



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

**Financial Statements Audit Report**  
**Housing Authority of the City of**  
**Sedro-Woolley**

**For the period January 1, 2017 through December 31, 2017**

**Published September 27, 2018**

**Report No. 1022304**





## Office of the Washington State Auditor

**Pat McCarthy**

September 27, 2018

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,

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

Pat McCarthy  
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  
January 1, 2017 through December 31, 2017**

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, as of and for the year ended December 31, 2017, 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 18, 2018.

**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.



Pat McCarthy

State Auditor

Olympia, WA

September 18, 2018

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## **Housing Authority of the City of Sedro-Woolley January 1, 2017 through December 31, 2017**

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, as of and for the year ended December 31, 2017, 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, 2017, 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 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 form 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 18, 2018 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.



Pat McCarthy  
State Auditor  
Olympia, WA

September 18, 2018

## **FINANCIAL SECTION**

### **Housing Authority of the City of Sedro-Woolley January 1, 2017 through December 31, 2017**

#### **REQUIRED SUPPLEMENTARY INFORMATION**

Management's Discussion and Analysis – 2017

#### **BASIC FINANCIAL STATEMENTS**

Statement of Net Position – 2017

Statement of Revenues, Expenses and Changes in Net Position – 2017

Statement of Cash Flows – 2017

Notes to Financial Statements - 2017

#### **SUPPLEMENTARY AND OTHER INFORMATION**

Financial Data Schedule – 2017

# 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, 2017. 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.

### 2017 Financial Highlights

- Total assets of the Authority exceeded total liabilities at December 31, 2017 by \$2,074,631.
- Total revenues (operating and non-operating) for 2017 were \$573,209. Total expenses (operating and non-operating) were \$598,279. The change in net position was a decrease of \$25,070.

## Overview of the Financial Statements

As required under the GASB 34 financial reporting standards, this annual report consist of two parts—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 2017 and 2016. Supplementary information is provided in the accompanying notes that further explain and support the data presented in table A-1.

**Table A-1, Condensed Statement of Net Position**

<b>Assets:</b>	<b>2017</b>	<b>2016</b>
Current and other assets	\$ 318,840	\$ 359,030
Capital assets	1,845,490	1,888,649
Total Assets	2,164,330	2,247,679
<b>Liabilities:</b>		
Current and other liabilities	89,667	147,946
Long-term debt, net of current	32	32
Total Liabilities	89,699	147,978
<b>Net Position:</b>		
Net investment in capital assets	1,845,458	1,888,617
Unrestricted	229,173	211,084
Total Net Position	\$ 2,074,631	\$ 2,099,701

Current and other assets, excluding capital assets, for the year ended December 31, 2017 total \$318,840 and are comprised of \$306,857 in cash and cash equivalents and \$3,795 in accounts receivables, and \$8,188 in other assets. Cash and cash equivalents decreased \$38,753 from 2016.

Capital assets for the year ended December 31, 2017 are \$1.8 million. Included in this category are land and improvements, buildings and improvements, personal property, and construction-in-progress. Capital asset additions of \$52,145 represent various unit upgrades at Hillsvie Apartments.

Total liabilities, excluding the non-current portion of long-term debt, totaled \$89,667 at December 31, 2017, a decrease of \$58,279 from 2016. The decrease is primarily due to payment of invoices outstanding at end of 2016 for installation of a new roof and smoking shelter Hillsvie Apartments.

The Authority's current ratio reflects the relationship between current assets and current liabilities and is a measure of the Authority's ability to pay short-term obligations. At December 31, 2017, the Authority's current ratio was 3.56:1 an increase from the previous year's current ratio of 2.39:1. This means that for every dollar in current liabilities there is \$3.56 in current assets.

Total net position decreased by \$25,070 during 2017. Net investment in capital assets decreased by \$43,159 primarily due to depreciation while unrestricted net position increased by \$18,089. Unrestricted net position increased by 8.5% primarily due to decrease in current and other liabilities.

