



Washington State Auditor's Office

Independence • Respect • Integrity

Financial Statements Audit Report

Housing Authority of the City of Sedro-Woolley

Skagit County

For the period January 1, 2014 through December 31, 2014

Published September 24, 2015

Report No. 1015069





Washington State Auditor's Office

September 24, 2015

Board of Commissioners
Housing Authority of the City of Sedro-Woolley
Sedro-Woolley, Washington

Report on Financial Statements

Please find attached our report on the Housing Authority of the City of Sedro-Woolley's financial statements.

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

Sincerely,

JAN M. JUTTE, CPA, CGFM
ACTING STATE AUDITOR
OLYMPIA, WA

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

**Housing Authority of the City of Sedro-Woolley
Skagit County
January 1, 2014 through December 31, 2014**

Board of Commissioners
Housing Authority of the City of Sedro-Woolley
Sedro-Woolley, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Housing Authority of the City of Sedro-Woolley, Skagit County, Washington, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Housing Authority's basic financial statements, and have issued our report thereon dated September 3, 2015.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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



JAN M. JUTTE, CPA, CGFM
ACTING STATE AUDITOR
OLYMPIA, WA

September 3, 2015

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Housing Authority of the City of Sedro-Woolley Skagit County January 1, 2014 through December 31, 2014

Board of Commissioners
Housing Authority of the City of Sedro-Woolley
Sedro-Woolley, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Housing Authority of the City of Sedro-Woolley, Skagit County, Washington, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Housing Authority's basic financial statements as listed on page 9.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Housing Authority of the City of Sedro-Woolley, as of December 31, 2014, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 10 through 14 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Housing Authority's basic financial statements. The accompanying Financial Data Schedule is supplementary information required by HUD. This schedule is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated September 3, 2015 on our consideration of the Housing Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Housing Authority's internal control over financial reporting and compliance.



JAN M. JUTTE, CPA, CGFM
ACTING STATE AUDITOR
OLYMPIA, WA

September 3, 2015

FINANCIAL SECTION

Housing Authority of the City of Sedro-Woolley Skagit County January 1, 2014 through December 31, 2014

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2014

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2014

Statement of Revenues, Expenses and Changes in Net Position – 2014

Statement of Cash Flows – 2014

Noted to the Financial Statement – 2014

SUPPLEMENTARY AND OTHER INFORMATION

Financial Data Schedule – 2014

Housing Authority of the City of Sedro-Woolley

Management's Discussion and Analysis

This first section of the annual financial report presents a discussion and analysis of the Housing Authority of the City of Sedro-Woolley's (SWHA) financial performance during the year ended December 31, 2014. It should be read in conjunction with the Authority's financial statements, which immediately follow this section.

Located in Skagit County, Washington, the city of Sedro-Woolley officially merged the neighboring towns of Sedro and Woolley when it incorporated over 100 years ago. With a local population of approximately 10,712, SWHA currently operates two public housing developments—Hillsview and Cedar Grove. These two developments total 80 units and serve a diversified population including senior, disabled and family households.

The King County Housing Authority (KCHA) has a long-standing contract to manage and assist the Sedro-Woolley Housing Authority. SWHA has its own Board of Commissioners, which is responsible for approving its operating and capital budgets and overseeing programs. SWHA is charged by KCHA for the direct operating expenses of the two public housing developments. In addition, KCHA also charges for administrative services provided. These indirect costs are allocated to SWHA using established allocation methods, generally based upon the number of units.

The financial statements included in this report are in conformance with Generally Accepted Accounting Principles for governments.

2014 Financial Highlights

- Total assets of the Authority exceeded total liabilities at December 31, 2014 by \$2,181,995.
- The Authority has \$19,217 of long-term debt outstanding of which \$5,962 is a current portion. This debt consists of a capital financing lease where the Authority is the lessee.
- Total revenues (operating and non-operating) for 2014 were \$558,403. Total expenses (operating and non-operating) were \$693,109. The change in net position was a decrease of \$134,706.

Overview of the Financial Statements

As required under the GASB 34 financial reporting standards, this annual report consist of three parts—*management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*.

The following *basic financial statements* are included in this report:

- *Statement of Net Position*—reports the Authority's current financial resources (short-term expendable resources) with capital assets and long-term debt obligations.
- *Statement of Revenues, Expenses and Changes in Net Position*—reports the operating and non-operating revenues, by major source along with operating and non-operating expenses and capital contributions.
- *Statement of Cash Flows*—reports the Authority's cash flows from operating, investing, capital and non-capital activities.
- The statements identified above are followed by a section of required supplementary information that further explains and supports the information found in the financial statements.

