Office of the Washington State Auditor
Pat McCarthy

December 23, 2024

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, 2023. 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

Americans with Disabilities

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Housing Authority City of Kennewick

Financial Statements
Year Ended June 30, 2023

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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, 2023, 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, 2023 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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INDEPENDENT AUDITORS' REPORT, CONTINUED

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 46, the schedule of employer contributions on page 47, the pension-related note disclosures on page 48, and OPEB schedules on page 49, 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 52 through 56, 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, 2023, the Authority adopted new accounting guidance, GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*. 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 April 29, 2024, 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.

April 29, 2024
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, 2023. 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 $8,603,508 (net position).
- The Housing Authority's total net position increased by $858,889.
- The unrestricted category of net position is $1,262,121 at June 30, 2023. 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, 2023	June 30, 2022
Current and Other Assets	$ 3,218,562	3,409,380
Capital Assets	10,755,159	10,004,781
Total Assets	13,973,721	13,414,161
Deferred Outflows of Resources	377,444	164,156
Total Assets and Deferred Outflows	$ 14,351,165	13,578,317
Current Liabilities	$ 307,847	321,183
Long-term Liabilities	4,585,205	4,043,851
Total Liabilities	4,893,052	4,365,034
Deferred Inflows of Resources	854,605	1,468,664
Net Position		
Net Investment in Capital Assets	6,967,233	6,765,606
Restricted	374,154	1,008,607
Unrestricted	1,262,121	(29,594)
Total Net Position	8,603,508	7,744,619
Total Liabilities, Deferred Inflows, and Net Position	$ 14,351,165	13,578,317

Total assets increased by $559,560 or 4%. Current and other assets decreased by $190,818 or 6%, with most of this being a decrease in net pension assets. In 2023, the Authority received funds to cover costs not reimbursed as of FYE 2022 as well as funds reimbursing for activity through FY 2023.

Liabilities increased by $528,018 or 12% in fiscal year 2023. This is mainly due to the implementation of GASB Statement No. 96, Subscription-Based Information Technology Arrangements (SBITA's), increasing the SBITA liability by $520,919. OPEB liabilities decreased by $112,428, which was offset by the net pension liability increase of $86,399.

The Housing Authority's net position was $8,603,508 at June 30, 2023. This is an increase of $858,889 from the previous year. The largest portion of the Housing Authority's net position $6,967,233, reflects its investment in capital assets (e.g., land, buildings, improvements, machinery, equipment, and right-to-use assets), net of related debt and lease and SBITA liabilities. 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 decreased as the Housing Authority decreased the actuarially determined net pension assets determined by the State of Washington. Unrestricted net position at June 30, 2023 is $1,262,121, which is an increase of $1,291,715 from June 30, 2022. $563,000 of this increase is due to the change in the net pension asset. The rest is due to revenues exceeding expenditures.

The overall financial position of the Housing Authority has increased from the previous year. The Housing Authority presents an operating gain of $941 and a total increase in the change in net position over prior year of $617,380 when considering the $360,938 increase in capital contributions and changes in other non-operating revenues and expenses.

Operating revenues increased 13% or $1,189,187 from FY22 to FY23. The increase is primarily from the increase in HUD Subsidy funding. Operating expenses increased 11% or by $1,038,867, mainly stemming from changes in housing assistance payments and pension and OPEB expense. Non-operating revenues increased 53% or $129,386 from FY22 to FY23. This increase is mainly from a settlement agreement with HUD resulting in $105,845 in non-operating revenues received in FY23.

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

	June 30, 2023	June 30, 2022
Operating Revenues		
Rental and Other	$ 1,024,384	981,718
HUD PHA Operating Grants	9,070,649	7,924,128
Total Operating Revenue	10,095,033	8,905,846
Non-Operating Revenues		
Fraud Recovery	33,240	25,916
Non Operating Income	297,711	186,643
Interest Income	42,859	31,865
Total Non-Operating Revenue	373,810	244,424
Total Revenue	10,468,843	9,150,270
Operating Expenses		
Administration	1,402,021	1,127,676
Utilities	291,877	254,819
Ordinary Maintenance and Operations	456,478	500,626
General Expenses	169,278	163,619
Housing Assistance Payments	7,255,493	6,551,957
Depreciation	518,945	456,528
Total Operating Expenses	10,094,092	9,055,225
Non-Operating Expenses		
Interest Expense	51,651	28,387
Total expenses	10,145,743	9,083,612
Change in Net Position Before Contributions	323,100	66,658
Contributions and Grants - Capital	535,789	174,851
Change in Net Position	858,889	241,509
Net Position, beginning	7,744,619	7,503,110
Net Position, ending	$ 8,603,508	7,744,619

Capital Assets and Long-Term Debt

CAPITAL ASSETS

The Housing Authority's investment in capital assets as of June 30, 2023 amounts to $10.8 million (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings, building improvements, equipment, and intangible assets. See Note 4 of the financial statements for additional information.

Capital Assets at Year-End

	June 30, 2023	June 30, 2022
Land	$ 1,045,758	1,045,758
Construction in Progress	38,992	-
Total Non-Depreciable Capital Assets	1,084,750	1,045,758
Buildings	19,393,473	19,095,828
Equipment, Dwelling	328,433	313,597
Office/Maintenance Equipment	785,958	505,868
Total Depreciable Capital Assets	20,507,864	19,915,293
Less: Accumulated Depreciation	11,477,243	10,965,271
Total Depreciable Capital Assets, net	9,030,621	8,950,022
Intangible, Right to Use Asset, net	639,788	9,001
Total Capital Assets, net	$ 10,755,159	10,004,781

LONG-TERM DEBT

At June 30, 2023, the Housing Authority had total debt outstanding of approximately $3.8 million compared to $3.2 million at June 30, 2022. The increase is mainly driven by an increased capital loan debt of $43,049 for the Microhomes project costs and the recognition of the SBITA in the amount of $520,919. Long-term debt is primarily made up of real estate mortgages, government loans, leases, and SBITA contracts.

Additional information on the Housing Authority's long-term debt can be found in Note 7.

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 successfully applied for the FSS grant renewal for 2023 and 2024, and successfully applied for an allocation of five HUD Stabilization Vouchers. The Authority received an allocation of 20 Veterans Affairs Supporting Housing (VASH) vouchers for 2022, but was not eligible to apply for VASH vouchers for the 2024 cycle. The Authority added 16 Micro Home units that serve homeless families and individuals in late 2021.. 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 58 units of affordable housing in Kennewick in 2024-25.

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, 2023
(With Component Unit presentation as of December 31, 2022)

	Primary Government	Component Units
Assets and Deferred Outflows of Resources		
Assets		
Current Assets:		
Cash - Unrestricted	$ 1,661,575	332,216
Accounts Receivable - Current	466,266	14,008
Related Party Receivables - Due from Primary Government	-	10,721
Lease Receivable, current portion	19,085	-
Prepaid Expenses	16,663	16,306
Restricted Assets:		
Cash - Restricted	124,139	336,880
FSS Escrow	83,088	-
Tenant Security Deposits	41,831	10,680
Total Restricted Assets	249,058	347,560
Total Current Assets	2,412,647	720,811
Noncurrent Assets:		
Capital Assets:		
Non-depreciable Capital Assets	1,084,750	492,936
Depreciable Capital Assets, Net of Depreciation	9,030,621	8,469,340
Amortizable Capital Assets, Net of Amortization	639,788	473,967
Total Capital Assets, net	10,755,159	9,436,243
Notes Receivable - Due from Component Unit	472,254	-
Lease Receivable, net of current portion	40,779	-
Net Pension Asset	292,882	-
Other Long Term Assets	-	116,964
Total Noncurrent Assets	11,561,074	9,553,207
Total Assets	13,973,721	10,274,018
Deferred Outflows of Resources		
Amounts Related to Pension	376,956	-
Amounts Related to OPEB	488	-
Total Deferred Outflows of Resources	377,444	-
Total Assets and Deferred Outflows of Resources	$ 14,351,165	10,274,018

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

HOUSING AUTHORITY CITY OF KENNEWICK
STATEMENT OF NET POSITION, CONTINUED
June 30, 2023
(With Component Unit presentation as of December 31, 2022)