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

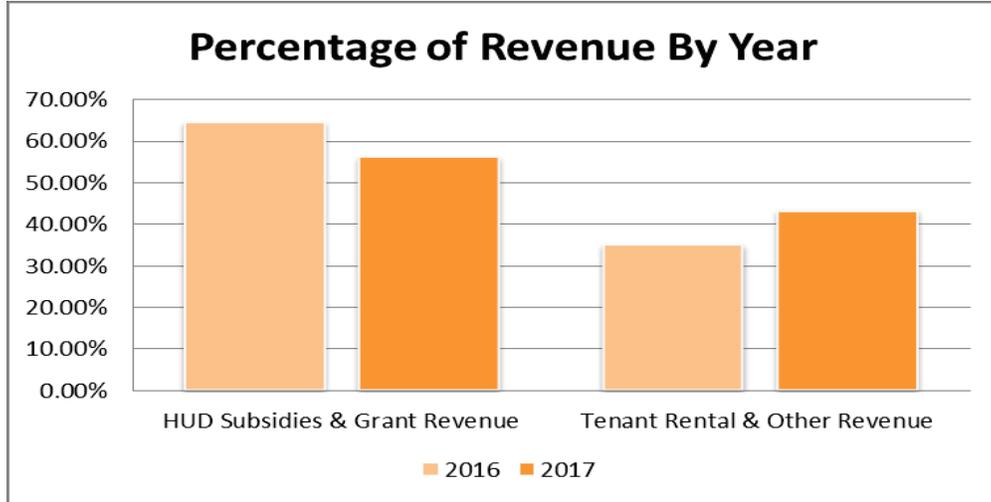
The purpose of the Statement of Revenues, Expenses and Changes in Net Position is to present the revenues earned by the Authority (both operating and non-operating) and the expenses incurred (operating and non-operating), and any other revenues, expenses, gains and losses received or spent by SWHA. Table A-2 represents the Authority's *Condensed Statement of Revenues, Expenses, and Changes in Net Position* for 2017 and 2016.

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

	<u>2017</u>	<u>2016</u>
Operating Revenues	\$ 206,260	\$ 182,168
Net nonoperating revenues	310,523	343,562
Total Revenues	<u>516,783</u>	<u>525,730</u>
Operating expenses	598,279	610,073
Nonoperating expenses	-	381
Total Expenses	<u>598,279</u>	<u>610,454</u>
Excess or deficiency before contributions	(81,496)	(84,724)
Capital grant contributions	56,426	64,884
Change in Net Position	<u>(25,070)</u>	<u>(19,840)</u>
Beginning Net Position	<u>2,099,701</u>	<u>2,119,541</u>
Ending Net Position	<u>\$ 2,074,631</u>	<u>\$ 2,099,701</u>

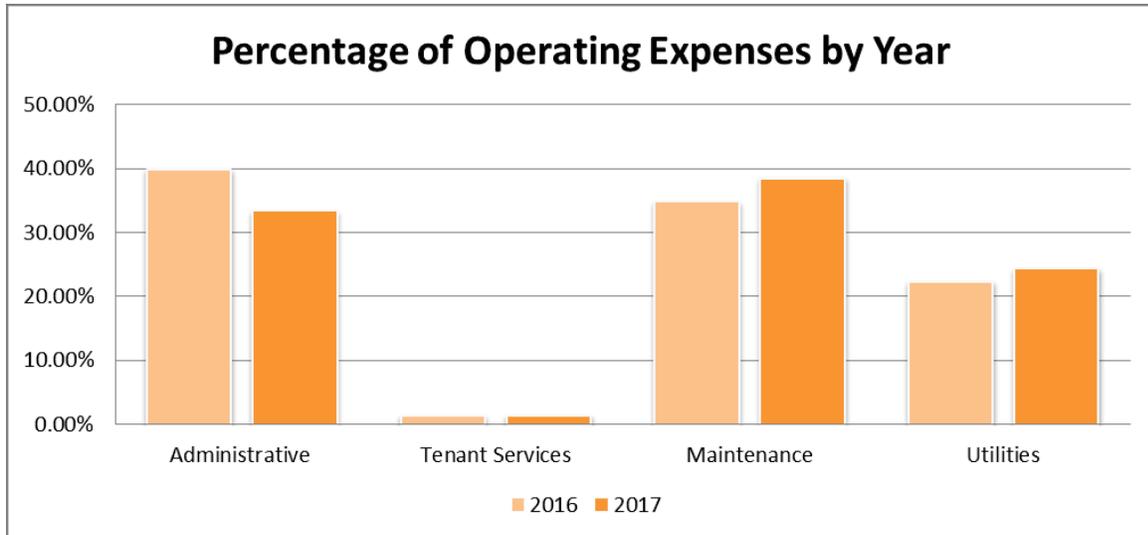
Revenues are classified as operating or non-operating. Table A-3 shows the sources of operating revenues for 2016 and 2017.