Financial Analysis of the Authority

Statement of Net Position:

The *Statement of Net Position* presents the assets, liabilities, and net position of the Authority at the end of the year. The purpose of the statement is to provide a snapshot of the financial condition of the Authority at a certain point in time. Table A-1 presents the Authority's *Condensed Statement of Net Position* for 2014 and 2013. Supplementary information is provided in the accompanying notes that further explain and support the data presented in table A-1.

Total current assets for the year ended December 31, 2014 are \$394,470 and are comprised of several categories. Included in total current assets are \$376,031 in cash and cash equivalents. Cash and cash equivalents comprise of approximately 95% of total current assets. Restricted cash and cash equivalents were \$8,826.

Total net position decreased by \$134,706 during 2014. Net investment in capital assets decreased by \$132,280 primarily due to depreciation while unrestricted net position decreased by \$2,426.

Table A-1, Condensed Statement of Net Position

	<u>2014</u>	<u>2013</u>
Assets:		
Current and other assets	\$ 394,470	\$ 421,418
Capital assets	1,870,026	2,008,528
Total Assets	<u>2,264,496</u>	<u>2,429,946</u>
Liabilities:		
Current and other liabilities	69,246	93,540
Long-term debt, net of current	13,255	19,705
Total Liabilities	<u>82,501</u>	<u>113,245</u>
Net Position:		
Net investment in capital assets	1,850,809	1,983,089
Unrestricted	331,186	333,612
Total Net Position	<u>\$ 2,181,995</u>	<u>\$ 2,316,701</u>

Statement of Revenues, Expenses, and Changes in Net Position:

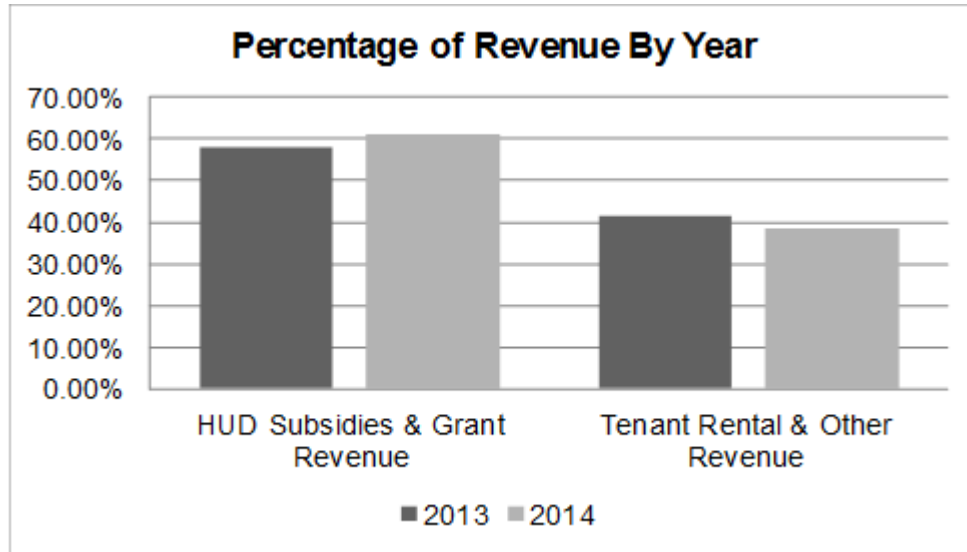
The purpose of the Statement of Revenues, Expenses and Changes in Net Position is to present the revenues earned by the Authority (both operating and non-operating) and the expenses incurred (operating and non-operating), and any other revenues, expenses, gains and losses received or spent by SWHA. Table A-2 represents the Authority's *Condensed Statement of Revenues, Expenses, and Changes in Net Position* for 2014 and 2013.

Table A-2, Condensed Statement of Revenues, Expenses and Changes in Net Position

	<u>2014</u>	<u>2013</u>
Operating Revenues	\$ 182,539	\$ 195,099
Net nonoperating revenues	289,751	272,891
Total Revenues	<u>472,290</u>	<u>467,990</u>
Operating expenses	692,155	622,074
Nonoperating expenses	954	1,111
Total Expenses	<u>693,109</u>	<u>623,185</u>
Excess or deficiency before contributions	(220,819)	(155,195)
Capital grant contributions	86,113	68,722
Change in Net Position	<u>(134,706)</u>	<u>(86,473)</u>
Beginning Net Position	2,316,701	2,403,174
Ending Net Position	<u>\$ 2,181,995</u>	<u>\$ 2,316,701</u>

