

**Washington State Auditor's Office**  
**Financial Statements and Federal Single Audit Report**

---

**Housing Authority City of Kennewick**  
**Benton County**

Audit Period  
**July 1, 2006 through June 30, 2007**

**Report No. 74259**

Issue Date  
**March 24, 2008**



WASHINGTON  
**BRIAN SONNTAG**  
STATE AUDITOR



**Washington State Auditor  
Brian Sonntag**

March 24, 2008

Board of Commissioners  
Housing Authority City of Kennewick  
Kennewick, Washington

***Report on Financial Statements and Federal Single Audit***

Please find attached our report on the Housing Authority City of Kennewick's financial statements and compliance with federal laws and regulations.

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

In addition to this work, we look at other areas of our audit client's operations for compliance with state laws and regulations. The results of that audit will be included in a separately issued accountability report.

Sincerely,

**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

# Table of Contents

**Housing Authority City of Kennewick  
Benton County  
July 1, 2006 through June 30, 2007**

Federal Summary.....	1
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters in Accordance with <i>Government Auditing Standards</i> .....	2
Independent Auditor's Report on Compliance with Requirements Applicable to its Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133.....	4
Independent Auditor's Report on Financial Statements .....	6
Financial Section.....	8

# Federal Summary

## Housing Authority City of Kennewick Benton County July 1, 2006 through June 30, 2007

The results of our audit of the Housing Authority City of Kennewick are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

### **FINANCIAL STATEMENTS**

An unqualified opinion was issued on the basic financial statements.

#### **Internal Control Over Financial Reporting:**

- **Significant Deficiencies:** We reported no deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.
- **Material Weaknesses:** We identified no significant deficiencies that we consider to be material weaknesses.

We noted no instances of noncompliance that were material to the financial statements of the Housing Authority.

### **FEDERAL AWARDS**

#### **Internal Control Over Major Programs:**

- **Significant Deficiencies:** We reported no deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.
- **Material Weaknesses:** We identified no significant deficiencies that we consider to be material weaknesses.

We issued an unqualified opinion on the Housing Authority's compliance with requirements applicable to its major federal program.

We reported no findings that are required to be disclosed under OMB Circular A-133.

#### **Identification of Major Programs:**

The following was a major program during the period under audit:

<u>CFDA No.</u>	<u>Program Title</u>
14.871	Housing Choice Vouchers

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was \$300,000.

The Housing Authority qualified as a low-risk auditee under OMB Circular A-133.

# Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters in Accordance with *Government Auditing Standards*

**Housing Authority City of Kennewick  
Benton County  
July 1, 2006 through June 30, 2007**

Board of Commissioners  
Housing Authority City of Kennewick  
Kennewick, Washington

We have audited the basic financial statements of the Housing Authority City of Kennewick, Benton County, Washington, as of and for the year ended June 30, 2007, and have issued our report thereon dated March 6, 2008.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

## ***INTERNAL CONTROL OVER FINANCIAL REPORTING***

In planning and performing our audit, we considered the Housing Authority's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Housing Authority's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Housing Authority's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Housing Authority's financial statements that is more than inconsequential will not be prevented or detected by the Housing Authority's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

However, we noted certain matters that we have reported to the management of the Housing Authority in a separate letter dated March 6, 2008.

## **COMPLIANCE AND OTHER MATTERS**

As part of obtaining reasonable assurance about whether the Housing Authority's financial statements are free of 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*.

This report is intended for the information and use of management, the Board of Commissioners, federal awarding agencies and pass-through entities. 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.

A handwritten signature in black ink, appearing to read "Brian Sonntag". The signature is fluid and cursive, with the first name "Brian" and last name "Sonntag" clearly distinguishable.

**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

March 6, 2008

# Independent Auditor's Report on Compliance with Requirements Applicable to its Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133

**Housing Authority City of Kennewick  
Benton County  
July 1, 2006 through June 30, 2007**

Board of Commissioners  
Housing Authority City of Kennewick  
Kennewick, Washington

## **COMPLIANCE**

We have audited the compliance of the Housing Authority City of Kennewick, Benton County, Washington, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2007. The Housing Authority's major federal program is identified in the Federal Summary. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Housing Authority's management. Our responsibility is to express an opinion on the Housing Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Housing Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Housing Authority's compliance with those requirements.

In our opinion, the Housing Authority complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2007.

## **INTERNAL CONTROL OVER COMPLIANCE**

The management of the Housing Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Housing Authority's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance, but not for the purpose of

expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Housing Authority's internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is a more than remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in a more than remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended for the information of management, the Board of Commissioners, federal awarding agencies and pass-through entities. 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.

A handwritten signature in black ink, appearing to read "Brian Sonntag". The signature is fluid and cursive, with the first name "Brian" and last name "Sonntag" clearly distinguishable.

**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

March 6, 2008



# Independent Auditor's Report on Financial Statements

## Housing Authority City of Kennewick Benton County July 1, 2006 through June 30, 2007

Board of Commissioners  
Housing Authority City of Kennewick  
Kennewick, Washington

We have audited the accompanying basic financial statements of the Housing Authority City of Kennewick, Benton County, Washington, as of and for the year ended June 30, 2007, as listed on page 8. These financial statements are the responsibility of the Housing Authority's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Housing Authority City of Kennewick, as of June 30, 2007, and the changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 9 through 13 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the Housing Authority's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The accompanying Financial Data Schedule is supplemental information required by HUD. These schedules are not a required part of the basic financial statements. Such information has

been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "Brian Sonntag". The signature is fluid and cursive, with the first name "Brian" and last name "Sonntag" clearly distinguishable.

**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

March 6, 2008

# Financial Section

**Housing Authority City of Kennewick  
Benton County  
July 1, 2006 through June 30, 2007**

***REQUIRED SUPPLEMENTAL INFORMATION***

Management's Discussion and Analysis – 2007

***BASIC FINANCIAL STATEMENTS***

Statement of Net Assets – 2007  
Statement of Revenues, Expenses and Changes in Net Assets – 2007  
Statement of Cash Flows – 2007  
Notes to Financial Statements – 2007

***SUPPLEMENTAL INFORMATION***

Schedule of Expenditures of Federal Awards – 2007  
Notes to Schedule of Expenditures of Federal Awards – 2007  
Financial Data Schedule – 2007

**HOUSING AUTHORITY CITY OF KENNEWICK  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**

The Housing Authority City of Kennewick ("the Authority") management's discussion and analysis is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the Authority's financial activity, (c) identify changes in the Authority's financial position, and (d) identify individual fund issues or concerns.

Since the Management's Discussion and Analysis (MD&A) is designed to focus on the current years activities, resulting changes and currently known facts, please read it in conjunction with the Authority's financial statements.

***Financial Highlights***

- The Authority's net assets increased by \$1,764,861 during FY 2006-2007; Section 8 program's net assets increased by \$1,787,651, Public Housing increased net assets by \$4,317 and Business Activities net assets decreased by \$27,107.
- Net Assets were \$11.95 million and \$10.19 million for FYE 2007 and FYE 2006 respectively.
- Total Operating revenues decreased by \$47,355; total HUD Operating Subsidies decreased by \$92,968; Other Governmental Grants increased by \$24,084 due to addition of Housing Opportunities for Persons with Aids (HOPWA) pass through from Spokane County; and total Interest Income increased by \$72,985 for Section 8 restricted income and \$14,073 for all other programs.
- The total operating expenses of all Authority programs decreased by \$469,943, even with the addition of \$31,682 for HOPWA. Total expenses were \$3.6 million and \$4.07 million for 2007 and 2006 respectively.