		Primary Government	Component Units
Liabilities, Deferred Inflows of Resources, and Net Position			
Liabilities			
Current Liabilities:			
Accounts Payable and Other Accrued Liabilities	$	89,254	15,515
Current Portion, Compensated Absences		54,443	4,381
Current Portion, Accrued Interest		20,824	1,695
Unearned Revenue		42,868	6,046
Accrued Liabilities - Other		-	6,401
Current Portion, Lease Payable		2,655	-
Current Portion, SBITA Payable		28,797	-
Current Portion, Long-Term Debt		12,921	6,529
Current Portion, OPEB Liability		488	-
Related Party Payables - Due to Component Unit / Primary Governme		13,766	23,877
Tenant Security Deposits		41,831	11,416
Total Current Liabilities		307,847	75,860
Noncurrent Liabilities:			
Long-Term Debt, net of current portion		3,247,460	2,693,251
Lease Liability, net of current portion		3,971	-
SBITA Liability, net of current portion		492,122	-
Compensated Absences, net of current portion		81,664	3,503
Net Pension Liability		168,148	-
Other Postemployment Benefits (OPEB) Liability, net of current porti		453,246	-
Accrued Interest, net of current portion		55,507	244,628
Other Long-Term Liabilities		83,087	-
Total Noncurrent Liabilities		4,585,205	2,941,382
Total Liabilities		4,893,052	3,017,242
Deferred Inflows of Resources			
Amounts Related to Leases		544,634	-
Amounts Related to Pension		309,971	-
Total Deferred Inflows of Resources		854,605	-
Net Position			
Invested in capital assets, net of related debt		6,967,233	6,736,463
Restricted		374,154	336,144
Unrestricted		1,262,121	184,169
Total Net Position		8,603,508	7,256,776
Total Liabilities, Deferred Inflows of Resources, and Net Position	$	14,351,165	10,274,018

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, 2023
(With Component Unit presentation for the year ended December 31, 2022)

	Primary Government	Component Units
Operating Revenues		
Net Rental Revenue	$ 724,321	509,323
Tenant Revenue - Other	25,200	-
HUD PHA Operating Grants	9,070,649	-
Other Income	274,863	8,413
Total Operating Revenues	10,095,033	517,736
Operating Expenses		
Administrative	1,372,986	167,275
Tenant Services	29,035	33,881
Utilities	291,877	122,505
Maintenance	456,478	170,102
Protective Services	3,856	4,725
Insurance Premiums	61,019	26,751
Other General Expenses	104,403	38,816
Housing Assistance Payments	7,255,493	-
Depreciation and Amortization	518,945	418,209
Total Operating Expenses	10,094,092	982,264
Operating Income (Loss)	941	(464,528)
Non-Operating Revenues (Expenses)		
Investment Income	42,859	-
Fraud Recovery	33,240	-
Other Nonoperating Income	297,711	-
Interest Expense	(51,651)	(73,042)
Total Non-Operating Revenues (Expenses)	322,159	(73,042)
Changes in Net Position Before Contributions	323,100	(537,570)
Contributions		
Contributions and Grants - Capital	535,789	-
Total Contributions	535,789	-
Change in Net Position	858,889	(537,570)
Net Position, Beginning of Year	7,744,619	7,794,346
Net Position, End of Year	$ 8,603,508	7,256,776

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, 2023

	Primary Government
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Tenants	$ 746,232
Cash Received from Other Activities	452,588
Cash Received from HUD Operating Grants	8,922,863
Cash Paid to Suppliers	(1,012,532)
Cash Paid to Employees	(1,590,488)
Cash Paid to Landlords	(7,255,493)
Net Cash Provided by Operating Activities	263,170
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase of Capital Assets	(631,563)
Proceeds from Issuance of Long-Term Debt	43,076
Principal Paid on Leases	(2,539)
Principal Paid on Capital Debt	(7,868)
Interest Paid	(1,577)
Capital Grants Received	416,221
Net Cash Used by Capital and Related Financing Activities	(184,250)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest Received	11,964
Net Cash Provided by Investing Activities	11,964
NET INCREASE (DECREASE) IN CASH	90,884
CASH, beginning of year	1,819,749
CASH, end of year	$ 1,910,633
RECONCILIATION OF CASH TO THE STATEMENT OF NET POSITION	
Cash - Unrestricted	$ 1,661,575
Cash - Restricted	124,139
FSS Escrow	83,088
Tenant Security Deposits	41,831
Cash, total	$ 1,910,633

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, 2023

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

Operating Income (Loss)	$	941
Adjustments to Reconcile Net Operating Income (Loss) to Net Cash from Operating Activities:		
Depreciation and amortization		518,945
Other Income		330,951
Forgiveness of Note Payable		(4,837)
(Increase) Decrease in Cash Due to Changes in Assets:		
Tenant Receivables		(14,992)
Other Receivables		(134,025)
Prepaid Expenses and Other Assets		(645,468)
Increase (Decrease) in Cash Due to Changes in Liabilities:		
Accounts Payable		(16,736)
Change in Pension Activities		(153,747)
Change in OPEB		(112,428)
Accrued Liabilities - Other		515,728
Tenant Security Deposits		(20,562)
Compensated Absences		(600)
Total Adjustments		262,229
Net Cash Provided (Used) by Operating Activities	$	263,170

Noncash Transactions:

Notes Payable Forgiven	$	4,837
Lease Income in Lieu of Liability		5,038
SBITA Asset financed with Debt		520,919

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 in December 2018.

The Component Units are presented with balances as of December 31, 2022, 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 Statement No. 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 Brief #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 Annual Contribution Contract (ACC) 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, 2023.

Restricted Assets

In accordance with loan and regulatory agreements, separate restricted cash and cash equivalents 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 cash and cash equivalents related to specific projects. Each related project is to use its own unrestricted funds for all operating expenses. Restricted cash and cash equivalents 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, 2023, restricted assets consisted of the following:

Replacement Reserves	$ 73,625
Emergency Housing Vouchers	31,936
Scholarship	1,504
FSS Escrow	83,088
Tenant Security Deposits	41,831
Other	17,074
	$ 249,058

These notes are an integral part of the financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Additionally, the Authority reports Net Pension Assets, which are held by the State of Washington. See Note 5.

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, 2023, the allowance for doubtful accounts was $57,715.

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.

Leases

Leases receivable consist of amounts recorded in compliance with GASBS No. 87, *Leases*. The Authority has recorded the Lease Receivable and Deferred Inflows of Resources.

At the commencement of a lease, the Authority initially measures the lease receivable at the present value of payments expected to be received during the lease term. Subsequently the lease receivable is reduced by the principal portion of lease payments received. The deferred inflow of resources is initially measured as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflow of resources is recognized as revenue over the life of the lease term using the straight-line basis.

Key estimates and judgments related to lease include how the Authority determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- The Housing Authority uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancelable period of the lease. Lease receipts included in the measurement of the lease liability are composed of fixed payments from the lessee.

The Authority monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease receivable and deferred inflows of resources if certain changes occur that are expected to significantly affect the amount of the lease receivable. See Note 6 for more information.

Lease Liability consists of amounts recorded in compliance with GASBS No. 87, *Leases*. The Authority has recorded the Lease Liability and associated Intangible, Right to Use, Asset.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

At the commencement of a lease, the Authority initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized using the straight-line basis the same useful lives as the asset category of the underlying assets. If the asset's life is equivalent to the lease term, the Authority's Right to Use Asset is amortized over the life of the lease from implementation through lease term end.

Key estimates and judgments related to lease include how the Authority determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- The Authority uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the Authority generally uses its incremental borrowing rate as the discount rate for leases.
- The lease term includes the non-cancelable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that the Authority is reasonably certain to exercise.

The Authority monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability. See Note 6 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 4 – Capital Assets for further detail.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Accounts Payable and Other Accrued Liabilities
Accounts payable consists of invoices less than 90 days old which the Authority has accrued as of June 30, 2023. Other accrued liabilities include accrued payroll taxes, which consist of the amounts owing for the June 2023 payroll and 2nd quarter 2023 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 for 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.

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.

Total Other Post Employment Benefit (OPEB) Liability
See Note 11, 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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.

