JOINT PACIFIC COUNTY HOUSING AUTHORITY

INDEPENDENT AUDITORS' REPORT
AND
FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2023

JOINT PACIFIC COUNTY HOUSING AUTHORITY
YEAR ENDED DECEMBER 31, 2023

TABLE OF CONTENTS

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

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Joint Pacific County Housing Authority
Pacific County, Washington

Report on the Audit of the Financial Statements

Opinions
We have audited the accompanying financial statements of the business-type activities (primary government) and the discretely presented component unit of the Joint Pacific County Housing Authority (the Authority) as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of the Joint Pacific County Housing Authority as of December 31, 2023, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Joint Pacific County Housing Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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

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

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

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

INDEPENDENT AUDITORS' REPORT, CONTINUED

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Joint Pacific County Housing Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Joint Pacific County Housing Authority's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages 4 through 8 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Joint Pacific County Housing Authority's basic financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and 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 schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2024, on our consideration of the Joint Pacific County 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Joint Pacific County Housing Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Joint Pacific County Housing Authority's internal control over financial reporting and compliance.

Finney, Neill & Company, P.S.

September 26, 2024
Seattle, Washington

The Joint Pacific County Housing Authority ("Authority"), management's discussion and analysis is designed to assist the reader in focusing on significant financial issues, provide an overview of the Authority's financial activity, identify changes in the Authority's financial position, and identify individual fund issues or concerns. We encourage readers to consider the information presented here in conjunction with the Authority's financial statements.

Financial Highlights

- Year-end cash and cash equivalents are $842,939, of which $317,888 are unrestricted and $525,051 are restricted for a specific use. Unrestricted cash and cash equivalents increased during the year by $119,448 (27%) and restricted cash and equivalents increased slightly by $23,633 (5%). The Authority's overall cash position decreased by 10% during 2023.
- Total revenues were $740,290 in 2023 and $642,731 in 2022. Revenues increased by $97,559 (15%). Operating revenues increased by $46,182 (8%) and non-operating revenues increased by $51,377 (82%). This increase in operating revenue was primarily due to an increase in rented units, as more construction projects have been wrapped up. This increase in non-operating revenue was primarily due to an increase in subsidies and grants received.
- Total expenses of all Authority programs increased by $259,889 (37%). Total operating expenses were $800,943 in 2023 and $640,836 in 2022. In addition, non-operating expenses in 2023 and 2022 were $166,234 and $66,452, respectively.
- The Authority's Net Position increased by $2,374,273 during 2023 mainly driven by an increase in tenant revenues and capital grants. The year-end Net Position is $6,007,789.

Authority Wide Financial Statements

The focus of Authority-wide financial statements is on the overall financial position and activities of the Joint Pacific County Housing Authority. The Authority-wide financial statements are designed to be corporate-like in that all business type activities are consolidated into columns which add to a total for the entire authority. There are three major sections to the Authority's financial statements included in this report.

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

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

Net Position, Invested in Capital Assets, Net of Related Debt: This component of Net Position 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: This component of Net Position consists of restricted assets, when constraints are placed on the asset by creditors (such as debt covenants), grantors, contributors, laws, regulations, etc.

Unrestricted Net Position: Consists of Net Position that does not meet the definition of "Net Investment in Capital Assets", or "Restricted".

The Authority-wide financial statements also include a Statement of Revenues, Expenses and Changes in Fund Net Position (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 Position is the "Change in Net Position", which is similar to Net Income or Loss.

Finally, a Statement of Cash Flows is included, which discloses net cash provided by, or used for: operating activities; non-capital financing activities; capital and related financing activities; investing activities; and non-cash investing, capital and financing activities.

The financial statements consist exclusively of a single Enterprise Fund and use the full accrual basis of accounting. The enterprise method of accounting is similar to accounting utilized by the private sector accounting. Again, the items presented on the Statement of Revenues, Expenses and Changes in Fund Net Position are measured in a manner similar to the approach used by a commercial enterprise in that revenues are recognized when earned or established criteria are satisfied and expenses are reported when incurred by the Authority. Thus, revenues are reported even when they may not be collected for several months after the end of the accounting period and expenses are recorded even though they may not have used cash during the current period.