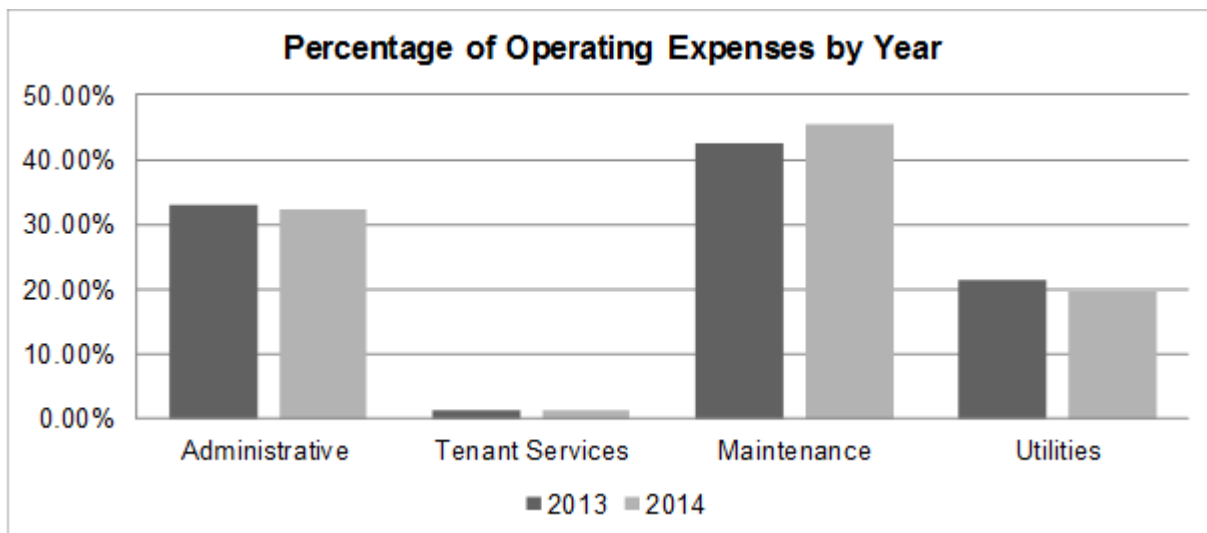
Revenues are classified as operating or non-operating. Table A-3 shows the sources of operating revenues for 2013 and 2014.

Table A-3, Sources of Revenues for 2013 and 2014



Operating expenses are amounts paid for providing housing to the Authority's tenants and administering the various programs. Total operating expenses for 2014 were \$553,653 (excluding depreciation). Costs included in operating expenses include; administrative, tenant services, maintenance, utilities, and other. Table A-4 illustrates the operating expense break down by category.

Table A-4, Operating Expenses for 2013 and 2014



Capital Assets

The Housing Authority of the City of Sedro-Woolley is committed to the ongoing rehabilitation and modernization of its housing inventory. Hillsview and Cedar Grove were both built in 1971.

Table A-5, Capital Assets for 2014 and 2013

	<u>2014</u>	<u>2013</u>
Land	\$ 59,288	\$ 59,288
Buildings and Improvements	<u>3,808,821</u>	<u>3,808,821</u>
	3,868,109	3,868,109
Total accumulated depreciation	<u>(1,998,083)</u>	<u>(1,859,581)</u>
Net Capital Assets	<u>\$ 1,870,026</u>	<u>\$ 2,008,528</u>

Information about the Authority's capital assets is further presented in the financial statements Note 4 – Capital Assets.

Economic Factors Affecting the Authority's Future

The Authority receives the bulk of its operational funding from the United States Department of Housing and Urban Development (HUD) which, like all federal agencies, depends upon congressional appropriations. It remains to be seen if there will be a change in the level of appropriations for HUD with the change in leadership in the U.S. Senate in 2015.

It remains uncertain when the Federal Reserve will raise interest rates. However, general expectations are that interest rates will be raised during 2015. When the cost of home ownership increases as a result, there could be increased demand for public housing.

Contacting the Authority's Financial Management

This financial report is designed to provide our stakeholders with a general overview of the Housing Authority's finances and to demonstrate SWHA's accountability for its resources. Any questions about this report, or requests for additional information, should be directed to the Director of Finance of the King County Housing Authority.