SBITA Liability and Right to Use Asset
SBITA liabilities consist of amounts recorded in compliance with GASB 96, *Subscription-Based Information Technology Arrangements* (SBITAs). The Authority has recorded the SBITA liability and associated intangible, right to use, SBITA asset.

At the commencement of a subscription-based information technology arrangement, the Authority initially measures the SBITA liability at the present value of payments expected to be made during the SBITA term. Subsequently, the SBITA liability is reduced by the principal portion of SBITA payments made. The SBITA asset is initially measured as the initial amount of the SBITA liability, adjusted for payments made at or before the implementation date, plus certain initial direct costs. Subsequently, the SBITA asset is amortized using the straight-line method over the same useful lives as the SBITA term.

Implementation of New Governmental Accounting Standards Board (GASB) Pronouncements
At July 1, 2022, the Authority implemented the following GASB Statements:

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITAs)*. This statement requires recognition of certain subscription-based information technology assets and liabilities for arrangements that previously were classified as operating expense and recognized as outflows of resources based on the payment provisions of the contract. It establishes a single model for SBITA accounting based on the foundational principle that SBITAs are financings of the rights to use an underlying information technology software asset.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

As a result of implementing this GASB, the Authority has recorded the intangible, right to use, SBITA asset of $637,760 and SBITA liability of $520,919. In addition, $20,824 was recorded as accrued interest expense reflected within the Statement of Revenues, Expenses, and Changes in Net Position. The SBITA asset went into service June 1, 2023.

GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements* improves financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). This Statement is effective for fiscal years beginning after June 15, 2022. The Authority's adoption of this GASB Standard did not have a material impact on the Authority's financial statements.

GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans* – An Amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, OPEB plans, and employee benefit plans as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency and comparability of the accounting and financial reporting for IRC Section 457 deferred compensation plans that meet the definition of a pension plan and for benefits provided through those plans. The Authority's adoption of this GASB Standard did not have a material impact on the Authority's financial statements.

GASB Statement No. 99, *Omnibus 2022* objectives are to enhance comparability in accounting and financial reports and to improve the consistency of authoritative literature. Portions of this statement are effective for fiscal years beginning after June 15, 2022 and other requirements are effective for fiscal years beginning after June 15, 2023. The Authority's adoption of this GASB Standard did not have a material impact on the Authority's financial statements.

New Accounting Standards to be Adopted in Future Years
The following GASB standards will be effective for the Authority in future years:

Statement No. 100, *Accounting Changes and Error Corrections* – an amendment of GASB Statement no. 62, the objective of the statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. This Statement is effective for fiscal years beginning after June 15, 2023.

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.

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, 2023, the Authority had no funds that were considered investments.

At June 30, 2023, the Authority's total cash and cash equivalents on hand are $1,910,633.

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable balance consists of the following items as of June 30, 2023. All loans receivable are considered collectible.

	June 30, 2023
Tenants, net of allowance of $20,196	$ 49,159
Vendors	54,729
HUD	324,054
Fraud Recovery, net of allowance of $37,519	34,566
Other	3,758
	$ 466,266

These notes are an integral part of the financial statements.

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2023 was as follows:

	Beginning Balance 07/01/22	Additions	Disposals	Transfers	Ending Balance 06/30/23
Land	$ 1,045,758	-	-	-	1,045,758
Construction in Progress	-	38,992	-	-	38,992
Total non-depreciable capital assets	1,045,758	38,992	-	-	1,084,750
Buildings	19,095,828	297,645	-	-	19,393,473
Equipment, Dwelling	313,597	14,836	-	-	328,433
Office/Maintenance Equipment	505,868	280,090	-	-	785,958
Total depreciable capital assets	19,915,293	592,571	-	-	20,507,864
Accumulated Depreciation	(10,965,271)	(511,972)	-	-	(11,477,243)
Total depreciable capital assets, net	8,950,022	80,599	-	-	9,030,621
Intangible - Right-to-Use Equipment	11,636	-	-	-	11,636
Intangible - SBITA	-	637,760	-	-	637,760
Accumulated Amortization	(2,635)	(6,973)	-	-	(9,608)
Total amortizable capital assets, net	9,001	630,787	-	-	639,788
Total capital assets, net	$ 10,004,781	750,378	-	-	10,755,159

Capital asset activity for the Component Units for the year ended December 31, 2022 was as follows:

	Beginning Balance 01/01/22	Additions	Disposals	Transfers	Ending Balance 12/31/22
Land	$ 492,936	-	-	-	492,936
Total non-depreciable capital assets	492,936	-	-	-	492,936
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	(1,950,017)	(375,578)	-	-	(2,325,595)
Total depreciable capital assets, net	8,844,918	(375,578)	-	-	8,469,340
Intangible - Right-to-Use Asset	503,860	-	-	-	503,860
Accumulated Amortization	-	(29,893)	-	-	(29,893)
Total amortizable capital assets, net	503,860	(29,893)	-	-	473,967
Total capital assets, net	$ 9,841,714	(405,471)	-	-	9,436,243

These notes are an integral part of the financial statements.

NOTE 5 – PENSION PLANS

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement No. 68, *Accounting and Financial Reporting for Pensions,* for the fiscal year ended June 30, 2023:

Pension liabilities	$ 168,148
Pension assets	292,882
Deferred outflows of resources	376,956
Deferred inflows of resources	309,971
Pension expense/expenditures	(27,660)

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 5 – 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 2023 were as follows:

PERS Plan 1		
Actual Contribution Rates:	**Employer**	**Employee**
July 2022 - August 2022:		
PERS Plan 1	6.36%	6.00%
PERS Plan 1 UAAL	3.71%	
Administrative Fee	0.18%	
Total	**10.25%**	**6.00%**
September 2022 - June 2023:		
PERS Plan 1	6.36%	6.00%
PERS Plan 1 UAAL	3.85%	
Administrative Fee	0.18%	
Total	**10.39%**	**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.

NOTE 5 – PENSION PLANS, continued

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

Contributions

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for the fiscal year 2023 were as follows:

PERS Plan 2/3		
Actual Contribution Rates:	**Employer**	**Employee**
July 2022 - August 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%**
September 2022 - June 2023:		
PERS Plan 2/3	6.36%	6.36%
PERS Plan 1 UAAL	3.85%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
Total	**10.39%**	**6.36%**

The Authority's actual PERS plan contributions were $47,358 to PERS Plan 1 and $78,731 to PERS Plan 2/3 for the year ended June 30, 2023.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2022 with a valuation date of June 30, 2021. 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 *2021 Economic Experience Study*.

NOTE 5 – PENSION PLANS, continued

Additional assumptions for subsequent events and law changes are current as of the 2021 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2022. Plan liabilities were rolled forward from June 30, 2021, to June 30, 2022, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 2.75% total economic inflation; 3.25% salary inflation
- **Salary increases**: In addition to the base 3.25% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.00%

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.

Methods did not change from the prior contribution rate setting June 30, 2019 Actuarial Valuation Report (AVR); however, OSA introduced a temporary method change to produce asset and liability measures for the June 30, 2020 AVR. There were also the following assumption changes:

- OSA updated the Joint-and-Survivor Factors and Early Retirement Factors in the model. Those factors are used to value benefits for early retirement and survivors of members that are deceased prior to retirement. These factors match the administrative factors provided to DRS for future implementation that reflect current demographic and economic assumptions.

Discount Rate
The discount rate used to measure the total pension liability for all DRS plans was 7.0 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 7.0 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 7.0 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, 2022, are summarized in the table below. The inflation component used to create the table is 2.20 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

NOTE 5 – PENSION PLANS, continued

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	1.50%
Tangible Assets	7%	4.70%
Real Estate	18%	5.40%
Global Equity	32%	5.90%
Private Equity	23%	8.90%
	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 6.00%	Current Rate 7.00%	1% Increase 8.00%
Pers 1	$ 224,643	$ 168,148	$ 118,841
Pers 2/3	344,907	(292,882)	(816,867)

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, 2023, the Authority reported its proportionate share of the net pension liability (asset) as follows:

Plan	Liability (Asset)
PERS 1	$ 168,148
PERS 2/3	(292,882)

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

	Proportionate Share 6/30/21	Proportionate Share 6/30/22	Change in Proportion
PERS 1	0.00669%	0.00604%	-0.00066%
PERS 2/3	0.00859%	0.00790%	-0.00070%

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30, 2022 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.