Condensed Comparative Financial Information

The following table presents the condensed **Statement of Net Position** compared to prior year:

Summary Statement of Net Position

	2023	2022	Net Change
ASSETS:			
Current and Other Assets	$ 1,727,985	1,582,724	145,261
Capital Assets (net)	20,538,626	13,087,664	7,450,962
Total Assets	$ 22,266,611	14,670,388	7,596,223
LIABILITIES:			
Current Liabilities	$ 2,138,787	2,299,197	(160,410)
Noncurrent Liabilities	13,657,595	8,426,605	5,230,990
Total Liabilities	15,796,382	10,725,802	5,070,580
DEFERRED INFLOW OF RESOURCES:			
Amounts related to leases	462,440	311,070	151,370
Total Deferred Inflow of Resources	462,440	311,070	151,370
NET POSITION:			
Invested in Capital Assets Net of Related Debt	5,052,598	2,468,307	2,584,291
Restricted	492,773	471,939	20,834
Unrestricted	462,418	693,270	(230,852)
Total Net Position	6,007,789	3,633,516	2,374,273
TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND NET POSITION	$ 22,266,611	14,670,388	7,596,223

The Authority's current liabilities exceed current assets by $410,802 for a current ratio of -0.81. The current ratio is a measure of the ability to pay debts as they become due. Current assets increased by $145,261 (9%) and current liabilities decreased by $160,410 (7%). Current liabilities exceed current assets due to the large construction costs payable balance of $1,842,516, representing 86% of total current liabilities, which will be funded by capital loans and grants.

The Authority has $525,051 in cash that was restricted in use by grant regulations, required reserves related to debt, development funds and security deposits. This amount increased slightly, $23,633 (5%), from a balance of $501,418 at the beginning of the fiscal year.

The Authority's capital assets increased by $7,450,962 (57%), the majority of which comes from an increase in construction in progress as the Authority continues to develop Willapa Center and Alder House, as well as a number of minor projects. The increase in construction in progress is offset slightly by depreciation. The Authority's noncurrent liabilities increased by $5,230,990 (62%) as more money is drawn down on the loans associated with the construction of the Willapa Center.

The Authority's Net Position increased in 2023 by $2,374,273. This increase shown is due to the increase in the amount invested in capital assets, offset by a slight decrease in the unrestricted net position. The net position Invested in Capital Assets Net of Related debt increased due to increased construction in progress which was offset by an increase in capital-related debt. Unrestricted net position is reporting $462,418 as of December 31, 2023, with revenues being used to increase capital assets throughout the year.

The following table presents the condensed Statement of Revenues, Expenses, and Changes in Fund Net Position compared to prior year:

Summary Statement of Revenues, Expenses and Changes in Net Fund Position

	2023	2022	Net Change
Revenues			
Operating			
Tenant Revenue and Rental Assistance	$ 626,104	579,922	46,182
Non-Operating			
Government Operating Subsidies and Grants	91,902	46,973	44,929
Other Income	-	-	-
Interest Income	22,284	15,836	6,448
Total Revenue	740,290	642,731	97,559
Expenses			
Operating	800,943	640,836	160,107
Non-Operating	166,234	66,452	99,782
Total Expenses	967,177	707,288	259,889
Excess (Deficiency) of Revenues over Expenses	(226,887)	(64,557)	(162,330)
Capital Contributions	2,601,160	246,968	2,354,192
Change in Net Position	2,374,273	182,411	2,191,862
Beginning Total Net Position	3,633,516	3,451,105	182,411
Ending Total Net Position	$ 6,007,789	3,633,516	2,374,273

The $46,182 (8%) increase in operating revenues reflects an improved occupancy rate and increases in rents. Operating expenses increased $160,107 (25%), due to increases in administration, maintenance, and utilities costs, as costs go up due to economic conditions. The $51,377 (82%) increase in non-operating revenues, namely the grant line, reflects an increase in grant funding from local document recording fees, as well as a new grant being passed through to the component unit. Non-operating expenses increased by $99,782 (150%), due to an increase in interest expense. Interest expense increased due to increased debt related to the Willapa Center. Capital Contributions increased $2,354,192 (953%) due to an increase in draws related to Willapa Center funding, as the project continues to progress.

Capital Asset and Long-Term Debt Administration

Capital Assets

At year end, the Authority had $20,538,626 reported in capital assets as shown on the following schedule, which represents a net increase of $7,450,962 from the end of last year driven by an increase in capital work in process, offset by annual depreciation.

The following table also summarizes the changes in capital assets between fiscal years 2023 and 2022.