Housing Authority of The City of Sedro-Woolley
Statement Of Net Position
As of December 31, 2014

Assets:

Cash and cash equivalents	\$ 367,205
Restricted cash and cash equivalents	8,826
Receivables, net	11,719
Other current assets	6,720
Land, Buildings, and Equipment, net	
Nondepreciable	59,287
Depreciable	1,810,739
Total Assets:	<u>2,264,496</u>

Liabilities:

Accounts payable	18,942
Accrued compensated absences	3,347
Tenant security deposits	8,826
Prepaid tenant rent	4,117
Current portion of long term debt	5,962
Accrued Wage/Payroll Taxes Payable	9,169
Contract Retentions	18,883
Long term debt, net of current	13,255
Total Liabilities	<u>82,501</u>

Net Position:

Net investment in capital assets	1,850,809
Restricted	-
Unrestricted	331,186
Total Net Position	<u>\$ 2,181,995</u>

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

Housing Authority of The City of Sedro-Woolley
Statement of Revenues, Expenses and Changes in Net Position
For the 12 Month Period Ending December 31, 2014

Operating Revenues	
Tenant revenue	\$ 182,215
Other revenue	324
Total Operating Revenues	<u>182,539</u>
Operating Expenses	
Administrative	179,202
Tenant services	7,913
Maintenance	251,119
Utilities	108,806
Depreciation	138,502
Other expenses	6,613
Total Operating Expenses	<u>692,155</u>
Operating Loss	(509,616)
Nonoperating Revenues (Expenses)	
HUD subsidies and grant revenue	289,267
Investment income	484
Interest expense	(954)
Total Nonoperating Revenues (Expenses)	<u>288,797</u>
NET LOSS before contributions	(220,819)
Capital grant contributions	<u>86,113</u>
CHANGE IN NET POSITION	(134,706)
Beginning Net Position	<u>2,316,701</u>
Ending Net Position	<u>\$ 2,181,995</u>

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

Housing Authority of The City of Sedro-Woolley
Statement of Cash Flows

For the 12 Month Period Ending December 31, 2014

Cash Flows from Operating Activities:

Receipts from tenants	\$ 178,805
Payments to employees	(141,136)
Payments to suppliers of goods and services	(435,785)
Other receipts	324
Net cash provided by (used in) operating activities	<u>(397,792)</u>

Cash Flows from Noncapital Financing Activities:

Receipts from HUD	<u>280,400</u>
Net cash provided by noncapital financing activities	<u>280,400</u>

Cash Flows from Capital and Related Financing Activities:

Capital grant contributions	86,113
Debt service	(7,177)
Other receipts (payments)	118
Net cash provided by capital and related financing activities	<u>79,054</u>

Cash Flows from Investing Activities:

Investment income	<u>485</u>
Net cash provided by investing activities	<u>485</u>

Net increase in cash and cash equivalents (37,853)

Cash and cash equivalents – beginning of the year	<u>413,884</u>
Cash and cash equivalents – end of the year	<u>\$ 376,031</u>

Reconciliation of operating income (loss) to net cash provided (used) by operating activities:

Operating loss	(509,616)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	138,502
Change in assets and liabilities:	
Receivables	(719)
Inventories and other	(1,321)
Accounts payable	179
Other current liabilities	(24,818)
Net cash provided by (used in) operating activities	<u>\$ (397,792)</u>

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

Housing Authority of the City of Sedro-Woolley
Notes to Financial Statements
December 31, 2014

The following notes are an integral part of the financial statements of Housing Authority of the City of Sedro-Woolley.

Note 1 – Reporting Entity and Summary of Significant Accounting Policies

Reporting Entity

Primary Government

The Housing Authority of the City of Sedro-Woolley (the “Authority”) was created as a municipal corporation under the provisions of the State Housing Authorities Law (RCW 35.82) and the Housing Cooperation Law (RCW 35.83) in response to the Federal Housing Act of 1937. The Act created the United States Housing Authority, empowering it to make loans and annual contributions to local public housing agencies to assist in the development, acquisition and administration of low rent projects. The programs authorized under the Act, as amended, are now administered by the Department of Housing and Urban Development (HUD).

The King County Housing Authority (KCHA) has a long-standing contract to manage and assist the Authority. The Authority has its own Board of Commissioners, which is responsible for approving its operating and capital budgets and overseeing programs. The Authority is charged by KCHA for the direct operating expenses of the two public housing developments. In addition, KCHA also charges a fee for administrative services provided.

The Authority has been granted a broad range of powers to provide housing assistance to low-income households. The nationally recognized definition of a low-income family is a household earning less than 80 percent of the area’s median income, adjusted for family size. The Authority administers programs that serve housing needs.

Summary of Significant Accounting Policies

The financial statements of the Authority have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described below.