These notes are an integral part of the financial statements.

NOTE 5 – PENSION PLANS, continued

The collective net pension liability was measured as of June 30, 2022, and the actuarial valuation date on which the total pension liability is based was as of June 30, 2021, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense
For the year ended June 30, 2023, the Authority recognized pension expense as follows:

	Pension Expense
PERS 1	$ 64,372
PERS 2/3	(92,032)
TOTAL	$ (27,660)

Deferred Outflows of Resources and Deferred Inflows of Resources
At June 30, 2023, 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	$ -	(27,867)
Contributions subsequent to the measurement date	47,358	-
TOTAL	$ 47,358	(27,867)

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 72,569	(6,630)
Net difference between projected and actual investment earnings on pension plan investments	-	(216,530)
Changes of assumptions	163,242	(42,742)
Changes in proportion and differences between contributions and proportionate share of contributions	15,056	(16,202)
Contributions subsequent to the measurement date	78,731	-
TOTAL	$ 329,598	(282,104)

NOTE 5 – PENSION PLANS, continued

TOTAL ALL PLANS	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 72,569	(6,630)
Net difference between projected and actual investment earnings on pension plan investments	-	(244,397)
Changes of assumptions	163,242	(42,742)
Changes in proportion and differences between contributions and proportionate share of contributions	15,056	(16,202)
Contributions subsequent to the measurement date	126,089	-
TOTAL	$ 376,956	(309,971)

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, 2024. 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
2024	$ (11,793)	(68,983)
2025	(10,711)	(61,306)
2026	(13,436)	(71,629)
2027	8,073	100,234
2028	-	34,870
Thereafter	-	35,576

NOTE 6 – LEASE COMMITMENTS

Authority as Lessor

At June 30, 2023, 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 $21,773.

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
2024	$ 19,085	2,688	21,773
2025	19,942	1,831	21,773
2026	20,837	936	21,773
	$ 59,864	5,455	65,319

These notes are an integral part of the financial statements.

NOTE 6 – 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, 2023, is $116,716.

In addition, 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, 2023, is $367,977.

Lease revenue included in other nonoperating income totaled $30,378 for the year ended June 30, 2023.

Authority as Lessee
At June 30, 2023, the Authority has one lease in which it is acting as the lessee for office equipment. Refer to Note 4, Capital Assets, for information related to the Right to Use Assets accounted for through this lease.

The Authority has one lease for office equipment. The lease includes the use of two copiers, requires monthly lease payments, and the lease term ends November 10, 2025.

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
2024	$ 2,655	243	2,898
2025	2,777	122	2,899
2026	1,194	13	1,207
	$ 6,626	378	7,004

NOTE 7 – 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, 2023 is $40,286.

These notes are an integral part of the financial statements.

NOTE 7 – 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, 2023 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 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, 2023 is $10,129.

Microhomes Housing Trust Fund recoverable grant is conditional on the Microhomes project placing 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, 2023 is $2,138,136.

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, 2023 is $803,647.

NOTE 7 – 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
2024	$ 12,921	1,005	13,926
2025	13,602	778	14,380
2026	8,541	548	9,089
2027	8,778	311	9,089
2028	6,573	74	6,647
2029-2033	-	-	-
2034-2038	-	-	-
2039-2043	803,647	157,650	961,297
2044-2048	268,183	-	268,183
2049-2053	-	-	-
2054-2058	-	-	-
2059-2062	2,138,136	855,185	2,993,321
	3,260,381	1,015,551	4,275,932
Short-term portion	(12,921)	(1,005)	(13,926)
Long-term portion	$ 3,247,460	1,014,546	4,262,006

Changes in long-term liabilities for the year ended June 30, 2023 are as follows:

	Balance 07/01/22	Additions	Reductions	Balance 06/30/23	Due Within One Year
Direct Borrowing					
Real estate mortgages	$ 48,155	-	(7,868)	40,287	$ 8,084
Government loans	3,181,855	43,076	(4,837)	3,220,094	4,837
Total direct borrowings	3,230,010	43,076	(12,705)	3,260,381	12,921
Lease liability	9,165	-	(2,539)	6,626	2,655
SBITA liability	-	520,919	-	520,919	28,797
Total long-term debt	3,239,175	563,995	(15,244)	3,787,926	44,373
Compensated absences	126,325	9,782	-	136,107	54,443
Accrued interest	26,257	50,074	-	76,331	20,824
Net pension liability	81,749	86,399	-	168,148	-
Total OPEB liability	567,199	-	(113,465)	453,734	488
FSS escrow liability	70,513	12,574	-	83,087	-
Total	$ 4,111,218	722,824	(128,709)	4,705,333	$ 120,128

NOTE 7 – 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, 2022 was $336,284. Accrued interest payable of $1,695 is outstanding as of December 31, 2022.

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, 2022, the balance outstanding was $1,107,270. At December 31, 2022, accrued interest payable on the loan was $68,849. 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, 2022. Accrued interest payable of $32,333 is outstanding as of December 31, 2022.

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, 2022. Accrued interest payable of $128,908 is outstanding as of December 31, 2022.

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, 2022. Accrued interest payable of $14,538 is outstanding as of December 31, 2022.

NOTE 7 – 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
2023	$ 6,529	18,265	24,794
2024	6,850	17,821	24,671
2025	7,295	17,404	24,699
2026	7,712	16,963	24,675
2027	8,153	16,544	24,697
2028-2032	299,745	46,424	346,169
2033-2037	-	-	-
2038-2042	3,609	199,243	202,852
2043-2047	220,615	190,491	411,106
2048-2052	724,333	316,937	1,041,270
2053-2057	1,478,502	4,927,593	6,406,095
2058	50,211	502	50,713
	2,813,554	5,768,187	8,581,741
Short-term portion	(6,529)	(18,265)	(24,794)
Long-term portion	$ 2,807,025	5,749,922	8,556,947

Changes in the component units' long-term liabilities for the twelve-month period ended December 31, 2022 are as follows:

	Balance 01/01/22	Additions	Reductions	Balance 12/31/22	Due within one year
Direct Borrowing:					
Real estate mortgages	$ 342,460	-	(6,176)	336,284	$ 6,529
Governmental loans	2,477,270	-	-	2,477,270	-
Total Direct Borrowings	2,819,730	-	(6,176)	2,813,554	6,529
Debt issuance costs	(118,144)	-	4,370	(113,774)	(4,371)
Total Direct Borrowings, net	2,701,586	-	(1,806)	2,699,780	2,158
Accrued Interest	196,591	49,732	-	246,323	1,695
Total	$ 2,898,177	49,732	(1,806)	2,946,103	$ 3,853

These notes are an integral part of the financial statements.

NOTE 8 – 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 9 – 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 10 – 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-one member/owner housing authorities in the states of Washington, Oregon, California and Nevada. Thirty-one of the eighty-one 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 10 – 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 $300,000 for employee dishonesty, forgery or alteration and $30,000 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 11 – 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, 2023:

Aggregate OPEB Amounts - All Plans		
OPEB Liabilities	$	453,734
Deferred Outflows of Resources		488
OPEB Expense		(113,062)

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 11 – OTHER POST EMPLOYMENT BENEFITS, continued

At June 30, 2023, 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 $453,734 was measured as of June 30, 2022, with a valuation date of June 30, 2022. 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	2.16%
Discount Rate - End of Measurement Year	3.54%
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.

NOTE 11 – 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 mortality 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, 2023, adjusted for that assumption change:

Discount Rate Sensitivity

1% Decrease	Current Discount Rate	1% Increase
$ 569,897	$ 453,734	$ 364,725

Health Care Trend Rate Sensitivity

1% Decrease	Current Health Care Trend Rate	1% Increase
$ 344,782	$ 453,734	$ 605,593

These notes are an integral part of the financial statements.

NOTE 11 – OTHER POST EMPLOYMENT BENEFITS, continued

Changes in the Total OPEB Liability

At the measurement date June 30, 2022, the changes in the total OPEB liability are as follows:

Service cost	$	61,750
Interest cost		13,581
Changes in assumptions		(188,393)
Benefit payments		(403)
Net change in total OPEB liability		(113,465)
Total OPEB liability - beginning		567,199
Total OPEB liability - ending	$	453,734

The Authority reported ($113,062) as OPEB expense for the fiscal year 2023.