Change in Capital Assets

	2023	2022	Net Change
Land	$ 791,903	791,903	-
Buildings and improvements	5,123,316	3,597,994	1,525,322
Site improvements	4,227	-	4,227
Equipment	6,037	6,037	-
Leasehold Improvements	1,225,566	1,225,566	-
Less Accumulated Depreciation	(2,075,835)	(1,880,233)	(195,602)
Right to Use Asset	96,293	88,497	7,796
Less Accumulated Amortization	(5,394)	(1,844)	(3,550)
Capital Work in Progress	15,372,513	9,259,744	6,112,769
Total Capital Assets (net)	$ 20,538,626	13,087,664	7,450,962

Long-Term Debt

The Authority's long-term debt consists of $11,082,818 in private placement debt and $2,472,094 in recoverable grants. Increases were mainly driven by draws on state and federal loans for construction of Willapa Center. Reductions during the year consisted of scheduled debt service payments.

Please refer to Note 5 – CAPITAL ASSETS and Note 8 - LONG TERM DEBT in the Notes to the Financial Statements for more detailed information.

Other Potentially Significant Matters

The Authority has a policy of adding new units where possible and preserving existing affordable housing in its jurisdiction. As a part of this policy the Authority is involved in the following real estate transactions:

- The Authority continues with development for the Willapa Center project in Raymond WA. Funding for this project is through a mix of federal and state loans as well as a recoverable grant. The estimated date of completion has been extended into 2023.
- The Authority wrapped up the development of Pacific Place, a 24-unit USDA RD property.

Contacting the Housing Authority's Financial Management

The financial report is designed to provide a general overview of the Authority's finances for all those with an interest. Questions concerning any of the information should be addressed to the Finance Manager of the Joint Pacific County Housing Authority, c/o Housing Opportunities of SW Washington. HOSWWA's office is located at 820 11th Ave., Longview, WA 98632. The telephone number is (360) 423-0140 x 2018.

JOINT PACIFIC COUNTY HOUSING AUTHORITY
Statement of Net Position
December 31, 2023

	Primary Government	Component Unit
Assets		
Current assets:		
Cash and cash equivalents - unrestricted	$ 317,888	174,166
Receivables	128,230	4,278
Current portion of lease receivable	2,055	-
Accrued interest - due from Component Unit	80,760	-
Prepaid expenses	3,635	19,878
Total unrestricted current assets	532,568	198,322
Restricted assets:		
Tenant security deposits	32,278	17,677
Other restricted cash and cash equivalents	492,773	265,776
Total restricted current assets	525,051	283,453
Total current assets	1,057,619	481,775
Non-current assets:		
Notes receivable - due from Component Unit	516,958	-
Capital assets, net:		
Non-depreciable capital assets	16,164,416	-
Depreciable/amortizable capital assets, net	4,374,210	6,442,077
Total capital assets, net	20,538,626	6,442,077
Other assets:		
Investments in partnerships - Component Unit	40	-
Lease receivable, net of current portion	153,368	-
Other assets, net	-	149,538
Total other assets	153,408	149,538
Total noncurrent assets	21,208,992	6,591,615
Total assets	$ 22,266,611	7,073,390

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

JOINT PACIFIC COUNTY HOUSING AUTHORITY
Statement of Net Position, continued
December 31, 2023

	Primary Government	Component Unit
Liabilities, Deferred Inflow of Resources, and Net Position		
Current liabilities:		
Accounts payable	$ 67,140	20,911
Construction costs payable	1,842,516	-
Compensated absences	2,763	-
Current portion of lease liability	2,660	-
Current portion of long-term debt	84,032	-
Interest payable - due to Primary Government	-	80,760
Accounts payable - related party	105,500	9,967
Unearned revenue	1,898	1,255
Payable from restricted assets:		
Developer fees payable	-	143,131
Tenant security deposits	32,278	18,345
Total payable from restricted assets	32,278	161,476
Total current liabilities	2,138,787	274,369
Non-current liabilities:		
Lease liability, net of current portion	85,942	-
Accrued interest, net of current portion	100,775	116,311
Long-term debt, net of current portion	13,470,878	2,332,241
Loans payable - Primary Government	-	516,958
Total noncurrent liabilities	13,657,595	2,965,510
Total liabilities	15,796,382	3,239,879
Deferred inflow of resources:		
Amounts related to leases	462,440	-
Total deferred inflow of resources	462,440	-
Total liabilities and deferred inflow of resources	16,258,822	3,239,879
Net position:		
Invested in capital assets, net of related debt	5,052,598	3,592,878
Restricted	492,773	121,977
Unrestricted	462,418	118,656
Total net position	6,007,789	3,833,511
Total liabilities, deferred inflow of resources, and net position	$ 22,266,611	7,073,390

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

JOINT PACIFIC COUNTY HOUSING AUTHORITY
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended December 31, 2023