Basis of Accounting

Accounting records are maintained according to the proprietary fund model that is similar to private business enterprises. The Authority applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

Accounts Organized by Funds

The accounts of the Authority are organized on the basis of funds, each of which is considered a separate accounting entity. Each fund is accounted for by a separate set of self-balancing accounts that comprise its assets, liabilities, net position, revenues and expenditures. Each fund is, with limited exceptions, an independent fund and is restricted by contract or regulation from assisting or being assisted financially by any other fund.

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 reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

Revenues and Expenses

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority are tenant revenues. Operating expenses for proprietary funds include the cost of maintenance and repairs, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The basis for recognition of revenues and expenses is the accrual basis of accounting. Revenues are recorded when earned. Expenses are recorded when incurred. Revenue from operating subsidies and grants is classified as non-operating revenue. Revenue from capital grants is classified as capital grant contributions.

Cash, Cash Equivalents and Investments

Cash consists of Federal Depository Insurance Corporation (FDIC) insurable deposits with original maturities of less than three months. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash. Investments include deposits with original maturities exceeding three months, securities and other assets that are held primarily for the purpose of obtaining income or profit. Restricted cash and cash equivalents as of December 31, 2014 include \$8,826 of tenant security deposits.

Receivables

Receivables consist primarily of rents due from tenants. Annually, tenant receivables are analyzed and the allowance for doubtful accounts is appropriately adjusted. No allowances existed at December 31 other than the allowance for tenant accounts receivable.

Capital Assets

Capital assets are recorded at historical cost in the land, structures, and equipment accounts and at appraised fair market value at date of receipt if contributed. The Authority defines capital assets as tangible items with an initial individual cost of at least \$5,000 if the item is equipment and \$50,000 if the item is real property or a capital improvement. Capital assets are depreciated using the straight-line method with depreciation commencing in the acquisition year and ceasing in the disposal year. Capital project costs clearly associated with the acquisition, development, and construction of a real estate project, including indirect costs and interest, are capitalized as a cost of that project.

Depreciable lives for the capital asset categories follow:

Land	No depreciation
Buildings	20 – 40 years
Improvements	15 years
Equipment	3 – 10 years
Construction-in-process	No depreciation

Maintenance and repairs are charged to expense when incurred. Management reviews land, structures, and equipment for possible impairment whenever events or circumstances indicate the carrying amount of an asset may not be recoverable. If there is an indication of impairment, management prepares an estimate of future cash flows expected to result from the use of the asset and its eventual disposition. If these cash flows are less than the carrying amount of the asset, an impairment loss is recognized to write down the asset to its estimated fair value. Preparation of estimated expected future cash flows is inherently subjective and is based on management's best estimate of assumptions concerning expected future conditions.

Tax Liability

The Authority is by law exempt from all federal, state, and local taxes and assessments.

Compensated Absences

It is the Authority's policy to pay 100% of accumulated annual leave when an employee terminates employment from the Authority. As such, the value of annual leave earned but not used at year-end is accrued. Sick leave does not vest and is only paid to those separating from the Authority as retirees as defined by the state pension system. Because the amount of such payments is difficult to estimate, an accrual is made only when the actual payment amount is known.

Note 2 – Accounting and Reporting Changes

During 2014, the Authority has implemented the following new accounting standards issued by the GASB:

Statement No. 67, Financial Reporting For Pension Plans – an amendment of GASB Statement 25, improves financial reporting by state and local governmental pension plans to provide decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. This guidance did not affect the Authority's financial statements as it applies to the administrator of the Authority's defined benefit pension plan, the State of Washington, and not the Authority itself.

Statement No. 69, Government Combinations and Disposals of Government Operations, provides new accounting and financial reporting standards for government mergers and acquisitions and for government operations that have been transferred or sold. This guidance did not affect the Authority's financial statements.

Statement No.70, Accounting and Financial Reporting for Nonexchange Financial Guarantees, improves the accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. This guidance did not affect the Authority's financial statements.

Note 3 - Cash Deposits and Investments with Financial Institutions

The Authority is restricted in its cash deposits and investments to those allowed by RCW 35.82.070(6). In general, deposits must be made with qualified financial institutions whose deposits are insured by the Federal Deposit Insurance Corporation (FDIC).

Insurance and Collateralization

Deposits that are in excess of the \$250,000 insured amount must be continuously and fully (100%) secured. Collateral, comprised of identifiable U.S. Government securities as prescribed by HUD, are pledged or set aside to secure these deposits. The Public Deposit Protection Act in effect in the State of Washington set up a multiple financial institution collateral pool to insure public deposits. This protection is in the form of securities pledged as collateral to the Public Deposit Protection Commission (PDPC) by all qualified depositories. In 1994, the Authority received a waiver from HUD that enabled it to make deposits in excess of \$100,000 in a qualified public depository because HUD determined that there were "adequate safeguards against the loss of Public Housing Authority funds."