At June 30, 2023, the Authority reported deferred outflows of resources only for deferred outflows subsequent to the measurement date in the amount of $488. This will be recognized as a reduction of OPEB liability in the period ending June 30, 2024.

NOTE 12 – SUBSCRIPTION-BASED INFORMATION TECHNOLOGY ARRANGEMENTS (SBITAs)

At June 30, 2023, the Authority used its SBITA policy to evaluate financial agreements that are potential SBITAs. At June 30, 2023, the Authority has one SBITA liability for its general ledger accounting and housing management software. The agreement is for a noncancellable term of 5 years beginning September 30, 2022, with multiple 3-year options to extend. The Authority expects to exercise extensions through 2035. Payments may increase annually, not exceeding CPI for the preceding year. Additionally, the Authority will pay a use-based fee for payment processing beginning July 1, 2023. See Capital Assets, Note 4.

The Authority's schedule of future payments included in the measurement of the SBITA payable is as follows:

	SBITA Liability		
	Principal	Interest	Total Requirements
2024	$ 28,797	27,765	56,562
2025	30,332	26,230	56,562
2026	31,949	24,613	56,562
2027	33,651	22,911	56,562
2028	35,445	21,117	56,562
2029-2033	207,660	75,150	282,810
2034-2036	153,085	16,601	169,686
	$ 520,919	214,387	735,306

NOTE 13 – COMPONENT UNIT CONDENSED STATEMENTS

Condensed Statement of Net Position
As of December 31, 2022

	Kennewick Affordable Housing LLLP	Nueva Vista II LLLP	Total
Assets			
Current assets	$ 428,029	292,782	720,811
Other Assets	58,053	58,911	116,964
Capital Assets (net)	4,102,049	5,334,194	9,436,243
Total Assets	$ 4,588,131	5,685,887	10,274,018
Liabilities			
Current Liabilities	$ 40,692	35,168	75,860
Noncurrent Liabilities	1,425,230	1,516,152	2,941,382
Total Liabilities	$ 1,465,922	1,551,320	3,017,242
Net Position			
Net Invested in Capital Assets	$ 2,742,642	3,993,821	6,736,463
Restricted Net Position	198,253	137,891	336,144
Unrestricted Net Position	181,314	2,855	184,169
Total Net Position	$ 3,122,209	4,134,567	7,256,776

Condensed Statement of Revenues, Expenses, and Changes in Fund Net Position
For the Year Ended December 31, 2022

	Kennewick Affordable Housing LLLP	Nueva Vista II LLLP	Total
Operating Revenues	$ 281,356	236,380	517,736
Depreciation Expense	(225,742)	(192,467)	(418,209)
Other Operating Expense	(280,270)	(283,785)	(564,055)
Operating Income (Loss)	(224,656)	(239,872)	(464,528)
Non-Operating Revenues (Expenses)			
Interest Expense	(33,980)	(39,062)	(73,042)
Change in Net Position	(258,636)	(278,934)	(537,570)
Beginning Net Position	3,380,844	4,413,502	7,794,346
Ending Net Position	$ 3,122,208	4,134,568	7,256,776

These notes are an integral part of the financial statements.

NOTE 13 – COMPONENT UNIT CONDENSED STATEMENTS, continued

Condensed Statement of Cash Flows
For the Year Ended December 31, 2022

	Kennewick Affordable Housing LLLP	Nueva Vista II LLLP	Total
Net Cash Provided (Used) By:			
Operating activities	$ (19,529)	(19,995)	(39,524)
Capital and related financing activities	(6,176)	-	(6,176)
Investing activities	-	-	-
Net increase (decrease)	(25,705)	(19,995)	(45,700)
Beginning cash	451,526	273,950	725,476
Ending cash	$ 425,821	253,955	679,776

NOTE 14 – SHORT-TERM DEBT

The Authority obtained a line of credit through a direct borrowing arrangement 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 was originally set to expire on July 15, 2022, but was renewed for the same amount in August 2022. As of June 30, 2023, no amount had been drawn on this loan.

NOTE 15 - 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 16 – RELATED ORGANIZATION

The City of Kennewick is a related organization to the Authority. Though the Authority is a legally separate entity from the City, the City appoints all members of the Authority's board. There is no financial benefit or burden to the City regarding the Authority's operations, and the City cannot impose its will on the Authority.

NOTE 17 – SUBSEQUENT EVENTS

The Housing Authority signed an Interlocal Agreement with the City of Kennewick in order to negotiate the acquisition of a 3.6-acre parcel of land in east Kennewick. KHA will be negotiating this acquisition in order to develop a 58+/-unit affordable housing community. KHA has successfully applied for Benton County 2060 funds of $400,000 for acquisition and new housing construction, applied for and received a conditional allocation of CDBG funds for $384,000 for off-site infrastructure, applied for and received a $3 million allocation from the federal Community Project Funding program (CFP), $5 million was awarded from the Department of Commerce/Housing Trust Fund and Department of Commerce/Connecting Housing to Infrastructure Program. Construction bond financing of $13 million is reserved through the Washington State Housing Finance Commission's Housing Authority Set-Aside Program which also includes an allocation of 4% tax credits. KHA anticipates possible application to other local, state, and/or federal affordable housing development opportunities for this project, if needed. This is a joint effort with the City of Kennewick to increase affordable housing opportunities in our community.

The Housing Authority created the Benton Franklin Housing Consortium with the Housing Authority of the City of Pasco and Franklin County (HACPFC) effective September 1, 2024-August 31, 2029. The KHA will contract with the HACPFC for executive director management services when KHA's current executive director retires. This contract will be effective on January 1, 2024.

In 2021, the Housing Authority created a wholly owned non-profit instrumentality named Creating Opportunities for Housing Options (COHO) for the purpose of avoiding conflicts of interest with using housing choice vouchers in housing authority owned apartments and to facilitate further affordable housing development activities within our community. In July 2023, the IRS approved the 501(c)(3) federal tax exemption. The Housing Authority has transferred Delafield House and Mitchell Manor into this non-profit entity and will transfer Lilac Homes into COHO in early 2024.

The Microhomes Home Loan is authorized at $850,000, but only $803,647 has been drawn down as of June 30, 2023. There is still $46,353 available to borrow against this loan.

The Housing Authority outsource its IT services and has signed a contract with a new third-party contractor for IT services beginning March 1, 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 TEN 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
2022	0.006039%	$ 168,148	$ 1,100,301	15.28%	76.56%
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 TEN 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
2022	0.007897%	$ (292,882)	$ 1,100,301	-26.62%	106.73%
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 TEN 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
2023	$ 47,358	$ (47,358)	$ -	$ 1,237,911	3.83%
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 TEN 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
2023	$ 78,731	$ (78,731)	$ -	$ 1,237,911	6.36%
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.

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	8/31/2022	10.25%	
9/1/2022	current	10.39%	*

*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	8/31/2022	10.25%	
9/1/2022	current	10.39%	*

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

HOUSING AUTHORITY CITY OF KENNEWICK
REQUIRED SUPPLEMENTARY INFORMATION – OPEB

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

Total OPEB Liability	2023	2022	2021	2020	2019
Service cost	$ 61,750	$ 69,437	$ 43,801	$ 38,549	$ 38,549
Interest	13,581	15,135	16,188	13,340	10,099
Changes in experience data and assumptions	(188,393)	(132,022)	137,707	62,100	-
Benefit payments	(403)	(1,513)	(502)	(2,310)	(2,310)
Net change in total OPEB liability	(113,465)	(48,963)	197,194	111,679	46,338
Total OPEB liability beginning	567,199	616,162	418,968	307,289	260,951
Total OPEB liability ending	$ 453,734	$ 567,199	$ 616,162	$ 418,968	$ 307,289
Covered employee payroll	$ 1,138,739	$ 1,142,801	$ 1,038,711	$ 1,072,749	$ 1,007,048
Total OPEB liability as a percentage of covered employee payroll	39.85%	49.63%	59.32%	39.06%	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.