	Primary Government	Component Unit
Operating revenues:		
Tenant rental revenue and rental assistance, net	$ 613,257	352,051
Tenant revenue - other	12,847	7,225
Total operating revenue	626,104	359,276
Operating expenses:		
Administration	162,070	57,814
Tenant services	46,512	4,377
Utilities	90,530	50,916
Ordinary maintenance and operations	238,993	75,501
Depreciation expense	195,602	267,535
Amortization expense	3,550	13,512
Other general expense	63,686	33,993
Total operating expenses	800,943	503,648
Operating income (loss)	(174,839)	(144,372)
Nonoperating revenues (expenses):		
Operating grants and contributions	91,902	42,921
Grant to Component Unit	(56,308)	-
Interest income	22,284	10
Interest expense	(109,926)	(40,953)
Other nonoperating expenses	-	(82,504)
Total nonoperating revenues (expenses), net	(52,048)	(80,526)
Capital contributions and special items:		
Capital grants and contributions	2,601,160	-
Total capital contributions	2,601,160	-
Change in net position	2,374,273	(224,898)
Net position, beginning of year	3,633,516	4,058,409
Net position, end of year	$ 6,007,789	3,833,511

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

JOINT PACIFIC COUNTY HOUSING AUTHORITY
Statement of Cash Flows
For the Year Ended December 31, 2023

	Primary Government
Cash flows provided by (used in) operating activities:	
Cash received from tenants and rent assistance	$ 619,867
Cash paid to suppliers	(328,756)
Cash paid to employees	(119,602)
Net cash provided (used) by operating activities	171,509
Cash flows from noncapital financing activities:	
Cash received from noncapital grants	91,902
Grants paid to Component Unit	(56,308)
Net cash provided (used) by noncapital financing activities	35,594
Cash flows from capital and related financing activities:	
Purchases of capital assets	(7,999,176)
Cash received from capital grants	2,512,102
Proceeds from issuance of long-term debt	5,227,387
Principal paid on long-term debt	(18,266)
Interest paid	(30,222)
Payments on leases	(1,571)
Net cash provided (used) by capital and related financing activities	(309,746)
Cash flows from investing activities:	
Interest and dividends	6,828
Net cash provided (used) by investing activities	6,828
Net increase (decrease) in cash and cash equivalents	(95,815)
Cash and cash equivalents at beginning of year	938,754
Cash and cash equivalents at end of year	$ 842,939
RECONCILIATION TO STATEMENT OF NET POSITION:	
Cash - unrestricted	$ 317,888
Cash - restricted	492,773
Cash - tenant security deposits	32,278
Total cash	$ 842,939

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

JOINT PACIFIC COUNTY HOUSING AUTHORITY
Statement of Cash Flows, continued
For the Year Ended December 31, 2023

		Primary Government
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Net operating income (loss)	$	(174,839)
Adjustments to reconcile change in net assets to cash provided (used) by operating activities:		
Depreciation and amortization		199,152
Loss on disposal of capital assets		8,183
(Increase) decrease in assets:		
Receivables, net		(888)
Prepaids and other assets		20,942
Increase (decrease) in liabilities:		
Accounts and other payables		126,167
Prepaid rent		(10,007)
Accrued expenses		2,799
Total adjustments		346,348
Net cash provided (used) by operating activities	$	171,509
SUMMARY OF NON CASH TRANSACTIONS:		
Accounts payable used to finance capital asset purchases	$	(1,948,016)
Right-to-use assets financed with debt		7,796

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

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Joint Pacific County Housing Authority ("Authority") 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. The following is a summary of the most significant policies:

Reporting Entity
The Authority serves the citizens of Pacific County in Washington State, by providing affordable housing, housing subsidies, home ownership, and self-sufficiency opportunities.

The Pacific County Board of Commissioners formed the Pacific County Housing Authority in 1975 to administer the Section 8 Rental Assistance Program in Pacific County. This entity became inactive in 1994. In 2003, the County and its four cities formed the Joint Pacific County Housing Authority to re-emphasize the need for affordable housing throughout Pacific County.

The Authority is a municipal corporation governed by an appointed five-member board. The Authority was incorporated on April 22, 2003 and operates under the laws of the State of Washington applicable to Housing Authorities. The five-member board is appointed as follows: One board member shall be appointed by the Mayor of each City and one member shall be appointed by the Pacific County Commissioners. As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity. The Authority has one component unit. These financial statements present the Authority (the Primary Government) and its discretely presented Component Unit. The component unit is included in the Authority's reporting entity because of the significance of its operational or financial relationship with the Authority. The Component Unit's year end is December 31, 2023, the same as the Authority's.