***USING THIS ANNUAL REPORT***

The Report includes three major sections, the "Management's Discussion and Analysis (MD&A)", "Basic Financial Statements", and "Other Supplementary Information":

<b><i>MD&amp;A</i></b> ~ <i>MANAGEMENT DISCUSSION</i> <i>AND ANALYSIS</i> ~
---

<b><i>BASIC FINANCIAL STATEMENTS</i></b> <i>AUTHORITY-WIDE FINANCIAL STATEMENTS</i> <i>NOTES TO FINANCIAL STATEMENTS</i>
--

The primary focus of the Authority's financial statement is on the Authority as a whole (Authority-wide).

***AUTHORITY-WIDE FINANCIAL STATEMENTS***

The Authority-wide financial statements are designed to be corporate-like in that all business type activities are consolidated into one column for the entire Authority.

These Statements include a Statement of Net Assets, which is similar to a Balance Sheet. The Statement of Net Assets reports all financial and capital resources for the Authority. The statement is presented in the format where assets, minus liabilities, equal "Net Assets", formerly known as equity. Assets and liabilities are presented in order of liquidity, and are classified as "Current" (convertible into cash within one year), and "Non-current".

The focus of the Statement of Net Assets (the "Unrestricted Net Assets") is designed to represent the net available liquid (non-capital) assets, net of liabilities, for the entire Authority. Net Assets (formerly equity) are reported in three broad categories:

**Invested in Capital Assets, Net of Related Debt:** This component of Net Assets consists of all Capital Assets, reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

**Restricted Net Assets:** This component of Net Assets consists of restricted assets, when constraints are placed on the asset by creditors (such as debt covenants), grantors, contributors, laws, regulations, etc.

**Unrestricted Net Assets:** Consists of Net Assets that do not meet the definition of Invested in Capital Assets, Net of Related Debt", or "Restricted Net Assets".

The Authority-wide financial statements also include a Statement of Revenues, Expenses and Changes in Fund Net Assets (similar to an Income Statement). This Statement includes Operating Revenues, such as rental income, Operating Expenses, such as administrative, utilities, and maintenance, and depreciation, and Non-Operating Revenue and Expenses, such as grant revenue, investment income and interest expense.

The focus of the Statement of Revenues, Expenses and Changes in Fund Net Assets is the "Change in Net Assets", which is similar to Net Income or Loss.

*THE AUTHORITY'S PROGRAMS*

Conventional Public Housing – Under the Conventional Public Housing Program, the Authority rents units that it owns to low-income households. The conventional Public Housing Program is operated under an Annual Contributions Contract (ACC) with HUD, and HUD provides Operating Subsidy and Capital Grant funding to enable the PHA to provide the housing at a rent that is based upon 30% of household income. The Conventional Public Housing Program also includes the Capital Fund Program, which is the primary funding source for physical and management improvements to the Authority's properties.

Housing Choice Voucher Program – Under the Housing Choice Voucher Program, the Authority administers contracts with independent landlords that own the property. The Authority subsidizes the family's rent through a Housing Assistance Payment made to the landlord. The program is administered under an Annual Contributions Contract (ACC) with HUD. HUD provides Annual Contributions Funding to enable the Authority to structure a lease that sets the participants' rent at 30% of household income.

Business Activities – Represents two local market rate units, the six-plex Mitchell Manor project, Business Activities and the Pass-through HOPWA program administered by Spokane County.

**AUTHORITY-WIDE STATEMENTS**

The following table reflects the condensed Statement of Net Assets compared to prior year. The Authority is engaged only in Business-Type Activities.

**TABLE 1  
STATEMENT OF NET ASSETS**

	2007		2006
Current and Other Assets	3,990,472		2,470,683
Capital Assets (net)	\$ 8,778,336	\$	8,812,923
Total Assets	<b>\$ 12,768,808</b>	<b>\$</b>	<b>11,283,606</b>
Current and Other Liabilities	\$ 95,697	\$	386,162
Long-Term Liabilities	\$ 715,617	\$	704,812
Total Liabilities	<b>\$ 811,315</b>	<b>\$</b>	<b>1,090,974</b>
Net Assets:			
Invested in Capital Assets			
Net of Related Debt	\$ 8,147,637	\$	8,173,962
Restricted	\$ 2,872,109	\$	133,923
Unrestricted	\$ 937,747	\$	1,884,747
Total Net Assets	<b>\$ 11,957,493</b>	<b>\$</b>	<b>10,192,632</b>

**Major Factors Affecting the Statement of Net Assets**

The Statement of Revenues, Expenses, and Changes in Net Assets present results of operations as well as non-operating revenues and expenses. Although grant revenues and subsidies are budgeted for operations, current accounting literature requires these revenue sources to be classified as non-operating. Accordingly, it is necessary to consider both operating and non-operating revenues and expenses to gauge the results of operations.

**TABLE 2  
CHANGE OF UNRESTRICTED NET ASSETS**

Unrestricted Net Assets 06/30/2006	\$	1,884,747
Results of Operations	\$	1,437,351
Adjustments:		
Depreciation	\$	315,707
Capital Grants	\$	(251,814)
Other Capital Expenditures	\$	(347,755)
Adjust HCV Program	\$	(2,795,999)
Adjusted Results from Operations		
Unrestricted Net Assets 06/30/2007	\$	937,747

(1) Depreciation is treated as an expense and reduces the results of operations but does not have an impact on Unrestricted Net Assets

(2) Funding provided for capital grants, pursuant to GASB 33, is presented as revenue. However, the revenue is absorbed by the associated capital expenditures and therefore does not increase Unrestricted Net Assets.

(3) Funding for the Housing Choice Voucher (HCV) program is listed as restricted assets, per GASB 34 and therefore, does not increase Unrestricted Net Assets.

While the results of operations are a significant measure of the Authority's activities, the analysis of the changes in Unrestricted Net Assets provides a clearer change in financial well-being.

The following table reflects the condensed Statement of Revenues, Expenses and Changes in Net Assets compared to prior year.

**TABLE 3  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS**

The following schedule compares the operating and non-operating revenues and expenses for the current and previous fiscal year. The Authority is engaged only in Business-Type Activities.

	2007	2006
<b>Revenues</b>		
Tenant Revenue - Rents and Other	\$ 377,407	\$ 424,762
Operating Subsidies and Grants	\$ 4,130,328	\$ 4,223,296
Investment Income	\$ 129,430	\$ 42,372
Other Revenue	\$ 150,229	\$ 181,411
Total Revenue	\$ 4,787,394	\$ 4,871,841
<b>Expenses</b>		
Administrative	\$ 663,838	\$ 658,204
Utilities	\$ 127,683	\$ 175,630
Maintenance	\$ 315,955	\$ 229,722
General	\$ 80,841	\$ 117,607
Housing Assistance Payments	\$ 2,097,833	\$ 2,571,927
Depreciation	\$ 315,707	\$ 318,710
Total Expenses	\$ 3,601,857	\$ 4,071,800
Net Operating and Non-Operating Income (Loss) before Capital contributions	\$ 1,185,537	\$ 800,041
HUD Capital Contributions	\$ 251,814	\$ 180,604
Change in Net Assets	\$ 1,437,351	\$ 980,645
Prior Period Adjustments	(327,510)	(78,222)
Beginning Net Assets 06/30/2006	\$ 10,192,632	\$ 9,290,209
Ending Net Assets 06/30/2007	\$ 11,957,493	\$ 10,192,632