Interest Rate Risk

As a means of limiting its exposure to fair value losses arising from rising interest rates, the Authority's investment policy limits the maximum maturity of an investment to not greater than three years. Exceptions may be made for collateralization of repurchase agreements using investments not exceeding 30 years, for the investment of reserve funds, which can be invested up to 30 years if matched to an anticipated future cash flow, and for "step-investments" that increase interest payments at pre-defined times.

Credit Risk

The Department of Housing and Urban Development (HUD), Washington State law, and the Authority's investment policy all limit the instruments in which the Authority may invest. Not all Authority funds have the same restrictions. Following are some of the instruments in which any Authority funds, including Federal funds, may be invested:

- 1) Direct obligations of the Federal government backed by the full faith and credit of the United States
 - a) U.S. Treasury Bills.
 - b) U.S. Treasury Notes and Bonds.
- 2) Obligations of Federal government agencies, such as:
 - a) Government National Mortgage Association (GNMA) mortgage-backed securities.
 - b) GNMA participation securities.
 - c) Maritime Administration Bonds.
 - d) Small Business Administration Bonds.
- 3) Securities of Government Sponsored Agencies, such as:
 - a) Federal Home Loan Mortgage Corporation (FHLMC) notes and bonds.
 - b) Federal National Mortgage Association (FNMA) notes and bonds.
 - c) Federal Home Loan Bank (FHLB) notes and bonds.
 - d) Federal Farm Credit Bank (FFCB) notes and bonds.
 - e) Student Loan Marketing Association (SLMA) notes and bonds.
- 4) Demand and savings accounts.
- 5) Money Market Deposit accounts.
- 6) Certain mutual funds.

Concentration of Credit Risk

The Authority diversifies its investments by security type and institution. SWHA follows the investment policy of KCHA which states: "With the exception of U.S. Treasury securities, investment agreements for trustee held funds, and authorized pools, no more than 15% of the Authority's total investment portfolio will be invested in a single security type or with a single financial institution.

Valuation and Classification

Cash equivalents include deposits and investments that are readily convertible to cash. Instruments with an original maturity date of over 3 months are classified as investments. Cash and investments held for the future payment of long-term liabilities are classified as non-current assets. Cash and investments legally or contractually restricted as to use are classified as restricted.

Cash equivalents include an investment in the Washington State Investment Pool (the Pool). The Pool is not registered with the Securities and Exchange Commission (SEC), but adheres to SEC Rule 2(a)(7) of the Investment Company Act of 1940 that requires portfolio diversification, divestiture considerations and action if the market value of the portfolio deviates more than .5 percent from the amortized costs. Government pools that adhere to the SEC rule can report their investments at amortized costs if the remaining maturities of the debt securities are 90 days or less. As of December 31, 2014, the pool had an average days-to-maturity of 50 days and therefore is reported at cost. Government securities are reported at fair value. A summary of cash and investments at December 31, 2014 follows.

	Unrestricted	Restricted	Total
Cash and Cash Equivalents:			
Depository	\$ 2,500	\$ -	\$ 2,500
Local Government Investment Pool	364,705	8,826	373,531
Total Cash And Cash Equivalents	<u>\$ 367,205</u>	<u>\$ 8,826</u>	<u>\$ 376,031</u>

Note 4 – Capital Assets

The components and capital activity of land, structures and equipment follow.

	Beginning Balances	Additions	Disposals	Ending Balances
Nondepreciable:				
Land	\$ 59,288	\$ -	\$ -	\$ 59,288
Construction-in-progress	-	-	-	-
Total Nondepreciable	<u>59,288</u>	<u>-</u>	<u>-</u>	<u>59,288</u>
Depreciable:				
Building and improvements	3,808,821	-	-	3,808,821
Total Depreciable	<u>3,808,821</u>	<u>-</u>	<u>-</u>	<u>3,808,821</u>
Total Capital Assets:	3,868,109	-	-	3,868,109
Less: Accumulated	<u>(1,859,581)</u>	<u>(138,502)</u>	<u>-</u>	<u>(1,998,083)</u>
	<u>\$ 2,008,528</u>	<u>\$ (138,502)</u>	<u>\$ -</u>	<u>\$ 1,870,026</u>

Note 5 – Long Term Debt Obligations

In 2006, the Authority assumed \$70,351 of long term debt for the purpose of installing energy conservation improvement equipment. The cost of the improvements will be recovered through subsidy from HUD.

