Purchases	$0									$0		$0
11650 Leasehold Improvements Purchases	$0									$0		$0
11660 Infrastructure Purchases	$0									$0		$0
13510 CFFP Debt Service Payments	$0									$0		$0
13901 Replacement Housing Factor Funds	$0									$0		$0

FINNEY, NEILL & COMPANY, P.S.
CERTIFIED PUBLIC ACCOUNTANTS

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*

Board of Commissioners
Housing Authority City of Kennewick
Kennewick, Washington

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and the aggregate discretely presented component units of the Housing Authority City of Kennewick (the "Authority"), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated March 27, 2023. The financial statements of the discretely presented component units, Kennewick Affordable Housing LLLP and Nueva Vista Phase II LLLP, were not audited in accordance with Governmental Auditing Standards and accordingly this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the discretely presented component units.

Report on Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity'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. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs, as item 2022-001 that we consider to be significant deficiencies.

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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 Standard, continued*

Report on 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*.

Housing Authority City of Kennewick's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Housing Authority City of Kennewick's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The Authority's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Finney, Neill & Company, P.S.

March 27, 2023
Seattle, Washington

FINNEY, NEILL & COMPANY, P.S.
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance

Board of Commissioners
Housing Authority City of Kennewick
Kennewick, Washington

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the Housing Authority City of Kennewick's (the "Authority's") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended June 30, 2022. The Authority's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Housing Authority City of Kennewick, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2022.

Basis for Opinion on Each Major Federal Program

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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Housing Authority City of Kennewick and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Authority's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Authority's federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Housing Authority City of Kennewick's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Authority's compliance with the requirements of each major federal program as a whole.

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Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance, *continued*

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Authority's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Authority's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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.

Finney, Neill & Company, P.S.

March 27, 2023
Seattle, Washington

HOUSING AUTHORITY CITY OF KENNEWICK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2022

Section I – Summary of Auditors' Results

Financial Statements

Type of auditors' report issued — Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? ___ yes __X__ no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? __X__ yes ___ none reported

Noncompliance material to financial statements noted? ___ yes __X__ no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ___ yes __X__ no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? ___ yes __X__ none reported

Type of auditors' report issued on compliance for major programs — Unmodified

Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance? ___ yes __X__ no

Identification of major programs:

CFDA Numbers	Name of Federal Program
14.871/14.879	*U.S. Department of Housing and Urban Development – Housing Voucher Cluster*
14.239	*U.S. Department of Housing and Urban Development – HOME Investment Partnerships Program*

Dollar threshold used to distinguish between type A and type B programs: $750,000

Auditee qualifies as low-risk auditee? ___ yes ___X___ no

Section II – Financial Statement Findings

<u>2022-001 – Schedule of Expenditures of Federal Awards Completeness</u>

Federal Award: Not applicable. The finding relates to financial reporting.

Finding
Internal control processes over financial reporting did not ensure that the Schedule of Expenditures of Federal Awards (SEFA) was complete.

Repeat Finding
Not applicable - this is not considered a repeat finding.

Criteria
The Authority is responsible for maintaining accurate information about all federal programs and reporting requirements. The Authority is responsible for using this information to prepare a complete and accurate SEFA on an annual basis in order to comply with the financial statement reporting requirements associated with the Uniform Guidance.

Condition and Context
During the course of our audit procedures, we observed that the SEFA prepared by management did not include all federal funds expended by the Authority during the year. We observed that the federal funds were being recorded to a separate general ledger account, and that management had procedures in place to monitor the related compliance requirements associated with the federal program which was omitted from the SEFA.

Cause
The internal controls of the accounting and reporting system were not designed or implemented to prevent or detect federal award expenditures missing from the SEFA.

Effect
The error resulted in the understatement of the total federal award expenditures on the SEFA prepared by management by $760,598. The use of incomplete information on the SEFA can result in improper identification of major programs and direct and material compliance requirements. The SEFA has been corrected by management as of June 30, 2022 to include all federal awards.

Questioned Costs
None.

Recommendations
We recommend the Authority develop a process or procedure that documents their consideration of all possible federal award expenditures, including an evaluation of all loans outstanding and grant funds expended for possible federal reporting and compliance requirements.

Views of Management and Corrective Action Plan
Management's response is reported in the "Management's Corrective Action Plan" at the end of this report.

Contact Person
Hermelinda Sierra, Finance Director

Section III –Federal Award Findings and Questioned Costs

NONE

Corrective Action Plan

March 20, 2023

The Housing Authority City of Kennewick respectfully submits the following Corrective Action Plan for the year ending June 30, 2022, for the Schedule of Expenditures of Federal Awards (SEFA).

Audit period: July 1, 2021-June 30, 2022

The finding from the June 30, 2022, schedule of findings and questioned costs are discussed below:

Finding:

Finding No. 2022-001

Plan for Corrective Action:

KHA has developed a Corrective Action Plan for Finding No. 2022-001. KHA has now corrected the Schedule of Expenditures of Federal Awards (SEFA) to include the missing Federal Funds for $760,598.

Previously the housing authority had not identified the new construction loan/grant to be included on the SEFA.

Recommendation:

During the audit, Auditors discovered that not all federal awards were recorded on the SEFA. Auditors subsequently recommended that KHA develop a procedure that documents and evaluates all federal awards, outstanding loans and grant funds expended for federal reporting and compliance requirements.

Actions Taken:

KHA has now corrected the SEFA to include missing federal awards for $760,598. KHA will develop a procedure to ensure that all new grants and loans are tracked on a spreadsheet then take extra step to evaluate and review for SEFA compliance.

Contact Persons:

Lona Hammer

Lona Hammer, KHA Executive Director
509-586-8576 ext. 103

Hermelinda Sierra, Finance Director
509-586-8576 ext. 111

Reference Number:	2021-001
Topic:	<u>Accounting for Construction-in-Progress Costs Near Year-End</u>
Audit Finding:	Procedures for capturing and recording construction costs incurred near year-end into the proper period were not adequately designed to capture costs invoiced several weeks or months after year-end, resulting in construction costs that were not completely and accurately accrued in the appropriate fiscal year.
Corrective Action:	During 2022 the Authority developed a process for accruing estimated construction costs incurred through year-end for invoices not yet received.
Status:	Closed.