**Major Factors Affecting the Statement of Revenue, Expenses and Changes in Fund Net Assets and analysis of financial position.**

Direct Grants and subsidies from HUD or HUD sponsored programs make up approximately 93% of revenue the Housing Authority receives. Accordingly, a major factor affecting our Statement of Revenues, Expenses, and Changes in Net Assets is Congress' continued appropriation and support of our programs. It should be noted there has been regulatory changes in the past few years which suggest that overall financial support for these programs will be reduced once again. The Housing Authority was able to reduce overall expenses this and last year, and further reductions of staff have been necessitated in 2007. However, there will be fewer opportunities in the future to effectively cut costs in order to improve our financial position. The Housing Authority is in the process of determining other revenue producing options to counteract our deteriorating financial position, especially in the Public Housing program. The Housing Choice Voucher program had a major decrease in housing assistance programs this year due to several factors: lower local market rents; over funding issue; and lower payment standards. The Housing Authority increased the payment standards from 90% to 110% in 2007 and HUD Section 8 funding has been reduced in order to counter act these factors.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**  
**Capital Assets**

As of year end, the Authority had \$8.77 million invested in a variety of capital assets as reflected in the following schedule, which represents a net decrease (additions, deductions and depreciation) of \$34,587 from the end of last year.

**TABLE 4**  
**CAPITAL ASSETS AT YEAR-END**  
**(NET OF DEPRECIATION)**

	2007	2006
Land	\$ 84,512	\$ 84,512
Buildings	\$ 13,118,765	\$ 13,118,765
Equipment - Administrative	\$ 250,978	\$ 250,978
Equipment - Dwelling	\$ 344,762	\$ 283,773
Accumulated Depreciation	\$ (5,844,155)	\$ (5,528,449)
Construction in Progress	\$ 823,474	\$ 603,344
Total	\$ 8,778,336	\$ 8,812,923

The following reconciliation summarizes the change in Capital Assets, which is presented in detail in note 3 of the notes to the financial statements.

**TABLE 5**  
**CHANGE IN CAPITAL ASSETS**

Beginning Balance, 06/30/2006	\$ 8,812,923
Net Additions/Decreases	\$ 281,120
Depreciation	\$ (315,707)
Ending Balance, 06/30/2007	\$ 8,778,336

**Debt Outstanding**

As of year-end, the Authority had \$271,802 in conventional mortgages outstanding compared to \$275,470 prior year.

The Housing Authority also has a \$268,183 recoverable grant from the WA Housing Trust Fund for the Mitchell Manor project. This grant is conditional on the Housing Authority providing low-income disabled individuals with housing for a commitment period of forty (40) years. If the project is sold, refinanced, transferred, the use changes during the 40 year term of the commitment, or is out of compliance with the conditions of the contract, the award

amount plus a proportional share of the appreciated value of the property will be due and payable to the Housing Trust Fund within 30 days of such event.

A forgivable loan in the amount of \$96,750 was also granted for the Mitchell Manor project from Benton Affordable Housing Association (Home Loan). This loan is forgivable at a rate of 5% per year if conditions of providing low-income disabled individuals with housing for a commitment period of fifteen (15) years are met. If the project is sold or refinanced, the total loan amount of \$96,750 will be due to the Tri Cities Home Loan Consortium.

Additionally, the Housing Authority received an \$84,000 recoverable grant in 2007 to provide funding for the Mitchell Manor development. The grant is contingent on Mitchell Manor providing low-income households with a disabled person, housing for a commitment period of fifteen (15) years. If the project is sold or refinanced prior to the end of the retention period, the full amount of the subsidy (\$84,000) shall be repaid directly to the Federal Home Loan Bank of Cincinnati.

\*See note 8 Long Term Debt and liabilities for additional information.

**TABLE 6  
OUTSTANDING LONG TERM DEBT, AT YEAR-END**

		2007		2006
Current Portion of Mortgages	\$	8,476	\$	8,232
Mortgages	\$	271,802	\$	275,470
BAHA Home Loan Forgivable Loan	\$	82,238	\$	87,076
Compensated Absences	\$	24,634	\$	0
<b>Total</b>	<b>\$</b>	<b>387,150</b>	<b>\$</b>	<b>370,778</b>

**ECONOMIC FACTORS**

Significant economic factors affecting the Authority are as follows:

- Federal funding of the Department of Housing and Urban Development
- Local labor supply and demand, which can affect salary and wage rates
- Local inflationary, recessionary and employment trends, which can affect resident incomes and therefore the amount of rental income
- Inflationary pressure on utility rates, supplies and other costs
- Fluctuation in local area market rents

**FINANCIAL CONTACT**

The individual to be contacted regarding this report is Karlene Navarre, Executive Director for the Housing Authority City of Kennewick.

Specific requests may be submitted to:

Karlene Navarre, Executive Director,  
Housing Authority City of Kennewick  
1915 W 4<sup>th</sup> Place  
Kennewick, WA 99336



MCAG # 1497

HOUSING AUTHORITY CITY OF KENNEWICK  
STATEMENT OF NET ASSETS  
June 30, 2007

	TOTAL
<u>ASSETS</u>	
Current Assets	
Cash & Cash Equivalents	\$1,065,534
Cash & Cash Equivalents - Restricted	\$2,872,109
Accounts Receivable, net	\$10,980
Accounts Receivable, Other Government	\$7,730
Accounts Receivable, HUD	\$24,080
Fraud Recovery	\$411
Prepays	\$9,628
TOTAL CURRENT ASSETS	<u>\$3,990,472</u>
Non-Current Assets:	
Land	\$84,512
Building and Improvements, net	\$13,118,765
Furniture, Equipment & Machinery - Dwellings	\$250,978
Furniture, Equipment & Machinery - Admin.	\$344,762
Accumulated Depreciation	(\$5,844,155)
Construction in Progress	\$823,474
Total Capital Assets (Net)	\$8,778,336
TOTAL NONCURRENT ASSETS	<u>\$8,778,336</u>
TOTAL ASSETS	<u>\$12,768,808</u>
<u>LIABILITIES</u>	
Current Liabilities:	
Accounts Payable	\$15,707
Compensated Absences	\$16,423
Tenant Security Deposits	\$33,530
Deferred Revenue	\$1,038
Current portion of LT Debt-Mortgage Revenue	\$8,476
Other current Liabilities	\$20,524
TOTAL CURRENT LIABILITIES	<u>\$95,697</u>
NonCurrent Liabilities:	
LT Debt, Net of Current-Capital Projects/Mortgage	\$271,802
LT Debt - Housing Trust Fund Recoverable Grant	\$268,183
LT Debt - Home Loan Forgivable Loan	\$82,238
Compensated Absences NonCurrent	\$24,634
Noncurrent Liabilities-Other	\$68,761
TOTAL NONCURRENT LIABILITIES	<u>\$715,617</u>
TOTAL LIABILITIES	<u>\$811,315</u>
<u>NET ASSETS</u>	
Invested in CapitalAssets, Net of Related Debt	\$8,147,637
Restricted Net Assets	
Tenant Security Deposits	\$29,686
FSS Program Restricted	\$79,460
L F Scholarship Program	\$7,954
Mitchell Manor Operating Reserve	\$6,163
HCV Program Restricted Cash	\$2,748,846
Unrestricted Net Assets	\$937,747
TOTAL NET ASSETS	<u>\$11,957,493</u>

The notes to the financial statements are an integral part of this statement

HOUSING AUTHORITY CITY OF KENNEWICK  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2007