2022	3.54%
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, 2023

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	$ 803,647	
	Public and Indian Housing - Subsidy	14.850	WA01200000123D	341,428	
	Public and Indian Housing - Subsidy	14.850	WA01200000133D	213,259	
	Total Public and Indian Housing			554,687	
	Section 8 Housing Choice Voucher	14.871	WA012VO	7,595,039	
	Emergency Housing Vouchers	14.871		186,455	
	Main Stream Vouchers	14.879	WA012	304,248	
	Total Housing Choice Voucher Cluster			8,085,742	*
	PIH Family Self Sufficiency Program	14.896	FSS18WA2779-01-00	63,627	
	Public Housing Capital Fund - 2022	14.872	WA01P012501-22	141,054	
	Public Housing Capital Fund - 2021	14.872	WA01P012501-21	316,378	
	Public Housing Capital Fund - 2020	14.872	WA01P012501-20	138,970	
	Total Capital Funds			596,402	*
	Total US Department of Housing and Urban Development Direct Programs			$ 10,104,105	

* Denotes Major Program

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 2023. 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 10-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, 2023, the balance outstanding on the HOME Loan for the MicroHomes project was $803,647.

HA City of Kennewick (WA012)
KENNEWICK, WA
Entity Wide Balance Sheet Summary

Submission Type: Audited/Single Audit   Fiscal Year End: 06/30/2023

	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	Subtotal	ELIM	Total
111 Cash - Unrestricted	$500,029	$332,216		$612,031	$63,306	$482,451	$3,758	$1,993,791		$1,993,791
112 Cash - Restricted - Modernization and Development		$336,880		$75,129				$412,009		$412,009
113 Cash - Other Restricted						$83,087	$6,143	$89,230		$89,230
114 Cash - Tenant Security Deposits	$37,304	$10,680		$4,527				$52,511		$52,511
115 Cash - Restricted for Payment of Current Liabilities	$4,374			$12,701			$25,793	$42,868		$42,868
100 Total Cash	$541,707	$679,776	$0	$704,388	$63,306	$565,538	$35,694	$2,590,409	$0	$2,590,409
121 Accounts Receivable - PHA Projects										
122 Accounts Receivable - HUD Other Projects	$170,563					$153,491		$324,054		$324,054
124 Accounts Receivable - Other Government		$3,750						$3,750		$3,750
125 Accounts Receivable - Miscellaneous	$54,745	$10,721		$9		$3,731		$69,206		$69,206
126 Accounts Receivable - Tenants	$53,492	$10,258		$15,863				$79,613		$79,613
126.1 Allowance for Doubtful Accounts -Tenants	-$12,675	$0		-$7,521		$0		-$20,196		-$20,196
126.2 Allowance for Doubtful Accounts - Other	$0	$0		$0		$0		$0		$0
127 Notes, Loans, & Mortgages Receivable - Current	$19,085							$19,085		$19,085
128 Fraud Recovery	$21,398					$50,687		$72,085		$72,085
128.1 Allowance for Doubtful Accounts - Fraud	$0					-$37,519		-$37,519		-$37,519
129 Accrued Interest Receivable										
120 Total Receivables, Net of Allowances for Doubtful Accounts	$306,608	$24,729	$0	$8,351	$0	$170,390	$0	$510,078	$0	$510,078
131 Investments - Unrestricted										
132 Investments - Restricted										
135 Investments - Restricted for Payment of Current Liability										
142 Prepaid Expenses and Other Assets	$10,581	$16,306		$5,257		$825		$32,969		$32,969
143 Inventories										
143.1 Allowance for Obsolete Inventories										
144 Inter Program Due From	$57,197	$0		$1,303		$4,445		$62,945	-$62,945	$0
145 Assets Held for Sale										
150 Total Current Assets	$916,093	$720,811	$0	$719,299	$63,306	$741,198	$35,694	$3,196,401	-$62,945	$3,133,456
161 Land	$50,247	$986,544		$995,511				$2,032,302		$2,032,302
162 Buildings	$14,813,070	$10,325,783		$4,580,402				$29,719,255		$29,719,255
163 Furniture, Equipment & Machinery - Dwellings	$290,348	$469,152		$38,085				$797,585		$797,585
164 Furniture, Equipment & Machinery - Administration	$785,439			$519				$785,958		$785,958
165 Leasehold Improvements	$239,408			$140,307		$264,411		$644,126		$644,126
166 Accumulated Depreciation	-$10,834,904	-$2,345,236		-$644,897		-$1,779		-$13,826,816		-$13,826,816
167 Construction in Progress				$38,992				$38,992		$38,992
168 Infrastructure										
160 Total Capital Assets, Net of Accumulated Depreciation	$5,343,608	$9,436,243	$0	$5,148,919	$0	$262,632	$0	$20,191,402	$0	$20,191,402
171 Notes, Loans and Mortgages Receivable - Non-Current	$40,779			$472,254				$513,033		$513,033
172 Notes, Loans, & Mortgages Receivable - Non Current - Past Due										
173 Grants Receivable - Non Current										
174 Other Assets	$108,644	$116,964		$29,042		$155,196		$409,846		$409,846
176 Investments in Joint Ventures										
180 Total Non-Current Assets	$5,493,031	$9,553,207	$0	$5,650,215	$0	$417,828	$0	$21,114,281	$0	$21,114,281
200 Deferred Outflow of Resources	$140,012			$37,415		$200,017		$377,444		$377,444
290 Total Assets and Deferred Outflow of Resources	$6,549,136	$10,274,018	$0	$6,406,929	$63,306	$1,359,043	$35,694	$24,688,126	-$62,945	$24,625,181

HA City of Kennewick (WA012)

KENNEWICK, WA

Entity Wide Balance Sheet Summary

Submission Type: Audited/Single Audit Fiscal Year End: 06/30/2023

	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	Subtotal	ELIM	Total
311 Bank Overdraft										
312 Accounts Payable <= 90 Days	$36,298	$15,515		$6,625		$26,201		$84,639		$84,639
313 Accounts Payable >90 Days Past Due										
321 Accrued Wage/Payroll Taxes Payable	$20,129							$20,129		$20,129
322 Accrued Compensated Absences - Current Portion	$26,831	$4,381		$7,208		$20,404		$58,824		$58,824
324 Accrued Contingency Liability										
325 Accrued Interest Payable	$7,705	$1,695		$4,581		$8,538		$22,519		$22,519
331 Accounts Payable - HUD PHA Programs										
332 Account Payable - PHA Projects										
333 Accounts Payable - Other Government				$13,766				$13,766		$13,766
341 Tenant Security Deposits	$37,304	$11,416		$4,527				$53,247		$53,247
342 Unearned Revenue	$4,374	$6,046		$12,701			$25,793	$48,914		$48,914
343 Current Portion of Long-term Debt - Capital Projects/Mortgage Revenue	$12,088	$6,529		$19,256		$13,029		$50,902		$50,902
344 Current Portion of Long-term Debt - Operating Borrowings										
345 Other Current Liabilities	$224	$30,278		$25		$239		$30,766		$30,766
346 Accrued Liabilities - Other										
347 Inter Program - Due To				$7,515		$55,430		$62,945	-$62,945	$0
348 Loan Liability - Current										
310 Total Current Liabilities	$144,953	$75,860	$0	$76,204	$0	$123,841	$25,793	$446,651	-$62,945	$383,706
351 Long-term Debt, Net of Current - Capital Projects/Mortgage Revenue	$184,230	$2,693,251		$3,355,727		$203,596		$6,436,804		$6,436,804
352 Long-term Debt, Net of Current - Operating Borrowings										
353 Non-current Liabilities - Other		$244,628		$55,507		$83,087		$383,222		$383,222
354 Accrued Compensated Absences - Non Current	$40,245	$3,503		$10,812		$30,607		$85,167		$85,167
355 Loan Liability - Non Current										
356 FASB 5 Liabilities										
357 Accrued Pension and OPEB Liabilities	$230,638			$51,096		$339,660		$621,394		$621,394
350 Total Non-Current Liabilities	$455,113	$2,941,382	$0	$3,473,142	$0	$656,950	$0	$7,526,587	$0	$7,526,587
300 Total Liabilities	$600,066	$3,017,242	$0	$3,549,346	$0	$780,791	$25,793	$7,973,238	-$62,945	$7,910,293
400 Deferred Inflow of Resources	$174,924			$515,429		$164,252		$854,605		$854,605
508.4 Net Investment in Capital Assets	$5,147,290	$6,736,463		$1,773,936		$46,007		$13,703,696		$13,703,696
511.4 Restricted Net Position	$108,644	$336,144		$104,171		$155,196	$6,143	$710,298		$710,298
512.4 Unrestricted Net Position	$518,212	$184,169	$0	$464,047	$63,306	$212,797	$3,758	$1,446,289		$1,446,289
513 Total Equity - Net Assets / Position	$5,774,146	$7,256,776	$0	$2,342,154	$63,306	$414,000	$9,901	$15,860,283	$0	$15,860,283
600 Total Liabilities, Deferred Inflows of Resources and Equity - Net	$6,549,136	$10,274,018	$0	$6,406,929	$63,306	$1,359,043	$35,694	$24,688,126	-$62,945	$24,625,181