	Beginning Balance	Additions	Retirements/ Payments	Ending Balance	Current Portion
Financing lease	\$ 25,439	-	(6,222)	\$ 19,217	\$ 5,962

A schedule of principal and interest debt service payments at 3.9% follows:

Fiscal Year	Principal	Interest	Total
2015	5,962	662	6,624
2016	6,199	425	6,624
2017	6,445	179	6,624
2018	611	5	616
	<u>\$ 19,217</u>	<u>\$ 1,271</u>	<u>\$ 20,488</u>

Note 6 - Risk Management

The Sedro-Woolley Housing Authority has the responsibility to systematically and continuously identify potential exposure to losses in terms of frequency and severity probability, and to apply sound risk control and financing techniques to minimize the impact of those potential losses. The King County Housing Authority Risk Management department has implemented programs to protect the Housing Authority against accidental and criminal losses that would significantly affect personnel, property, or budget by using a combination of loss control programs, purchased commercial insurance, voluntary self-insurance, participation in a risk-sharing pool or group, and contractual risk transfer via indemnification agreements.

For Public Housing, the Authority secures third-party liability insurance primarily through the Housing Authority Risk Retention Pool (HARRP), a public entity risk-sharing pool. The General Liability limit, including Washington Stop-Gap or Employer's Liability, is \$2,000,000 per occurrence on an occurrence basis with a \$1,000 deductible. Contractor's Pollution Liability limit is \$1,000,000 on a claims-made basis with a \$10,000 per claim self-insured retention provided through Colony Insurance Company. Automobile Liability insurance is \$5,000,000 in total limits provided through a combination of Philadelphia Insurance Company with \$1,000,000 liability limit and excess liability of \$4,000,000 provided by Princeton Excess and Specialty. Property insurance including Rental Income coverage through HARRP has a standard limit of \$3,000,000 replacement cost basis, with higher limits available upon request. Property deductible is \$50,000 per loss. The Authority has secured Fidelity coverage through HARRP for \$100,000 per occurrence for all employees, and \$500,000 for employees with greater exposure.

Excess Liability limit of \$10,000,000 is provided over all of the above liability coverage except the Contractors Pollution, which brings total liability coverage to a limit of \$15,000,000. This coverage is placed with Lexington Insurance Company.

Public Officials Errors and Omissions and Employment Practices Liability is provided on all properties with a \$5,000,000 limit and a \$75,000 Self-Insured Retention from Illinois Union Insurance Company.

No active claims are anticipated to exceed the applicable limits of insurance secured from any of the listed providers.

Note 7 – Subsequent Events

There have been no material events subsequent to December 31, 2014 to report.

Housing Authority of the City of Sedro-Woolley
Financial Data Schedule (FDS)
Statement of Net Position
As of December 31, 2014

Line Item #	Account Description	Cedar Grove WA030000103	Hillsview WA030000155	Total Authority
111	Cash - unrestricted	\$ 209,438	\$ 157,767	\$ 367,205
114	Cash - tenant security deposits	3,700	5,126	8,826
100	Total Cash	213,138	162,893	376,031
122	AR - HUD other projects	65	10,380	10,445
126	Accounts receivable- tenants	929	468	1,397
126	Allowance for doubtful accounts - tenants	(108)	(15)	(123)
120	Total receivables, net of allowances	886	10,833	11,719
142	Prepaid expenses and other assets	2,362	4,358	6,720
150	Total Current Assets	216,386	178,084	394,470
161	Land	-	59,287	59,287
162	Buildings	382,968	2,905,961	3,288,929
166	Accumulated depreciation	(259,594)	(1,738,489)	(1,998,083)
168	Infrastructure	383,139	136,754	519,893
160	Net fixed assets	506,513	1,363,513	1,870,026
180	Total Noncurrent Assets	506,513	1,363,513	1,870,026
190	Total Assets	\$ 722,899	\$ 1,541,597	\$ 2,264,496
200	Deferred Outflows of Resources	-	-	-
	Total Assets and Deferred Outflows of Resources	\$ 722,899	\$ 1,541,597	\$ 2,264,496
312	Accounts payable < 90 days	\$ 5,372	\$ 13,569	\$ 18,942
321	Accrued wage/payroll taxes payable	2,154	5,544	7,698
322	Accrued compensated absences	1,075	2,272	3,347
341	Tenant security deposits	3,700	5,126	8,826
342	Deferred revenue	3,923	194	4,117
343	Current portion of L-T debt - capital projects	2,049	3,913	5,962
345	Other current liabilities	-	18,883	18,883
346	Other Accrued Liabilities	101	1,370	1,471
310	Total Current Liabilities	18,374	50,872	69,246
351	Long-term debt, net of current - capital projects	4,557	8,698	13,255
350	Total Noncurrent Liabilities	4,557	8,698	13,255
300	Total Liabilities	22,931	59,570	82,501
400	Deferred Inflows of Resources	-	-	-
508.4	Net investment in capital assets	499,907	1,350,902	1,850,809
511.1	Restricted net position	-	-	-
512.1	Unrestricted net position	200,062	131,125	331,186
512.1	Unrestricted net assets	733,656	1,583,046	2,316,703
513	Total Equity - Net Assets/Position	699,968	1,482,027	2,181,995
600	Total Liabilities, Deferred Inflow of Resources, and Equity - Net Assets/Position	\$ 722,899	\$ 1,541,597	\$ 2,264,496