OPERATING REVENUES:	
Tenant Rent Revenue	\$338,772
Other Operating Revenue	<u>\$38,635</u>
Total Operating Revenues	<u>\$377,407</u>
OPERATING EXPENSES:	
Administrative Salaries	\$353,150
Auditing Fees	\$20,834
Compensated Absences	\$18,944
Employee Benefits Contribution	\$171,240
Other Operating - Administrative	\$150,255
Tenant Services - Other	\$16,778
Water	\$56,437
Electricity	\$33,777
Gas	\$4,041
Other Utilities Expense	\$33,428
Ordinary Maint & Oper - Labor	\$145,019
Ordinary Maint & Oper - Material/other	\$77,297
Ordinary Maint & Oper - Contract Costs	\$43,054
Insurance Premiums	\$27,508
Other General Expense	\$2,775
Bad Debt - Tenants	\$14,984
Interest Expense	\$18,796
Depreciation	\$315,707
Housing Assistance Payments REACH/HOPWA	\$2,066,151
Housing Assistance Payments HCV Section 8	<u>\$31,682</u>
Total operating expenses	<u>\$3,601,857</u>
OPERATING INCOME (LOSS)	<u>(\$3,224,450)</u>
NONOPERATING REVENUES (EXPENSES):	
HUD Operating Subsidies	\$4,130,328
Other Government Grants	\$71,426
Interest and Dividend Income Non-restricted	\$35,184
Fraud Recovery	\$3,084
Gains (Losses) on Capital Asset Disposition	\$753
Other Nonoperating Revenue	\$74,966
Interest and Dividend Income Restricted	<u>\$94,246</u>
Total Nonoperating Revenues (Expenses)	<u>\$4,409,987</u>
Income Before Contributions, Transfers, Extraordinary and Special Items	\$1,185,537 \$0
Capital Contributions	\$0
HUD Capital Grant	\$251,814
Extraordinary/Special Items	\$0
CHANGE IN NET ASSETS	<u>\$1,437,351</u>
Prior Period Adjustments	\$327,510
BEGINNING TOTAL NET ASSETS, 6/30/06	<u>\$10,192,632</u>
ENDING TOTAL NET ASSETS, 6/30/07	<u>\$11,957,493</u>

The notes to the financial statements are an integral part of this statement

Housing Authority City of Kennewick  
 Statement of Cash Flows  
 For the Year Ended June 30, 2007

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from tenants	\$366,996
Payments to suppliers	(\$492,147)
Payments to employees	(\$643,550)
Payments for Housing Assistance	(\$2,097,833)
<b>Net cash provided/(used) by operating activities</b>	<b>-2,866,534</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Operating subsidies and grants	\$4,130,328
Other government grants	\$71,426
Other	\$91,886
<b>Net cash provided/(used) from noncapital finance activities</b>	<b>\$4,293,640</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Capital grants received	250,909
Purchases of capital assets	-281,119
Principal/Interest paid on capital debt	-22,202
<b>Net cash provided /(used) from capital financing activities</b>	<b>-\$52,412</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Tenant Security Deposit Increase	\$4,170
Interest on deposits	\$129,430
<b>Net cash provided (used) from investing activities</b>	<b>\$133,600</b>
Net increase (decrease) in cash and cash equivalents	\$1,508,294
Cash & cash equivalents at beginning of year	\$2,429,349
Cash & cash equivalents at end of year	\$3,937,643

Reconciliation of operating income to net cash provided by operating activities:

<b>Adjustment to reconcile operating income to net cash provided by operating activities:</b>	
<b>Operating income/(loss)</b>	<b>-3,224,450</b>
Cash Provided (used) by operating activities:	
Depreciation expense	315,707
Changes in assets and liabilities:	
Accounts receivable Net of Allowance Doubtful Acct	9,842
Accounts Payable	7,935
Prepays/Deferred Revenue	-1,745
Compensated Absences	18,945
Wages/Payroll Taxes Payable	7,232
<b>Net cash provided by operating activities:</b>	<b>-2,866,534</b>

The notes to the financial statements are an integral part of this statement

**MCAG # 1497**      Housing Authority City of Kennewick  
Statement of Cash Flow-Addendum  
For the Year Ended June 30, 2007

**NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES**

Home Loan reduction of Long Term Liability Forgivable Loan	\$4,837
--	---------

**Housing Authority City of Kennewick**  
Notes to the Financial Statements  
For the Year Ended June 30, 2007

These notes are an integral part of the accompanying financial statements.

**Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Housing Authority City of Kennewick conform to generally accepted accounting principles (GAAP) as applicable to proprietary funds of governments. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. In June 1999, GASB approved Statement 34, *Basic Financial Statements - and Management Discussion and Analysis - for State and Local Governments*. This and consecutive statements are reflected in the accompanying financial statements (including notes to financial statements). The following is a summary of the most significant policies (including identification of those policies which result in departures from generally accepted accounting principles.)

a. Reporting Entity

The Housing Authority City of Kennewick is a municipal corporation governed by an appointed six-member board. As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity. (The Housing Authority City of Kennewick has no component units.)

b. Basis Of Accounting And Presentation

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

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

Programs

The Housing Authority reports the following major enterprise programs:

The Low Income Housing program is comprised of 190 HUD subsidized public housing units.

The Capital Fund Program is an annual fund for modernization of selected public housing units and other capital needs for public housing.

The Local Program is comprised of 2 market rate units owned by the Housing Authority, the 6 unit Mitchell Manor project and

The Section 8 program has 542 Housing Choice Vouchers

Proprietary funds are used to account for activities that are operated in a manner similar to private enterprise business. Under this method revenues are recognized when earned and expenses are recognized when incurred. Capital asset purchases are capitalized and long-term liabilities are accounted for in the fund.

The Housing Authority City of Kennewick applies GASB pronouncements and has not elected to apply Financial Accounting Standard Board (FASB) statements and Accounting Principles Board (APB) pronouncements issued after November 30, 1989.

c. Cash and Cash Equivalents

It is the Housing Authority's policy to invest all temporary cash surpluses. At June 30, 2007, the Housing Authority was holding \$3,937,643 in short-term residual investments of surplus cash. This amount is classified on the statement of net assets as cash and cash equivalents.

For purposes of the statement of cash flows, the Housing Authority considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

d. Capital Assets and Depreciation See Note 4

e. Restricted Assets

In accordance with bond resolutions (and certain related agreements) separate restricted accounts are required to be established. The assets held in these accounts are restricted for specific uses, including (construction,) debt service and other reserve requirements. Restricted resources currently include the following:

	Ending Balance
Cash and Investments - Family Self Sufficiency Scholarship	\$32,307
Cash and Investments - Section 8 HCV Program	\$2,795,999
Security Deposits - tenants	\$29,686
Mitchell Manor Operating Reserve	\$7,954
Mitchell Manor Replacement Reserves	\$6,163
Total	\$2,872,109

f. Receivables

Tenant accounts receivable consist of amounts owed from tenants for housing services including amounts owed for which billings have not been prepared. When all efforts to collect directly from the tenant fail, the account is turned over to a collection agency and the account is charged to collection loss.

g. Inventories

Inventories are valued by the FIFO method which approximates the market value.

h. Investments - See Note 3

i. Operating

The Authority reports operating revenues as defined in GASB 9. Operating Revenues result from fees and charges in providing services in connection with the ongoing operations of providing low income housing. Operating subsidies and grants are reported as non-operating revenues and are presented as cash flows from non-capital financing activities in the statement of cash flows. Operating expenses are those expenses that are directly incurred in the operation of providing low income housing.

j. Compensated Absences

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

Sick pay is accrued at the rate of 8 hours per month for each full-time employee (exempt or non-exempt). Sick leave may accumulate up to 90 hours. Upon resignation, any outstanding sick leave is lost.

j. Cont. Vacation pay accumulates according to the following schedule:

Non-exempt employee	1-5 years	8 hrs./mo.	(to maximum of 96 hrs.)
	6-10 years	10 hrs./mo.	(to maximum of 120 hrs.)
	11-15 years	12 hrs./mo.	(to maximum of 144 hrs.)
Exempt employee	15+ years	14 hrs./mo.	(to maximum of 168 hrs.)
	1-15 years	12 hrs./mo.	(No Maximum)
	15+ years	14 hrs./mo.	(No Maximum)

Vacation pay is only payable to Exempt employees at the Executive Director's discretion upon resignation, if leaving the Housing Authority in good standing, retirement, or death. Non-Exempt employees are not entitled to vacation pay out at termination.