*Discretely Presented Component Uni*t: Driftwood Point Apartments Limited Liability Limited Partnership (Partnership) was formed as a limited partnership under the laws of the State of Washington on January 7, 2015, for the purpose of constructing and operating an affordable rental housing project consisting of 27 units located in the City of Long Beach. The partnership consists of two general partners, LHA Driftwood Point GP LLC as managing partner (of which Housing Authority of the City of Longview dba Housing Opportunities of Southwest Washington -or HOSWWA - is the sole member) and Driftwood Point GP LLC as co-general partner (of which the Authority is the sole member), and one investment limited partner, U.S. Bancorp Community Development Corporation. Per the partnership agreement, covenants exist between the general partners and the Investment Limited Partner related to the delivery of tax credits, partnership operations, and other business matters. The project is eligible for the Affordable Housing Tax Credits established under the program described in Section 42 of the Internal Revenue Code. The construction of this project was completed October 2019 and units were leased in December 2019.

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

Basis of Accounting and Presentation
The proprietary fund statements are reported using the economic resources measurement focus and full-accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when liability is incurred regardless of the timing of the cash flows.

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 the Authority include administrative expenses, the cost of tenant services, depreciation on capital assets, etc. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. As such, 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.

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Cash and Cash Equivalents

"Cash and cash equivalents" are considered to be cash on hand and demand deposits. For the purposes of the Statement of Net Position and the Statement of Cash Flows, the Authority considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased, or available on demand, to be cash equivalents.

Receivables

Receivables consist of amounts owed from private individuals or organizations for goods and services including amounts owed for which billings have not been prepared. Bad debt write offs are made monthly and subject to approval of the Board of Commissioners and are expensed at the end of each month. The allowance for doubtful accounts is determined at the end of the year by evaluating the facts and circumstances of each account included in accounts receivable. On the financial statements, the receivables are presented in a net format after deducting the current allowance amount.

Restricted Assets

In accordance with bond resolutions and federal contracts (and certain related agreements) separate restricted accounts are required to be established. The assets held in these accounts are restricted for specific uses, including debt service, maintenance of assets, and other special reserve requirements. As titled in the Statement of Net Position, restricted resources currently include the following:

- "Tenant security deposits" consist of security deposits held pursuant to residential rental agreements. A "tenant security deposits" liability is included in current liabilities until the tenant moves out at which time the deposits are refunded or taken as income.
- "Other restricted cash and cash equivalents" include replacement and operating reserves and cash advanced by grantors for construction. Reserves are restricted by debt covenants and/or regulatory agreements.

Capital Assets

The cost of normal maintenance and repairs, which do not add to the value of the asset or materially extend an asset's life are expensed. Major expenses costing $3,000 or more with a useful life of one year or more that are for capital and intangible assets, including capital leases, or major repairs that increase useful lives, are capitalized. All capital and intangible assets are valued at historical cost or estimated historical cost, where historical cost is not known.

Property, plant, and equipment donated or sold at a bargain discounted price to the Authority is recorded at the acquisition value determined at the date of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, residential buildings, and equipment are depreciated using the straight-line method, generally over the following estimated useful lives:

Asset Categories	Years
Buildings	40
Building Improvements	15
Site Improvements	20
Leasehold Improvements	27.5
Office Equipment	12

These notes are an integral part of the financial statements.

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

It is the Authority's policy that the original cost of unsegregated components of operating property or intangible assets that is retired or otherwise disposed of, plus the cost of installation, less salvage, is charged to accumulated depreciation and no gain or loss on the disposition is recognized. In the case of the sale of a significant operating unit or system, the original cost is removed from the capital asset accounts, accumulated depreciation is charged with the accumulated depreciation related to the property sold, and the net gain or loss on disposition is credited or charged to income.

Preliminary costs incurred for proposed projects are recorded in "Construction-in-progress" pending construction of the facility. Costs relating to projects ultimately constructed are transferred to the project; charges that relate to abandoned projects are expensed.

Capitalized Costs
The Authority has a policy of capitalizing as a cost of that property certain project costs which are clearly associated with the acquisition, development, and construction of the real estate project.

Notes Receivable
Notes receivable may carry below market interest rates and/or contain provisions for deferral of interest or principal. Such notes and related interest amounts are recorded in the financial statements according to the terms of the notes. No adjustment to market rates has been made due to the compliance requirements that must be met for deferral to occur.

Investment in Partnership
The Authority is the General Partner in discretely presented component unit, Driftwood Point Apartments LLLP. The Authority's investment in the limited partnership is recorded at the lower of cost (adjusted for the Authority's proportionate share of earnings or losses) or fair market value.