Housing Authority of the City of Sedro-Woolley
Financial Data Schedule (FDS) (continued)
For the Period Ending December 31, 2014

Line Item #	Account Description	Cedar Grove WA030000103	Hillsview WA030000155	Total Authority
70300	Net tenant rental revenue	\$ 37,940	\$ 136,831	\$ 174,771
70400	Tenant revenue - other	3,637	3,807	7,444
70500	Total tenant revenue	41,577	140,638	182,215
70600	HUD PHA Operating Grants	97,828	277,552	375,380
71500	Other Revenue	287	37	324
72000	Investment income - restricted	274	210	484
70000	TOTAL REVENUE	139,966	418,436	558,402
91100	Administrative salaries	14,927	32,496	47,423
91200	Auditing fees	3,799	11,397	15,196
91300	Management fees	11,425	34,371	45,797
91310	Book-keeping Fee	1,800	5,393	7,193
91400	Advertising and Marketing	185	554	739
91500	Employee benefit contributions - administrative	7,941	15,653	23,594
91600	Office Expenses	1,902	8,110	10,011
91700	Legal expense	423	200	623
91800	Travel	406	1,383	1,788
91900	Other	2,326	10,350	12,677
91000	Total Operating - Administrative	45,133	119,906	165,040
92000	Asset Management Fee	2,400	7,200	9,600
92100	Tenant services - salaries	1,170	3,472	4,642
92200	Relocation costs	-	1,310	1,310
92300	Employee benefits	314	925	1,239
92400	Tenant services - other	96	483	579
92500	Total Tenant Services	1,580	6,189	7,769
93100	Water	10,744	6,723	17,466
93200	Electricity	1,852	14,110	15,962
93300	Gas	965	-	965
93600	Sewer	14,084	40,785	54,869
93800	Other utilities expense	8,502	11,041	19,543
93000	Total Utilities	36,147	72,659	108,806
94100	Ordinary maintenance and operations - labor	23,417	43,826	67,243
94200	Ordinary maintenance and operations - material and other	7,786	92,797	100,583
94300	Ordinary maintenance and operations - contracts	16,180	41,368	57,549
94500	Employee benefit contributions - ordinary maintenance	7,942	15,652	23,594
94000	Total Maintenance	55,325	193,643	248,968
96110	Property Insurance	1,457	2,497	3,954
96120	Liability Insurance	946	1,713	2,659
96130	Workmen's compensation	939	2,125	3,064
96100	Total Insurance Premiums	3,342	6,335	9,677
96210	Compensated Absences	1,540	2,253	3,793
96000	Total Other General Expenses	1,540	2,253	3,793
96720	Interest on notes payable (short and long term)	328	626	954
96700	Total interest expense and amortization cost	328	626	954
96900	TOTAL OPERATING EXPENSES	145,795	408,812	554,607
97000	EXCESS OPERATING REVENUE OVER OPERATING EXPENSES	(5,829)	9,624	3,796
97400	Depreciation expense	27,859	110,643	138,502
90000	TOTAL EXPENSES	173,654	519,455	693,109
	EXCESS (DEFICIENCY) OF TOTAL REVENUE OVER (UNDER) TOTAL EXPENSES	\$ (132,251)	\$ (101,019)	\$ (134,707)
	MEMO ACCT INFORMATION			
11020	Required annual debt principal payments	1,971	3,763	5,734
11030	Beginning of year equity	733,654	1,583,046	2,316,700
11190	Unit Months Available	240	720	960
11210	Number of unit months leased	236	715	951
11270	Excess cash	201,875	139,658	341,533

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

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