**Note 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

There were no violations of finance-related, legal or contractual provisions.

**Note 3 - DEPOSITS AND INVESTMENTS**

A. Deposits

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

B. Investments

The Housing Authority's investments are recorded at fair market value, which approximates historical

The Housing Authority's savings and certificates of deposits are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institutions collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). Per HUD directives, there is an executed general depository agreement (HUD form -51999 kept on file for each bank the Housing Authority deposits with.

As of the year ended June 30, 2007, the Housing Authority had no funds considered investments.

**Note 4 - CAPITAL ASSETS AND DEPRECIATION**

A. Major expenses for capital assets, including capital leases and major repairs that increase useful lives, are capitalized. Board Resolution #865 (10/26/2004) established a capitalization policy amount of \$3,000. Maintenance repairs and minor renewals are accounted for as expenses when incurred. Obligations under capital leases are disclosed in Note 7.

All capital assets are valued at historical cost or estimated historical cost, where historical cost is not known assets are recorded at estimated historical cost. Donations are recorded at fair market value at the time of donation or the

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

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

B. Capital asset activity for the year ended June 30, 2007 was as follows.

	Beginning Balance 07/01/2006	Increases	Decreases	Ending Balance 6/30/2007
Capital assets, not being depreciated:				
Land	\$84,512	0		84,512
Construction in Progress	\$603,344	251,814	31,684	855,158
	<b>\$687,856</b>	<b>\$283,498</b>	<b>\$31,684</b>	<b>\$939,670</b>
<b>Total capital assets, not being depreciated</b>				
Capital assets, being depreciated:				
Buildings	\$13,118,765			13,118,765
Furn, Equip & Mach-Dwellings	\$250,978			250,978
Furn, Equip & Mach-Administration	\$283,773	60,989		344,762
	<b>\$13,653,516</b>	<b>60,989</b>	<b>0</b>	<b>13,714,505</b>
<b>Total capital assets being depreciated</b>				
Less accumulated depreciation for:				
Buildings				0
Furn, Equip & Mach	-\$5,528,449	-315,706		-5,844,155
<b>Total accumulated depreciation</b>	<b>-\$5,528,449</b>	<b>-315,706</b>	<b>0</b>	<b>-5,844,155</b>
<b>Total capital assets, being depreciated, net</b>	<b>\$8,125,067</b>	<b>-\$254,717</b>	<b>\$0</b>	<b>\$7,870,350</b>
				0
<b>TOTAL CAPITAL ASSETS, NET</b>	<b>\$8,812,923</b>	<b>\$28,781</b>	<b>\$31,684</b>	<b>\$8,810,020</b>

**Note 5 - CONSTRUCTION IN PROGRESS**

Construction in progress represents expenses to date on Public Housing Capital Fund projects whose authorizations total \$823,474. Of the committed balance of \$823,474, the authority will be required to raise \$0 in future financing.

**Note 6 - SHORT TERM DEBT**

The Housing Authority did not have any short term debt.

**Note 7 - LEASE COMMITMENTS**

The Housing Authority of Kennewick is committed under various leases for 2007. These leases are considered operating leases for accounting purposes. Lease expenses for the year ended 6/30/2007 amounted to \$ 8,907. Future minimum rental commitments for these leases are as follows:

<u>Fiscal year ending</u>	
2008	\$8,907
2009	\$8,907
2010	\$7,324
Total	\$25,137

**Note 8 - LONG-TERM DEBT AND LIABILITIES**

A. Long-Term Debt

- a.) \$268,183 - WA Housing Trust recoverable Grant  
 ( WA Housing Trust recoverable grant is conditional on Mitchell Manor project providing low-income households with physically disabled individuals who at the time of initial occupancy have gross annual incomes at or below 50% of the median income for the Tri-Cities MSA, as adjusted annually by HUD. Rents charged to tenants may not exceed 30% of the monthly income of the target population. The length of commitment to serve the target population will be forty year.)



- b.) The Mitchell Manor project has an outstanding note payable to Housing Authority's Business Activities in the amount of \$75,600, payable in increments of \$5,400/year.
- c.) The Housing Authority has the following Other Non Current Liabilities:
  - \$ 2,201 Unclaimed Property
  - \$5,609 - A/R REACH Program
  - \$47,153- FSS Escrow
  - \$13,798 - Mitchell Manor Reserves

(A capital contribution, in the form of a recoverable grant, was received from Federal Home Loan Bank of Cincinnati, in the amount of \$84,000 contingent on the Mitchell Manor providing low-income households with a disabled person in the household and who at the initial occupancy have gross annual income at or below the Tri Cities, WA, MSA adjusted for family size, as estimated by HUD, for a commitment period of fifteen (15) years.)

- d.) Real Estate Mortgages

The Authority has long term loans secured by capital assets. These loans were used to acquire capital assets that provide low income housing. They are being repaid from revenues generated by the authority.

Purpose	Original Amt	Issue Date	Interest Rate	Amount Outstanding
120 S Benton St	\$136,000	7/1/2004	5.495	\$133,794
912 S Date	\$73,663	10/01/02	7.00	\$71,726
306 E 9th PI	\$71,773	05/01/04	6.38	\$69,921
Home Forgivable	\$96,750	01/21/04	0.00	\$87,076
<b>Total</b>	<b>\$378,186</b>			<b>\$362,517</b>

The \$96,750 Home Loan is forgivable at a rate of 5% (\$4,837) per year, contingent on KHA to provide housing to low-income households who have a disabled person in the household who at initial occupancy have gross annual incomes at or below 50% of the local area median income for the Tri-Cities MSA adjusted for family size, as estimated from time to time by HUD, for a commitment period of twenty (20) years.

- e.) Service Requirements to maturity for mortgages are as follows:

Year Ending June 30	Principal	Interest
2008	8,477	18,603
2009	8,756	18,323
2010	8,994	18,066
2011	9,388	18,285
2012	9,652	17,927
2013-2017	57,281	68,201
2018-2022	61,001	65,894
2023-2027	66,575	63,001
2028-2032	69,221	52,271
2033-2037	63,172	21,946
<b>Total</b>	<b>362,517</b>	<b>362,517</b>

(Arbitrage does not apply)

f.) Changes in Long Term Liabilities

During the year ended June 30, 2007, the following changes occurred in long-term liabilities:

	Beg Bal 7/1/06	Additions 2006-2007	Reductions 2006-2007	Ending Balance	Due Within One Year
Home-Forgivable loan	\$91,913	\$0	\$4,837	\$87,075	\$4,837
Mitchell Manor Mortgage	\$135,260	\$0	\$1,466	\$133,794	\$1,546
Date Street House	\$72,728	\$0	\$1,002	\$71,726	\$1,074
9th Place House	\$70,877	\$0	\$956	\$69,921	\$1,018
Compensated Absences	\$0	\$24,634	\$0	\$24,634	\$16,423
<b>Total</b>	<b>\$370,778</b>	<b>\$24,634</b>	<b>\$8,261</b>	<b>\$387,150</b>	<b>\$24,899</b>

**Note 9 - PENSION PLANS**

Substantially all Housing Authority's full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380. The following disclosures are made pursuant to GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers*.