HA City of Kennewick (WA012)

KENNEWICK, WA

Entity Wide Revenue and Expense Summary

Submission Type: Audited/Single Audit | Fiscal Year End: 06/30/2023

	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	Subtotal	ELIM	Total
70300 Net Tenant Rental Revenue	$634,734	$509,323		$228,621				$1,372,678	-$139,034	$1,233,644
70400 Tenant Revenue - Other	$25,200							$25,200		$25,200
70500 Total Tenant Revenue	$659,934	$509,323	$0	$228,621	$0	$0	$0	$1,397,878	-$139,034	$1,258,844
70600 HUD PHA Operating Grants	$921,281		$63,627		$304,248	$7,595,039	$186,455	$9,070,650		$9,070,650
70610 Capital Grants	$229,810			$25,670				$255,480		$255,480
70710 Management Fee										
70720 Asset Management Fee										
70730 Book Keeping Fee										
70740 Front Line Service Fee										
70750 Other Fees				$0				$0		$0
70700 Total Fee Revenue								$0	$0	$0
70800 Other Government Grants	$280,309							$280,309		$280,309
71100 Investment Income - Unrestricted	$9,654	$1,172		$31,027		$146		$41,999		$41,999
71200 Mortgage Interest Income										
71300 Proceeds from Disposition of Assets Held for Sale										
71310 Cost of Sale of Assets										
71400 Fraud Recovery				$42		$33,198		$33,240		$33,240
71500 Other Revenue	$83,898	$7,242		$242,762		$245,912		$579,814		$579,814
71600 Gain or Loss on Sale of Capital Assets										
72000 Investment Income - Restricted				$2,036				$2,036		$2,036
70000 Total Revenue	$2,184,886	$517,737	$63,627	$530,158	$304,248	$7,874,295	$186,455	$11,661,406	-$139,034	$11,522,372
91100 Administrative Salaries	$320,143	$59,682	$43,166	$85,395		$456,334	$11,841	$976,561		$976,561
91200 Auditing Fees	$21,432	$14,800		$6,154		$19,053		$61,439		$61,439
91300 Management Fee		$29,573						$29,573		$29,573
91310 Book-keeping Fee										
91400 Advertising and Marketing		$809		$74		$736		$1,619		$1,619
91500 Employee Benefit contributions - Administrative	-$39,272	$28,088	$20,461	$23,696		$94,442	$5,251	$132,666		$132,666
91600 Office Expenses	$95,879	$22,043		$11,021	$463	$175,402		$304,808		$304,808
91700 Legal Expense	$4,970	$1,238		$1,776		$530		$8,514		$8,514
91800 Travel	$11,895	$81		$632		$1,515		$14,123		$14,123
91810 Allocated Overhead										
91900 Other		$10,961						$10,961		$10,961
91000 Total Operating - Administrative	$415,047	$167,275	$63,627	$128,748	$463	$748,012	$17,092	$1,540,264	$0	$1,540,264
92000 Asset Management Fee										
92100 Tenant Services - Salaries	$2,400			$2,200				$4,600		$4,600
92200 Relocation Costs										
92300 Employee Benefit Contributions - Tenant Services		$1,437						$1,437		$1,437
92400 Tenant Services - Other	$2,720	$32,444					$21,714	$56,878		$56,878
92500 Total Tenant Services	$5,120	$33,881	$0	$2,200	$0	$0	$21,714	$62,915	$0	$62,915
93100 Water	$165,941	$39,073		$16,506				$221,520		$221,520
93200 Electricity	$32,804	$69,903		$7,374				$110,081		$110,081
93300 Gas	$3,593							$3,593		$3,593
93400 Fuel										
93500 Labor										
93600 Sewer										
93700 Employee Benefit Contributions - Utilities										
93800 Other Utilities Expense	$59,937	$13,528		$5,720				$79,185		$79,185
93000 Total Utilities	$262,275	$122,504	$0	$29,600	$0	$0	$0	$414,379	$0	$414,379

HA City of Kennewick (WA012)

KENNEWICK, WA

Entity Wide Revenue and Expense Summary

Submission Type: Audited/Single Audit Fiscal Year End: 06/30/2023

	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	Subtotal	ELIM	Total
94100 Ordinary Maintenance and Operations - Labor	$197,035	$47,857		$24,827	$144			$269,863		$269,863
94200 Ordinary Maintenance and Operations - Materials and Other	$30,707	$41,326		$6,628				$78,661		$78,661
94300 Ordinary Maintenance and Operations Contracts	$90,100	$70,591		$17,961		$2,370		$181,022		$181,022
94500 Employee Benefit Contributions - Ordinary Maintenance	$79,278	$10,328		$7,429				$97,035		$97,035
94000 Total Maintenance	$397,120	$170,102	$0	$56,845	$144	$2,370	$0	$626,581	$0	$626,581
95100 Protective Services - Labor										
95200 Protective Services - Other Contract Costs	$2,273	$4,725		$1,311		$22		$8,331		$8,331
95300 Protective Services - Other										
95500 Employee Benefit Contributions - Protective Services	$250							$250		$250
95000 Total Protective Services	$2,523	$4,725	$0	$1,311	$0	$22	$0	$8,581	$0	$8,581
96110 Property Insurance		$26,751						$26,751		$26,751
96120 Liability Insurance	$50,616			$2,793		$3,597		$57,006		$57,006
96130 Workmen's Compensation										
96140 All Other Insurance	$2,656			$89		$1,268		$4,013		$4,013
96100 Total insurance Premiums	$53,272	$26,751	$0	$2,882	$0	$4,865	$0	$87,770	$0	$87,770
96200 Other General Expenses	$0	$5,409		$58,568				$63,977		$63,977
96210 Compensated Absences	$1,778	$5,185		$1,461		$6,540		$14,964		$14,964
96300 Payments in Lieu of Taxes										
96400 Bad debt - Tenant Rents	$12,336	$28,224		$8,900		$14,820		$64,280		$64,280
96500 Bad debt - Mortgages										
96600 Bad debt - Other										
96800 Severance Expense										
96000 Total Other General Expenses	$14,114	$38,818	$0	$68,929	$0	$21,360	$0	$143,221	$0	$143,221
96710 Interest of Mortgage (or Bonds) Payable	$7,899			$35,053		$8,703		$51,655		$51,655
96720 Interest on Notes Payable (Short and Long Term)		$68,672						$68,672		$68,672
96730 Amortization of Bond Issue Costs		$4,370						$4,370		$4,370
96700 Total Interest Expense and Amortization Cost	$7,899	$73,042	$0	$35,053	$0	$8,703	$0	$124,697	$0	$124,697
96900 Total Operating Expenses	$1,157,370	$637,098	$63,627	$325,568	$607	$785,332	$38,806	$3,008,408	$0	$3,008,408
97000 Excess of Operating Revenue over Operating Expenses	$1,027,516	-$119,361	$0	$204,590	$303,641	$7,088,963	$147,649	$8,652,998	-$139,034	$8,513,964
97100 Extraordinary Maintenance										
97200 Casualty Losses - Non-capitalized										
97300 Housing Assistance Payments					$245,909	$6,754,937	$189,849	$7,190,695	-$139,034	$7,051,661
97350 HAP Portability-In						$203,832		$203,832		$203,832
97400 Depreciation Expense	$386,315	$418,209		$129,639		$2,991		$937,154		$937,154
97500 Fraud Losses										
97600 Capital Outlays - Governmental Funds										
97700 Debt Principal Payment - Governmental Funds										
97800 Dwelling Units Rent Expense										
90000 Total Expenses	$1,543,685	$1,055,307	$63,627	$455,207	$246,516	$7,747,092	$228,655	$11,340,089	-$139,034	$11,201,055
10010 Operating Transfer In	$596,403							$596,403	-$596,403	$0
10020 Operating transfer Out	-$596,403							-$596,403	$596,403	$0
10030 Operating Transfers from/to Primary Government										
10040 Operating Transfers from/to Component Unit										
10050 Proceeds from Notes, Loans and Bonds										