**Table A-3, Sources of Revenues for 2016 and 2017**



Operating expenses are amounts paid for providing housing to the Authority’s tenants and administering the various programs. Total operating expenses (excluding depreciation), for 2017 were \$500,694. Costs included in operating expenses include; administrative, tenant services, maintenance, utilities, and other. Table A-4 illustrates the operating expense break down by category. Decrease in administrative expenses was due to the decrease in auditing expenses and eviction legal fees. Maintenance expenses increased as a result of an increase in unit upgrade projects as such projects are dependent on unit availability.

**Table A-4, Operating Expenses for 2016 and 2017**



## 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 2017 and 2016**

	<b>2017</b>	<b>2016</b>
Land	\$ 61,569	\$ 59,288
Buildings and Improvements	4,111,604	4,059,459
Construction-in-progress	0	0
	<u>4,173,173</u>	<u>4,118,747</u>
Total accumulated depreciation	<u>(2,327,683)</u>	<u>(2,230,098)</u>
Net Capital Assets	<u>\$ 1,845,490</u>	<u>\$ 1,888,649</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. The current administration advocates severe funding cuts to programs administered by HUD; including completely defunding the Capital Fund Program. Much like the prior year, it is uncertain how much congress will appropriate.

### **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, 2017

**ASSETS:**

***Current Assets***

Cash and cash equivalents	\$ 297,682
Restricted cash and cash equivalents	9,175
Receivables, net	3,795
Other current assets	8,188
Total Current Assets	<u>318,840</u>

***Noncurrent Assets***

Land, Buildings, and Equipment, net	
Nondepreciable	61,569
Depreciable	1,783,921
Total Noncurrent Assets	<u>1,845,490</u>
Total Assets:	<u>2,164,330</u>

**LIABILITIES:**

***Current Liabilities***

Accounts payable	64,599
Accrued compensated absences	7,911
Tenant security deposits	9,175
Prepaid tenant rent	4,616
Other Current Liabilities	3,366
Total Current Liabilities	<u>89,667</u>

***Noncurrent Liabilities***

Long term debt, net of current	<u>32</u>
Total Noncurrent Liabilities	<u>32</u>
Total Liabilities	<u>89,699</u>

**NET POSITION:**

Net investment in capital assets	1,845,458
Restricted	-
Unrestricted	229,173
Total Net Position	<u>\$ 2,074,631</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, 2017

<b>Operating Revenues</b>	
Tenant revenue	\$ 196,492
Other revenue	9,768
Total Operating Revenues	<u>206,260</u>
<b>Operating Expenses</b>	
Administrative	169,023
Tenant services	7,293
Maintenance	191,319
Utilities	122,008
Depreciation	97,585
Other expenses	11,051
Total Operating Expenses	<u>598,279</u>
Operating Gain (Loss)	(392,019)
<b>Nonoperating Revenues (Expenses)</b>	
HUD subsidies and grant revenue	307,902
Investment income	1,995
Interest expense	-
Gain (loss) on disposal of assets	626
Total Nonoperating Revenues (Expenses)	<u>310,523</u>
INCOME (LOSS) before contributions	(81,496)
Capital grant contributions	<u>56,426</u>
CHANGE IN NET POSITION	(25,070)
Beginning Net Position	2,099,701
Ending Net Position	<u>\$ 2,074,631</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, 2017