**Public Employees' Retirement System (PERS) Plans 1, 2, and 3**

Plan Description

PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a combination defined benefit/defined contribution plan. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts (other than judges in a judicial retirement system); employees of legislative committees; community and technical colleges, college and university employees (not in national higher education retirement programs); judges of district and municipal courts; and employees of local governments.

PERS participants who joined the system by September 30, 1977, are Plan 1 members. Those who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercise an option to transfer their membership to Plan 3. PERS participants joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS Plan 3. PERS defined benefit retirement benefits are financed from a combination of investments earnings and employer and employee contributions. PERS retirement benefit provisions are established in state

Plan 1 retirement benefits are vested after an employee completes five years of eligible service. Plan 1 members are eligible for retirement at any age after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The annual pension is 2 percent of the average final compensation per year of service, capped at 60 percent. The average final compensation is based on the greatest compensation during any 24 eligible consecutive compensation months. If qualified, after reaching the age of 66 a cost-of-living allowance is granted based on years of service credit and is capped at 3 percent annually.

Plan 2 retirement benefits are vested after an employee completes five years of eligible service. Plan 2 members may retire at the age of 65 with five years of service, or at the age of 55 with 20 years of service, with an allowance of 2 percent of the average final compensation per year of service. The average final compensation is based on the greatest compensation during any eligible consecutive 60-month period. Plan 2 retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. There is no cap on years of service credit; and a cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at 3 percent annually.

Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. The defined benefit portion provides a benefit calculated at 1 percent of the average final compensation per year of service. The average final compensation is based on the greatest compensation during any eligible consecutive 60-month period. Plan 3 members become eligible for retirement if they have: at least ten years of service; or five years including twelve months that were earned after age 54; or five service credit years earned in PERS Plan 2 prior to June 1, 2003. Plan 3 retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. There is no cap on years of service credit; and Plan 3 provides the same cost-of-living allowance as Plan 2. The defined contribution portion can be distributed in accordance with an option selected by the member, either as a lump sum or pursuant to other options authorized by the Employee Retirement Benefits Board.

There are 1,155 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of September 30, 2005:

Active	155,578
Inactive	91,176
<b>Total</b>	<b>246,754</b>

**Funding Policy**

Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent and do not vary from year to year. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature.

PERS Plan 3 defined contribution is a non-contributing plan for employers. Employees who participate in the defined contribution portion of PERS Plan 3 do not contribute to the defined benefit portion of PERS Plan 3. The Employee Retirement Benefits Board set Plan 3 employee contribution rates. Six rates options are available ranging from 5 to 15 percent; two of the options are graduated rates dependent on the employee's age. The methods used to determine the contribution requirements are established under state statute in accordance with chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of June 30, 2007, were as follows:

	<b>PERS Plan 1</b>	<b>PERS Plan 2</b>	<b>PERS Plan 3</b>
Employer*	5.46%	5.46%	5.46%
Employee	6.00%	3.50%	***

\* The employer rates include the employer administrative expense fee currently set at 0.22%

\*\* Plan 3 defined benefit portion only.

\*\*\* Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

Both the Housing Authority and the employees made the required contributions. The Housing Authority's required contributions for the years indicated were as follows:

	<b>PERS Plan 1</b>	<b>PERS Plan 2</b>	<b>PERS Plan 3</b>
6/30/2007	\$ 2,369.16	\$ 25,742.06	\$0.00
6/30/2006	\$ 1,268.09	\$ 13,259.46	\$0.00
6/30/2005	\$ 733.44	\$ 6,979.16	\$0.00

**Note 10 - MAJOR COMPONENT UNIT INFORMATION**

There were no major component units

**Note 11 - MATERIAL RELATED PARTY TRANSACTIONS**

There were no related party transactions for the year.

**Note 12 - ACCOUNTING CHANGES**

No significant changes

**Note 13 - PRIOR PERIOD ADJUSTMENTS And CORRECTION OF ERRORS**

\$301,907 adjustment are for an accounts payable to HUD that is no longer applicable from 2004, and the \$25,603 2004 HUD HAP grant settlement received in 2006.

**Note 14 - CONTINGENCIES AND LITIGATION**

The Housing Authority participates in a number of federal-assisted programs. These grants are subject to audit by the grantors or their representatives. Such audits could result in requests for reimbursement to grantor agencies for expenditures disallowed under the terms of the grants. Housing Authority management believes that such a disallowances, if any, will be immaterial.

**Note 15 - SUBSEQUENT EVENTS**

None.

**Note 16 - JOINT VENTURES**

None.

**Note 17 - RISK MANAGEMENT**

A. HARRP (Housing Authorities Risk Retention Pool)

The Housing Authority of the City Kennewick is a member of the Housing Authorities Risk Retention Pool (HARRP). Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Inter local Cooperation Act), fifty-five public housing authorities in the states of Washington, Oregon and California originally formed HARRP in March 1987. HARRP was created for the purposes of providing a pooling mechanism for jointly purchasing insurance, jointly self insuring, and/or jointly contracting for risk management services. HARRP currently has a total of ninety members, of which thirty-seven are Washington entities.

New members originally contract for a three year term, and thereafter automatically renew on an annual basis. Members may quit (after completion of the three year commitment) upon giving notice to HARRP prior to their renewal date. HARRP can terminate the members after giving a sixty (60) day notice prior to the renewal date. Termination does not relieve a former member from its unresolved losses incurred during membership.

General and Automobile Liability coverages are written on an occurrence basis, without member deductibles. Errors & Omissions coverage (which includes Employment Practices Liability) is written on a claims made basis, and the members are responsible for 10% of the incurred costs of the claims. (Due to special underwriting circumstances, some members may be subject to a greater E&O co-payment.) The Property coverage offered by HARRP is on a replacement cost basis with deductibles ranging from \$1,000 to \$25,000. Fidelity coverage, with limits of \$100,000 (with options up to \$500,000) for employee dishonesty and forgery or alteration and \$10,000 for theft are also provided with deductibles the same as for Property.

Coverage limits for General Liability, Errors & Omissions and Property are \$3,000,000 per occurrence and \$3,000,000 annual aggregate. (Some members have chosen greater Property limits for higher valued properties.) Property fidelity and crime are reinsured for losses of \$1,700,000 in excess of \$300,000 for each Housing Authority. Limits for Automobile Liability are \$2,000,000/\$2,000,000. HARRP Self insures \$300,000 per claim, purchases reinsurance for the remaining casualty limits and for \$1,700,000 of the property limits. The remaining property limits are purchases from Saint Paul Travelers Insurance Company. The HARRP Board of Directors determines the limits and coverage terms. in its sole discretion.

HARRP provides loss control services, claim investigation and adjusting, litigation management and defense with in-house staff and retained third party contractors.