Unearned Revenue
The Authority has unearned revenue arise when the cash has been received but the potential revenue has not been earned in the current period. Unearned revenue from ground lease payments and tenant rent payments received in advance of the period in which these are considered earned. The ground lease payments were paid in advance and will be recognized as revenue over the life of the lease on a straight-line basis. Unearned tenant rent payments were received by year-end before they were due.

Compensated Absences
Compensated absences are absences for which employees will be paid, such as vacation leave. The Authority records unpaid leave for compensated absences as an expense and liability when incurred.

Vacation pay, which cannot be carried over past the employee's anniversary date, is payable upon resignation, retirement or death. Sick leave may be carried over the years but can only be taken for medical-related absences. Sick leave may accumulate up to 480 hours. Upon resignation, retirement, or death; sick leave is lost.

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Leases

Leases receivable consist of amounts recorded in compliance with GASB 87, *Leases*. The Authority has recorded leases receivable and deferred inflows of resources related to leases in the statement of net position.

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

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

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

The Authority monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease receivable and deferred inflows of resources if certain changes occur that are expected to significantly affect the amount of the lease receivable. See Note 7 for more information.

Lease liabilities consist of amounts recorded in compliance with GASB 87, *Leases*. The Authority has recorded lease liabilities and associated Intangible, right to use, assets, which are included in depreciable capital assets, net.

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

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

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

The Authority monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability. See Note 7 for more information.

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Use of Estimates

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

Tax Exemption

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

Recently Adopted Accounting Standards

GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements,* is effective for fiscal years beginning after June 15, 2022. Its objective is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs), and to provide guidance for accounting and financial reporting for availability payment arrangements (APAs). The implementation of this GASB statement did not have an impact on the Authority's financial statements for the year ended December 31, 2023.

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements,* is effective for fiscal years beginning after June 15, 2022. This statement requires recognition of certain subscription assets and liabilities for arrangements that were previously classified as operating expenses and recognized as outflows of resources based on the payment provisions of the contract. It establishes a single model for SBITA accounting based on the foundational principle that SBITAs are financings of the rights to use an underlying information technology software asset. The implementation of this GASB statement did not have an impact on the Authority's financial statements for the year ended December 31, 2023.

New Accounting Standards to be Adopted in Future Years

GASB Statement No. 100, *Accounting Changes and Error Corrections – an amendment of GASB statement No. 62*, will improve the clarity of the accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. The requirements of this statement are effective for periods beginning after June 15, 2023.

GASB Statement No. 101, *Compensated Absences*, will result in a liability for compensated absences that more appropriately reflects when a government incurs an obligation. In addition, the model can be applied consistently to any type of compensated absence and will eliminate potential comparability between governments that offer different types of leave. The requirements of this statement are effective for fiscal years beginning after December 15, 2023 and all reporting periods thereafter.

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

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

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

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

3. DEPOSITS

The Authority's deposits and certificates of deposit are entirely covered by the Federal Depository Insurance Commission ("FDIC") or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission ("WPDPC"). It is the policy of the Authority, when making deposits or investing in bank market rate savings or certificates of deposit, to use banks which are qualified public depositories as designated by the WPDPC pursuant to RCW 39.58. The WPDPC is a risk sharing pool whereby member banks that are designated as "qualified public depositories" mutually insure public deposits against loss. As a result, the FDIC or WPDPC insures all demand deposits and bank balances of the Authority against loss.

4. RECEIVABLES

Current Receivables
The receivables at year-end consist of amounts owed from various organizations or individuals for goods and services rendered or owed on promissory notes or contracts receivable. The receivable balances are as follows at December 31, 2023:

Description		Due at 12/31/23
Tenant accounts, net	$	2,113
HUD		14
USDA		1,625
Government grants		119,976
HOSWWA (related party)		213
Component Unit		237
Miscellaneous		4,052
	$	128,230

Tenant receivables are presented net of an allowance for doubtful accounts of $3,273 as of December 31, 2023.

For receivables from Component Units, see Related Parties Transactions Note 11.

5. CAPITAL ASSETS

The 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 Authority has sufficient legal interest to accomplish the purposes for which the assets were acquired.