**Cash Flows from Operating Activities:**

Receipts from tenants	\$ 194,389
Payments to employees	(110,687)
Payments to suppliers of goods and services	(419,740)
Other payments	9,768
Net cash provided by (used in) operating activities	<u>(326,270)</u>

**Cash Flows from Noncapital Financing Activities:**

Receipts from HUD	<u>308,741</u>
Net cash provided by noncapital financing activities	<u>308,741</u>

**Cash Flows from Capital and Related Financing Activities:**

Capital grant contributions	56,426
Purchases of capital assets	(54,426)
Other receipts (payments)	626
Net cash provided by capital and related financing activities	<u>2,626</u>

**Cash Flows from Investing Activities:**

Investment income	1,995
Other receipts (payments)	(25,845)
Net cash provided (used in) by investing activities	<u>(23,850)</u>

Net increase (decrease) in cash and cash equivalents (38,753)

Cash and cash equivalents -- beginning of the year 345,610

Cash and cash equivalents -- end of the year \$ 306,857

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

Operating income (loss)	(392,019)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	97,585
Change in assets and liabilities:	
Receivables	(242)
Inventories and other	840
Accounts payable	(28,867)
Other current liabilities	(3,567)
Net cash provided by (used in) operating activities	<u>\$ (326,270)</u>

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

## **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, 2017 include \$9,175 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, 2017 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 - Cash Deposits and Investments**

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 Local Government 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, 2017, the pool had an average days-to-maturity of 37 days and therefore is reported at cost. Government securities are reported at fair value. A summary of cash and investments at December 31, 2017 follows.

	Unrestricted	Restricted	Total
<b>Cash and Cash Equivalents:</b>			
Depository	\$ 5,000	\$ -	\$ 5,000
Local Government Investment Pool	292,682	9,175	301,857
Total Cash And Cash Equivalents	<u>\$ 297,682</u>	<u>\$ 9,175</u>	<u>\$ 306,857</u>

### **Note 3 – Capital Assets**

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

	Beginning Balances	Additions and Transfers-in	Disposals and Transfers-out	Ending Balances
<b>Nondepreciable:</b>				
Land	\$ 59,288	\$ -	\$ -	\$ 59,288
Construction-in-progress	-	2,281	-	2,281
Total Nondepreciable	<u>59,288</u>	<u>2,281</u>	<u>-</u>	61,569
<b>Depreciable:</b>				
Building and improvements	4,059,459	52,145	-	4,111,604
Total Depreciable	<u>4,059,459</u>	<u>52,145</u>	<u>-</u>	4,111,604
<b>Total Capital Assets:</b>	4,118,747	54,426	-	4,173,173
Less: Accumulated depreciation	(2,230,098)	(97,585)	-	(2,327,683)
	<u>\$ 1,888,649</u>	<u>\$ (43,159)</u>	<u>\$ -</u>	\$ 1,845,490

Capital assets additions were primarily due to capitalization of the Hillsview roofing project.

### **Note 4 – 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
<b>Financing lease</b>	\$ 32	-	-	\$ 32	\$ -

## **Note 5 - Risk Management**

Sedro-Woolley Housing Authority (SWHA) 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. KCHA Risk Management 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.

KCHA secures third-party liability insurance primarily through the Housing Authority Insurance Group (HAIG), a national housing authority risk-sharing pool. The General Liability limit, including Washington Stop-Gap/Employer's Liability, is \$5,000,000 per occurrence with a \$1,000 deductible. Automobile Liability insurance is carried with \$5,000,000 in total limits provided through a combination of Continental Western Insurance Company with a \$1,000,000 combined single limit and excess liability of \$4,000,000 provided by Philadelphia Insurance.

Property insurance, including Rental Income coverage, for Public Housing is placed through the Housing Authority Risk & Retention Pool (HARRP) on a replacement cost basis. The property insurance deductible is \$25,000 per loss. The Authority also has secured Fidelity coverage through HARRP for \$100,000 per occurrence for all employees, and \$500,000 for employees with greater exposure.