HA City of Kennewick (WA012)
KENNEWICK, WA
Entity Wide Revenue and Expense Summary

Submission Type: Audited/Single Audit

Fiscal Year End: 06/30/2023

	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	Subtotal	ELIM	Total
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
10000 Excess (Deficiency) of Total Revenue Over (Under) Total Expenses	$641,201	-$537,570	$0	$74,951	$57,732	$127,203	-$42,200	$321,317	$0	$321,317
11020 Required Annual Debt Principal Payments	$0	$0	$0	$12,705	$0	$0	$0	$12,705		$12,705
11030 Beginning Equity	$5,132,945	$7,794,346	$0	$2,267,203	$5,574	$286,797	$52,101	$15,538,966		$15,538,966
11040 Prior Period Adjustments, Equity Transfers and Correction of Errors	$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						$414,000		$414,000		$414,000
11180 Housing Assistance Payments Equity						$0		$0		$0
11190 Unit Months Available	2266	720		288	672	12408	336	16690		16690
11210 Number of Unit Months Leased	2189	660		276	355	9551	273	13304		13304
11270 Excess Cash	$664,112							$664,112		$664,112
11610 Land Purchases	$0							$0		$0
11620 Building Purchases	$336,637							$336,637		$336,637
11630 Furniture & Equipment - Dwelling Purchases	$14,836							$14,836		$14,836
11640 Furniture & Equipment - Administrative Purchases	$280,090							$280,090		$280,090
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, 2023, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated April 29, 2024. 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* 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, and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs, as item 2023-001 that we consider to be material weaknesses.

9757 Greenwood Avenue North • Seattle, WA 98103 • (206) 298-9811 • FAX: 298-9772

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.

April 29, 2024
Seattle, Washington

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

Qualified 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 identified as subject to audit 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, 2023. 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, except for the noncompliance described in the Basis for Qualified Opinion on Each Major Federal Program section of our report, the Housing Authority City of Kennewick, complied, in all material respects, with the 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, 2023.

Basis for Qualified 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 qualified 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.

Matter Giving Rise to Qualified Opinion on Each Major Federal Program

As described in the accompanying schedule of findings and questioned costs, Housing Authority City of Kennewick did not comply with the requirements regarding the Housing Voucher Cluster and the Capital Funds Program as described in finding number 2023-001 for Reporting.

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.

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

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.

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.

Other Matters

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

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.

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

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.

April 29, 2024
Seattle, Washington

HOUSING AUTHORITY CITY OF KENNEWICK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2023

Section I – Summary of Auditors' Results

Financial Statements

Type of auditors' report issued	Unmodified		
Internal control over financial reporting:			
• Material weakness(es) identified?	X	yes	no
• Significant deficiency(ies) identified that are not considered to be material weaknesses?		yes	X 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	Qualified		
Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance?	X	yes	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*
14.872	*U.S. Department of Housing and Urban Development – Public Housing Capital Funds*

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

Auditee qualifies as low-risk auditee? X yes ______ no

Section II – Financial Statement Findings

2023-001 – Timeliness of Accounting Close and Financial Reporting and Federal Audit Submission

Federal Award(s): ALN 14.871/14.879 – U.S. Department of Housing and Urban Development – Housing Voucher Cluster
ALN 14.872 – U.S. Department of Housing and Urban Development – Public Housing Capital Funds

Finding
Internal control processes over financial reporting did not ensure that the financial statements as of and for the fiscal year-ended June 30, 2023, or the related supporting accounting records, were completed timely, which prevented timely submission of the audit to the Federal Audit Clearinghouse.

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

Criteria
The Authority is responsible for preparation of accurate and complete financial statements and related supporting documentation to its auditors in a timely manner in order to facilitate meeting all audit reporting deadlines. The U.S. Department of Housing and Urban Development and the Federal Audit Clearinghouse each require annual submission of an audit no later than nine months after the Authority's fiscal year end.

Condition and Context
While management was aware of the Federal Audit Clearinghouse deadlines, the draft financial statements and certain supporting accounting records were not provided to the auditors in a timely manner, with some records and draft financial statements and notes provided more than 8 months after the fiscal year-end. Delays were caused by an Authority-wide accounting system conversion, transitions in key management roles, and a lack of available time to prepare for the audit.

Cause
The internal controls of the accounting and reporting system were not effectively operating such that the preparation of accounting records and draft financial statements could be completed timely for submission to the Federal Audit Clearinghouse or for internal use.

Effect
The submission of audited financial statements to the federal audit clearinghouse was late, which could result in reductions or delays in federal assistance provided to the Authority. Additionally, the Board of Directors and other users of the financial statements rely on timely and complete reports for decision making, and delays in these reports could impact their ability to govern the Authority effectively.

Questioned Costs
None.

Recommendations
We recommend the Authority develop a process or procedure to ensure the preparation year-end financial records and draft financial statements is completed timely to allow sufficient time for the audit of such information to occur prior to all deadlines for audit submission.

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, CFO/Deputy Director

Section III –Federal Award Findings and Questioned Costs

2023-001 – Timeliness of Accounting Close and Financial Reporting and Federal Audit Submission

See Section II – Financial Statement Findings

Corrective Action Plan

April 29, 2024

The Housing Authority City of Kennewick is submitting the following Corrective Action Plan for the year ending June 30, 2023, related to internal control over financial reporting.

Audit period: July 1, 2022-June 30, 2023

The finding from the June 30, 2023, and internal control deficiencies are discussed below:

Finding:

Finding No. 2023-001

Condition and Context:

The Housing Authority City of Kennewick's (KHA) audit was performed when the agency was going through a major software accounting conversion. The trial balance conversion had an unexpected delay which caused a delay in submitting financial reports and records to the auditors. The Housing Authority submitted documents requested between the sixth and seventh month after the fiscal year end. Auditors reviewed records submitted on the eighth month after the fiscal year end. This did not allow KHA enough time to upload additional information requested. The audit was not able to be completed by the due date and the report was not submitted to the Federal Clearinghouse which was due nine months after the fiscal year end.

Recommendation:

The Auditors recommended that the Authority develop a process or a procedure to ensure the preparation year-end financial records and draft financial statements is completed timely to allow sufficient time for the audit of such information to occur prior to all deadlines for audit submission.

Plan for Corrective Action:

Management addressed the internal control accounting deficiencies by establishing a year-end check list procedure to ensure that the financial statements and records are ready during audit timing. Additionally, now that the software conversion has been completed, management is acquiring a third-party consultant to assist with the accounting reporting settings and clearing up any pending software conversion issues.

Actions Taken:

KHA is now submitting the audit report to the Federal Clearinghouse as of the date of this report. Management has reached out to a third-party consultant to help clear out pending software issues and to ensure that accounting reports are correct for future audits.

Hermelinda Sierra
CFO/Deputy Director

Contact Persons:

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Matt Truman, KHA Executive Director
509-586-8576 ext. 103

Reference Number:	2022-001
Topic:	Schedule of Expenditures of Federal Awards (SEFA) Completeness
Audit Finding:	The SEFA prepared by management did not include all federal funds expended by the Authority during the year. While the federal funds were being recorded to a separate general ledger account, and management had procedures in place to monitor the related compliance requirements associated with the federal program, the Authority did not have adequate controls in place to detect the error in the SEFA.
Corrective Action:	During 2023 the Authority developed a process for reviewing the SEFA with the contract CPA more closely to ensure that the SEFA was complete and accurate prior to the commencement of the Single Audit.
Status:	Closed.