Capital asset activity for the year ended December 31, 2023 was as follows:

	Balances 01/01/23	Additions	Disposals	Reclasses	Balances 12/31/23
Capital assets not being depreciated:					
Land	$ 791,903	-	-	-	791,903
Construction in process	9,259,744	7,646,274	(8,183)	(1,525,322)	15,372,513
Total capital assets not being depreciated	10,051,647	7,646,274	(8,183)	(1,525,322)	16,164,416
Capital assets being depreciated:					
Buildings and improvements	3,597,994	-	-	1,525,322	5,123,316
Site improvements	-	4,227	-	-	4,227
Equipment	6,037	-	-	-	6,037
Leasehold improvements	1,225,566	-	-	-	1,225,566
Total capital assets being depreciated	4,829,597	4,227	-	1,525,322	6,359,146
Less total accumulated depreciation	(1,880,233)	(195,602)	-	-	(2,075,835)
Total capital assets being depreciated, net	2,949,364	(191,375)	-	1,525,322	4,283,311
Capital assets being amortized:					
Intangible - Right-to-Use Asset	88,497	7,796	-	-	96,293
Accumulated amortization	(1,844)	(3,550)	-	-	(5,394)
Total capital assets being amortized, net	86,653	4,246	-	-	90,899
Total capital assets being depreciated / amortized, net	3,036,017	(187,129)	-	1,525,322	4,374,210
Total capital assets, net	$ 13,087,664	7,459,145	(8,183)	-	20,538,626

Component Unit

Capital asset activity for year ended December 31, 2023 for the component unit was as follows:

	Balances 01/01/23	Additions	Disposals	Balances 12/31/23
Capital assets being depreciated:				
Buildings	$ 7,226,237	-	-	7,226,237
Equipment	5,449	-	-	5,449
Total capital assets being depreciated	7,231,686	-	-	7,231,686
Less accumulated depreciation	(829,849)	(267,535)	-	(1,097,384)
Total capital assets being depreciated, net	6,401,837	(267,535)	-	6,134,302
Capital assets being amortized:				
Intangible - Right-to-Use Asset	325,000	-	-	325,000
Accumulated amortization	(13,940)	(3,285)	-	(17,225)
Total capital assets being amortized, net	311,060	(3,285)	-	307,775
Total capital assets, net	$ 6,712,897	(270,820)	-	6,442,077

These notes are an integral part of the financial statements.

5. CAPITAL ASSETS, continued

Significant Commitments

The Authority has several significant construction projects in progress as of December 31, 2023. The project authorization, amount spent and drawn to date, and remaining commitment of these projects at December 31, 2023, is as follows:

Project ID	Project Name	Project Authorization	Drawn as of 12/31/2023	Remaining Commitment
wc	State HTF	$ 12,398,718	10,541,186	1,857,532
wc	Pacific County	304,680	304,680	-
wc	FHLB AHP	750,000	750,000	-
wc	CDBG	747,500	675,000	72,500
wc	ELF 2019	636,600	636,600	-
wc	ELF 2021	305,280	305,280	-
wc	WCDA Donation	235,498	23,498	212,000
wc	BCF	150,566	94,050	56,516
wc	CHIP	117,182	-	117,182
pacpla	HTF Affordability Preservation	1,537,674	1,537,674	-
pacpla	USDA	640,000	632,178	7,822
ah	Pacific County 2021	100,000	100,000	-
ah	Pacific County 2022	38,289	38,289	-
		$ 17,961,987	15,638,435	2,323,552

6. RESTRICTED ASSETS

“Tenant security deposits” of $32,278 are held in trust for tenants of the Joint Pacific County Housing Authority. In accordance with the Washington State Landlord Tenant law the Authority holds these funds in a segregated bank account. The funds are returned at the end of tenancy less any damage that may occur.

“Other restricted cash and cash equivalents” consists of:

Description	12/31/2023
Replacement reserves - USDA	$ 119,836
Replacement reserves - other	269,117
Operating reserves	97,745
Other	6,075
	$ 492,773

Withdrawals from these reserve accounts are subject to lender or grantor approval.

Component unit restricted assets include “tenant security deposits” of $17,677, which are held in trust for tenants of the Driftwood Point Apartments, and “other restricted cash and cash equivalents”, which includes operating, replacement, and debt service reserves restricted in accordance with the Partnership Agreement and withdrawals are subject to Limited Partner approval.

7. LEASE COMMITMENTS

Lessor Arrangements

At December 31, 2023, the Authority has two lease arrangements in which it is acting as Lessor.

In October 2018, the Authority entered into a 99-year lease. The lease is for land, on which apartments are to be developed by the lessee. The entirety of the lease payments were paid up front at the time of lease commencement. As a result there is a deferred inflow of resources related to this lease that is being amortized over the life of the lease on a straight-line basis. No lease receivable is presented. Lease amortization revenue of $3,285 was recognized in other revenue in 2023.