An Excess Liability policy of \$15,000,000 is provided over all of the above liability coverage except the Contractors Pollution, which brings total liability coverage to a limit of \$20,000,000. 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 aggregate limit and a 50,000 self-insured retention for employment practices and other covered claims from Ironshore Specialty Insurance Company.

No active claims are anticipated to exceed the applicable limits of insurance secured from any of the listed providers. Settled claims have not exceeded coverage purchased during the past five years

Housing Authority of the City of Sedro-Woolley  
Financial Data Schedule (FDS)

Statement of Net Position

As of December 31, 2017

Line #	Account Description	Cedar Grove		Hillsview	Total Authority
		WA030000103	WA030000155	WA030000155	
111	Cash - unrestricted	\$ 103,468	\$ 194,213	\$ 297,682	
114	Cash - tenant security deposits	3,800	5,375	9,175	
100	Total cash	107,268	199,588	306,857	
121	AR - PHA projects	-	-	-	
122	AR - HUD other projects	-	1,785	1,785	
126	Accounts receivable- tenants	952	1,398	2,349	
126.1	Allowance for doubtful accounts - tenants	(206)	(134)	(340)	
120	Total receivables, net of allowances	746	3,049	3,795	
142	Prepaid expenses and other assets	2,252	5,936	8,188	
150	Total Current Assets	110,266	208,573	318,840	
161	Land	-	59,287	59,287	
162	Buildings	382,968	3,208,744	3,591,713	
166	Accumulated depreciation	(343,170)	(1,984,513)	(2,327,683)	
167	Work in progress	-	2,282	2,282	
168	Infrastructure	383,139	136,753	519,891	
160	Total capital assets, net of depreciation	422,937	1,422,553	1,845,490	
180	Total Noncurrent Assets	422,937	1,422,553	1,845,490	
190	Total Assets	533,203	1,631,126	2,164,330	
200	Deferred Outflows of Resources	-	-	-	
290	Total Assets and Deferred Outflows of Resources	\$ 533,203	\$ 1,631,127	\$ 2,164,330	
312	Accounts payable < 90 days	\$ 18,276	\$ 46,322	\$ 64,599	
321	Accrued wage/payroll taxes payable	924	2,443	3,366	
322	Accrued compensated absences	2,271	5,640	7,911	
341	Tenant security deposits	3,800	5,375	9,175	
342	Unearned revenue	1,751	2,865	4,616	
310	Total Current Liabilities	27,022	62,645	89,667	
351	Long-term debt, net of current - capital projects	11	21	32	
350	Total Noncurrent Liabilities	11	21	32	
300	Total Liabilities	27,033	62,666	89,699	
400	Deferred Inflows of Resources	-	-	-	
508.4	Net Investment in Capital Assets	422,926	1,422,532	1,845,458	
511.4	Restricted Net Position	-	-	-	
512.4	Unrestricted Net Position	83,245	145,930	229,173	
513	Total Equity - Net Assets/Position	506,171	1,568,461	2,074,631	
600	Total Liabilities, Deferred Inflows of Resources, and Equity - Net Assets/Position	\$ 533,204	\$ 1,631,127	\$ 2,164,330	

Housing Authority of the City of Sedro-Woolley  
Financial Data Schedule (FDS)  
Statement of Revenues, Expenses, and Changes in Net Position  
For the 12 Month Period Ending December 31, 2017