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

**Unpaid Losses and Loss Adjustment Expenses and Incurred but not Reported Claims \***

	<u>2006</u>	<u>2005</u>
<b>Unpaid losses and loss adjustment expenses at beginning of year</b>	<u>\$ 4,349,219</u>	<u>\$ 3,625,522</u>
<b>Incurred losses and loss adjustment expenses:</b>		
Provision for insured events of the current year	3,069,987	3,588,144
Increase (decrease) in provision for insured events of prior years	<u>(508,202)</u>	<u>208,581</u>
<b>Total incurred losses and loss adjustment expenses</b>	<u><b>2,561,785</b></u>	<u><b>3,796,725</b></u>
<b>Payments:</b>		
Losses and loss adjustment expenses attributable to insured events of the current year	1,546,696	1,391,001
Losses and loss adjustment expenses attributable to insured events of prior years	<u>2,689,618</u>	<u>1,682,027</u>
<b>Total payments</b>	<u><b>4,236,314</b></u>	<u><b>3,073,028</b></u>
<b>Total unpaid losses and loss adjustment at end of year</b>	<u><b>\$ 2,674,690</b></u>	<u><b>\$ 4,349,219</b></u>

\* from HAARPS (Housing Authority Risk Retention Pool and Subsidiary) 2006 Annual Report

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2007

1	2	3	4	5	
Federal Agency Name/Pass-through Agency Name	Federal Program Name	CFDA Number	Other Identification Number	From Pass-Through Awards	From Direct Awards
HUD/Spokane County	Housing Opportunities for Persons with Aids	14.241	WA-H05-0019	\$33,784	
	<b>US Dept of HUD Direct Awards:</b>				
	Public & Indian Housing	14.850	WA01200107D		\$144,483
	Public & Indian Housing	14.850	WA01200106D		\$161,092
	Section 8 HCV	14.871	WA012VO		\$2,373,216
	Capital Fund Program	14.872	WA19P012501-04		\$9,035
	Capital Fund Program	14.872	WA19P012501-05		\$106,237
	Capital Fund Program	14.872	WA19P012501-06		\$225,268
	Total Capital Fund Program				\$340,540
	<b>Total US Dept of HUD Direct Awards:</b>				\$3,019,331
	<b>Total Expenditures of Federal Awards</b>			<b>\$33,784</b>	<b>\$3,019,331</b>

**MCAG # 1497**

**Housing Authority City of Kennewick**

Notes to the Schedule of Expenditures of Federal Awards

July 1, 2006 through June 30, 2007

**NOTE 1 - BASIS OF ACCOUNTING**

The Schedule of Expenditures of Federal Awards is prepared on the same basis of accounting as the Housing Authority's financial statements.

In accordance with generally accepted accounting principles the Housing Authority uses the full-accrual basis of accounting: revenues are recognized when earned; and expenses are recognized when incurred.

**NOTE 2 – PROGRAM COSTS**

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

Line Item No.	Account Description	Business Activities	Housing Opportunities for Persons with AIDS	Low Rent Public Housing	Housing Choice Vouchers	Housing Capital Fund Program	Total
111	Cash - Unrestricted	\$165,918	\$3,525	\$815,156	\$80,935	\$0	\$1,065,534
113	Cash - Other Restricted	\$46,424	\$0	\$0	\$2,795,999	\$0	\$2,842,423
114	Cash - Tenant Security Deposits	\$2,200	\$0	\$27,486	\$0	\$0	\$29,686
100	Total Cash	\$214,542	\$3,525	\$842,642	\$2,876,934	\$0	\$3,937,643
122	Accounts Receivable - HUD Other Projects	\$0	\$0	\$24,080	\$0	\$0	\$24,080
124	Accounts Receivable - Other Government	\$5,609	\$2,121	\$0	\$0	\$0	\$7,730
126	Accounts Receivable - Tenants - Dwelling Rents	\$880	\$0	\$10,100	\$0	\$0	\$10,980
126.1	Allowance for Doubtful Accounts - Dwelling Rents	\$0	\$0	\$0	\$0	\$0	\$0
126.2	Allowance for Doubtful Accounts - Other	\$0	\$0	\$0	\$0	\$0	\$0
128	Fraud Recovery	\$0	\$0	\$0	\$411	\$0	\$411
128.1	Allowance for Doubtful Accounts - Fraud	\$0	\$0	\$0	\$0	\$0	\$0
120	Total Receivables, net of allowances for doubtful accounts	\$6,489	\$2,121	\$34,180	\$411	\$0	\$43,201
142	Prepaid Expenses and Other Assets	\$0	\$0	\$9,628	\$0	\$0	\$9,628
144	Interprogram Due From	\$75,694	\$0	\$22,093	\$290	\$0	\$98,077
150	Total Current Assets	\$296,725	\$5,646	\$908,543	\$2,877,635	\$0	\$4,088,549
161	Land	\$34,265	\$0	\$50,247	\$0	\$0	\$84,512
162	Buildings	\$939,081	\$0	\$12,179,684	\$0	\$0	\$13,118,765
163	Furniture, Equipment & Machinery - Dwellings	\$0	\$0	\$250,978	\$0	\$0	\$250,978
164	Furniture, Equipment & Machinery - Administration	\$10,507	\$0	\$324,224	\$10,031	\$0	\$344,762
166	Accumulated Depreciation	(\$97,374)	\$0	(\$5,736,750)	(\$10,031)	\$0	(\$5,844,155)
167	Construction In Progress	\$0	\$0	\$0	\$0	\$823,474	\$823,474
160	Total Fixed Assets, Net of Accumulated Depreciation	\$886,479	\$0	\$7,068,383	\$0	\$823,474	\$8,778,336
180	Total Non-Current Assets	\$886,479	\$0	\$7,068,383	\$0	\$823,474	\$8,778,336
190	Total Assets	\$1,183,204	\$5,646	\$7,976,926	\$2,877,635	\$823,474	\$12,866,885
312	Accounts Payable <= 90 Days	\$15	\$0	\$15,333	\$359	\$0	\$15,707
321	Accrued Wage/Payroll Taxes Payable	\$0	\$0	\$18,976	\$0	\$0	\$18,976
322	Accrued Compensated Absences - Current Portion	\$493	\$0	\$10,437	\$5,494	\$0	\$16,424
325	Accrued Interest Payable	\$1,548	\$0	\$0	\$0	\$0	\$1,548
341	Tenant Security Deposits	\$2,200	\$0	\$31,330	\$0	\$0	\$33,530
342	Deferred Revenues	\$0	\$0	\$1,038	\$0	\$0	\$1,038
343	Current Portion of Long-term Debt - Capital Projects/Mortgage Revenue Bonds	\$8,476	\$0	\$0	\$0	\$0	\$8,476
347	Interprogram Due To	\$77,303	\$0	\$384	\$20,390	\$0	\$98,077
310	Total Current Liabilities	\$90,035	\$0	\$77,498	\$26,243	\$0	\$193,776
351	Long-term Debt, Net of Current - Capital Projects/Mortgage Revenue Bonds	\$622,223	\$0	\$0	\$0	\$0	\$622,223
354	Accrued Compensated Absences - Non Current	\$739	\$0	\$15,654	\$8,240	\$0	\$24,633
353	Noncurrent Liabilities - Other	\$13,797	\$5,609	\$2,201	\$47,153	\$0	\$68,760
350	Total Noncurrent Liabilities	\$636,759	\$5,609	\$17,855	\$55,393	\$0	\$715,616
300	Total Liabilities	\$726,794	\$5,609	\$95,353	\$81,636	\$0	\$909,392
508	Total Contributed Capital	\$0	\$0	\$0	\$0	\$0	\$0
508.1	Invested in Capital Assets, Net of Related Debt	\$255,780	\$0	\$7,068,383	\$0	\$823,474	\$8,147,637
511	Total Reserved Fund Balance	\$0	\$0	\$0	\$0	\$0	\$0
511.1	Restricted Net Assets	\$48,624	\$0	\$27,486	\$2,795,999	\$0	\$2,872,109
512.1	Unrestricted Net Assets	\$152,006	\$37	\$785,704	\$0	\$0	\$937,747
513	Total Equity/Net Assets	\$456,410	\$37	\$7,881,573	\$2,795,999	\$823,474	\$11,957,493