Line Item #	Account Description	Cedar Grove WA030000103		Hillsview WA030000155		Total Authority
		14,850 Public and Indian Housing	14,872 Public Housing Capital Fund	14,850 Public and Indian Housing	14,872 Public Housing Capital	
REVENUE:						
70300	Net tenant rental revenue	\$ 33,446	\$ -	\$ 156,442	\$ -	\$ 189,888
70400	Tenant revenue - other	1,481	-	5,123	-	6,604
70500	Total tenant revenue	34,928	-	161,565	-	196,492
70600	HUD PHA Operating Grants	101,864	40,414	165,623	-	307,901
70610	Capital Grants	-	-	-	56,426	56,426
70700	Total Fee Revenue	-	-	-	-	-
71500	Other Revenue	255	-	10,139	-	10,394
72000	Investment income - restricted	642	-	1,354	-	1,995
70000	TOTAL REVENUE	137,688	40,414	338,681	56,426	573,209
EXPENSES:						
Administrative						
91100	Administrative salaries	16,524	-	35,271	-	51,795
91200	Auditing fees	3,150	-	9,450	-	12,600
91300	Management fees	12,264	-	36,588	-	48,852
91400	Advertising and Marketing	137	-	411	-	548
91500	Employee benefit contributions - administrative	6,495	-	13,572	-	20,067
91600	Office Expenses	546	-	1,719	-	2,264
91700	Legal expense	907	-	544	-	1,451
91800	Travel	393	-	1,178	-	1,570
91900	Other	3,551	-	13,445	-	16,996
91000	Total Operating - Administrative	43,966	-	112,177	-	156,141
92000	Asset Management Fee	2,400	-	7,200	-	9,600
Tenant services						
92400	Tenant services - other	1,823	-	5,469	-	7,293
92500	Total Tenant Services	1,823	-	5,469	-	7,293
Utilities						
93100	Water	13,274	-	8,948	-	22,222
93200	Electricity	1,991	-	15,496	-	17,486
93300	Gas	1,297	-	-	-	1,297
93600	Sewer	15,112	-	45,267	-	60,379
93800	Other utilities expense	9,580	-	11,044	-	20,624
93000	Total Utilities	41,254	-	80,755	-	122,008
Ordinary maintenance & operation						
94100	Ordinary maintenance and operations - labor	14,014	-	42,528	-	56,541
94200	Ordinary maintenance and operations - material and other	11,083	40,414	19,122	-	70,620
94300	Ordinary maintenance and operations - contracts	9,359	-	33,031	-	42,390
94500	Employee benefit contributions - ordinary maintenance	5,508	-	16,261	-	21,769
94000	Total Maintenance	39,964	40,414	110,942	-	191,319
General expenses						
96110	Property Insurance	1,816	-	3,108	-	4,924
96120	Liability Insurance	1,571	-	4,557	-	6,127
96130	Workmen's compensation	577	-	1,914	-	2,491
96100	Total Insurance Premiums	3,964	-	9,578	-	13,542
96200	Other General Expenses	-	-	-	-	-
96210	Compensated absences	227	-	563	-	791
96000	Total Other General Expenses	227	-	563	-	791
96720	Interest on notes payable (short and long term)	-	-	-	-	-
96700	Total interest expense and amortization cost	-	-	-	-	-
96900	TOTAL OPERATING EXPENSES	133,599	40,414	326,684	-	500,695
97000	EXPENSES	4,090	-	11,997	56,426	72,514
97100	Extraordinary maintenance	-	-	-	-	-
97400	Depreciation expense	27,858	-	69,726	-	97,585
90000	TOTAL EXPENSES	161,456	40,414	396,409	-	598,279
OTHER FINANCING SOURCES (USES)						
10010	Operating transfers in	-	-	-	-	-
10020	Operating transfers out	-	-	-	-	-
10100	TOTAL OTHER FINANCING SOURCES	-	-	-	-	-
	(UNDER) TOTAL EXPENSES	\$ (23,768)	-	\$ (57,729)	\$ 56,426	\$ (25,070)
MEMO ACCT INFORMATION						
11020	Required annual debt principal payments	-	-	-	-	-
11030	Beginning of year equity	\$ 529,939	-	\$ 1,569,762	-	\$ 2,099,701
11040	Prior period adjustments and error corrections	-	-	-	-	-
11170	Administrative Fee Equity	-	-	-	-	-
11180	Housing Assistance Fee Equity	-	-	-	-	-
11190	Unit Months Available	236	-	718	-	954
11210	Number of unit months leased	236	-	709	-	945
11270	Excess cash	\$ 69,860	-	\$ 112,769	-	\$ 182,628
11610	Land Purchases	-	-	-	-	-
11620	Building Purchases	-	-	-	\$ 56,426	\$ 56,426
11630	Furniture and Equipment - dwelling purchases	-	-	-	-	-

## 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.

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<b>Contact information for the State Auditor's Office</b>	
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