600	Total Liabilities and Equity/Net Assets	\$1,183,204	\$5,646	\$7,976,926	\$2,877,635	\$823,474	\$12,866,885
703	Net Tenant Rental Revenue	\$15,233	\$0	\$323,539	\$0	\$0	\$338,772
704	Tenant Revenue - Other	\$25	\$0	\$38,610	\$0	\$0	\$38,635
705	Total Tenant Revenue	\$15,258	\$0	\$362,149	\$0	\$0	\$377,407
706	HUD PHA Operating Grants	\$0	\$0	\$305,575	\$3,736,027	\$88,726	\$4,130,328
706.1	Capital Grants	\$0	\$0	\$0	\$0	\$251,814	\$251,814
708	Other Government Grants	\$37,642	\$33,784	\$0	\$0	\$0	\$71,426
711	Investment Income - Unrestricted	\$3,936	\$45	\$31,203	\$0	\$0	\$35,184
714	Fraud Recovery	\$0	\$0	\$0	\$3,084	\$0	\$3,084
715	Other Revenue	\$5,498	\$0	\$69,468	\$0	\$0	\$74,966
716	Gain/Loss on Sale of Fixed Assets	\$0	\$0	\$753	\$0	\$0	\$753
720	Investment Income - Restricted	\$0	\$0	\$0	\$94,246	\$0	\$94,246
700	Total Revenue	\$62,334	\$33,829	\$769,148	\$3,833,357	\$340,540	\$5,039,208
911	Administrative Salaries	\$9,367	\$0	\$136,022	\$159,245	\$48,516	\$353,150
912	Auditing Fees	\$630	\$0	\$13,124	\$7,080	\$0	\$20,834
914	Compensated Absences	\$596	\$0	\$11,979	\$6,369	\$0	\$18,944
915	Employee Benefit Contributions - Administrative	\$2,844	\$0	\$48,601	\$58,001	\$11,209	\$120,655
916	Other Operating - Administrative	\$15,288	\$0	\$58,979	\$56,768	\$19,220	\$150,255
921	Tenant Services - Salaries	\$0	\$0	\$4,200	\$0	\$0	\$4,200
922	Relocation Costs	\$0	\$0	\$0	\$0	\$133	\$133
924	Tenant Services - Other	\$0	\$0	\$6,309	\$6,136	\$0	\$12,445
931	Water	\$2,264	\$0	\$54,173	\$0	\$0	\$56,437
932	Electricity	\$52	\$0	\$33,725	\$0	\$0	\$33,777
933	Gas	\$21	\$0	\$4,020	\$0	\$0	\$4,041
938	Other Utilities Expense	\$984	\$0	\$32,444	\$0	\$0	\$33,428
941	Ordinary Maintenance and Operations - Labor	\$4,739	\$0	\$140,280	\$0	\$0	\$145,019
942	Ordinary Maintenance and Operations - Materials and Other	\$1,458	\$0	\$66,191	\$0	\$9,648	\$77,297
943	Ordinary Maintenance and Operations - Contract Costs	\$196	\$0	\$31,521	\$8,106	\$0	\$39,823
945	Employee Benefit Contributions - Ordinary Maintenance	\$0	\$0	\$50,585	\$0	\$0	\$50,585
953	Protective Services - Other	\$0	\$0	\$3,231	\$0	\$0	\$3,231
961	Insurance Premiums	\$275	\$0	\$21,873	\$5,360	\$0	\$27,508
962	Other General Expenses	\$2,775	\$0	\$0	\$0	\$0	\$2,775
964	Bad Debt - Tenant Rents	\$0	\$0	\$14,984	\$0	\$0	\$14,984
967	Interest Expense	\$18,796	\$0	\$0	\$0	\$0	\$18,796
969	Total Operating Expenses	\$60,285	\$0	\$732,241	\$307,065	\$88,726	\$1,188,317
970	Excess Operating Revenue over Operating Expenses	\$2,049	\$33,829	\$36,907	\$3,526,292	\$251,814	\$3,850,891
973	Housing Assistance Payments	\$0	\$31,682	\$0	\$2,066,151	\$0	\$2,097,833
974	Depreciation Expense	\$31,303	\$0	\$284,404	\$0	\$0	\$315,707
900	Total Expenses	\$91,588	\$31,682	\$1,016,645	\$2,373,216	\$88,726	\$3,601,857
1010	Total Other Financing Sources (Uses)	\$0	\$0	\$0	\$0	\$0	\$0
1000	Excess (Deficiency) of Total Revenue Over (Under) Total Expenses	(\$29,254)	\$2,147	(\$247,497)	\$1,460,141	\$251,814	\$1,437,351
1102	Debt Principal Payments - Enterprise Funds	\$0	\$0	\$0	\$0	\$0	\$0
1103	Beginning Equity	\$483,554	\$0	\$8,097,386	\$1,008,348	\$603,344	\$10,192,632
1104	Prior Period Adjustments, Equity Transfers and Correction of Errors	\$0	\$0	\$31,684	\$327,510	(\$31,684)	\$327,510
1120	Unit Months Available	96	80	2,233	6,504	0	8,913
1121	Number of Unit Months Leased	94	80	2,206	6,485	0	8,865
1117	Administrative Fee Equity	\$0	\$0	\$0	(\$43,687)	\$0	(\$43,687)
1118	Housing Assistance Payments Equity	\$0	\$0	\$0	\$2,839,686	\$0	\$2,839,686



## **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.

Our mission is to work in cooperation with our audit clients and citizens as an advocate for government accountability. 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.

The State Auditor's Office has 300 employees who are located around the state to deliver our services effectively and efficiently. Approximately 65 percent of our staff are certified public accountants or hold other certifications and advanced degrees.

Our regular 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. We also perform fraud and whistleblower investigations. In addition, we have the authority to conduct performance audits of state agencies and local governments.

The results of our audits are widely distributed through a variety of reports, which are available on our Web site. We continue to refine our reporting efforts to ensure the results of our audits are useful and understandable.

We take our role as partners in accountability seriously. We provide training and technical assistance to governments and have an extensive program to coordinate audit efficiency and to ensure high-quality audits.

**State Auditor**  
**Chief of Staff**  
**Chief Policy Advisor**  
**Director of Administration**  
**Director of Audit**  
**Director of Performance Audit**  
**Director of Special Investigations**  
**Director for Legal Affairs**  
**Local Government Liaison**  
**Communications Director**  
**Public Records Officer**  
**Main number**  
**Toll-free hotline for government efficiency**

**Brian Sonntag, CGFM**  
**Ted Rutt**  
**Jerry Puggetti**  
**Doug Cochran**  
**Chuck Pfeil, CPA**  
**Linda Long, CPA, CGFM**  
**Jim Brittain, CPA**  
**Jan Jutte**  
**Mike Murphy**  
**Mindy Chambers**  
**Mary Leider**  
**(360) 902-0370**  
**(866) 902-3900**

**Web Site**

**[www.sao.wa.gov](http://www.sao.wa.gov)**