In September 2023, the Authority entered into a 15-year lease with a non-profit entity for the use of commercial space in the Authority's Willapa Center property. The lease requires monthly payments of $1,000, escalating annually by 5%, and the lease expires in September 2038. The tenant may terminate the lease sooner only if available funding is reduced or eliminated with 180 days' notice to the Authority. Lease amortization revenue of $1,961 was recorded in tenant rental revenue and lease interest income of $1,065 was recorded in interest income for the year ended December 31, 2023.

The Authority's schedule of future payments included in the lease receivable is as follows:

Years Ending	Lease Receivable		
December 31	Principal	Interest	Total
2024	$ 2,055	10,045	12,100
2025	2,816	9,889	12,705
2026	3,659	9,681	13,340
2027	4,591	9,416	14,007
2028	5,620	9,087	14,707
2029-2033	47,533	37,799	85,332
2034-2038	89,149	15,601	104,750
	$ 155,423	101,518	256,941

Lessee Arrangements

At December 31, 2023, the Authority has two leases in which it is acting as the Lessee for a building and office equipment. Refer to Note 5, Capital Assets, for information related to the Right to Use asset associated with these leases.

The building lease requires annual payments of $6,551, increasing annually by the same percentage as tenants rent increases (if any) on the underlying leased apartments. The lease term ends May 31, 2050, but the final payment is made in June 2049.

The office equipment lease requires monthly payments of $151. The lease term ends September 31, 2028.

7. LEASE COMMITMENTS, continued

Future minimum rental commitments for this lease are as follows for the years ending December 31:

Years Ending December 31	Lease Payable Principal	Interest	Total
2024	$ 2,660	5,699	8,359
2025	2,832	5,528	8,360
2026	3,014	5,345	8,359
2027	3,209	5,151	8,360
2028	2,961	4,946	7,907
2029-2033	9,939	22,815	32,754
2034-2038	13,617	19,137	32,754
2039-2043	18,657	14,097	32,754
2044-2048	25,562	7,193	32,755
2049-2053	6,151	400	6,551
	$ 88,602	90,311	178,913

8. LONG–TERM DEBT

The Authority has a long-term loan from Washington Community Reinvestment Association ("WCRA"), which is secured by the Eagles Apartments. Should default occur all principal and interest are due and payable immediately. Prepayment in the first 20 years of the WCRA loan results in a prepayment premium equal to the greater of: (a) 1% of entire unpaid principal balance of the note or (b) the difference obtained by subtracting from the interest rate on the Note, the yield rate of the 6.02% US Treasury Security due May 11, 2022. To avoid the acceleration clause, the Authority shall always during the Loan term rent the apartments to tenants in accordance with the unit rental covenants.

The Authority has a long-term loan from the Washington State Department of Commerce HOME Program, which is secured by the Eagles Apartments. Should default occur all principal and interest are due and payable immediately. To avoid the acceleration clause, the Authority must observe the "HOME Income Limits" for the first 15 years of the loan and apply the "HUD Income Limits" for the remaining life of the loan.

The Authority obtained two long-terms loans, one state and one federal, and one recoverable grant (also state funded) through the Washington State Department of Commerce HTF. The Authority was awarded up to $7,535,675 for the state loan, up to $3,112,193 for the federal loan, and up to $1,750,850 for the recoverable grant. The loans each have a 1% simple interest applicable with all principal and interest due on March 30, 2062, in one lump sum. The recoverable grant has 0% interest and the principal is due March 30, 2062, but the loan is forgivable in its entirety if the loan covenants are met. These funds were awarded for construction of the Willapa Center which is a mixed-use project containing 30 units of affordable housing, a childcare facility which will contain two classrooms and accessory spaces operated by the Raymond School District, and additional space for social service providers. The state and federal loans and the recoverable grant are all secured through both a deed of trust and a promissory note. If the contractor does not provide the specified National HTF Program Assisted Units for the required National HTF Program Affordability Period, then the Promissory Note principal, plus all unpaid accrued interest shall be due to the Department of Commerce within a time frame as may be specified by the Department. The length of commitment to serve the target population per this contract will be no less than forty (40) years, and shall commence on March 31, 2022 and end on March 30, 2062 and applies to the thirty (30) units funded by this Contract. As of December 31, 2023, the state loan has an outstanding balance of $6,679,972, the federal loan has an outstanding balance of $2,926,794, and the recoverable grant had total draws of $934,420.

8. LONG–TERM DEBT, continued

The Authority has a long-term loan from Bank of the Pacific which is secured by the Timberland Apartments. Should default occur the interest rate would increase to 18% and all principal and interest would be due and payable immediately.

The Authority was awarded a recoverable grant for $1,537,674 from the Washington State Department of Commerce HTF. This grant has no expectation of repayment if the terms and conditions of the contract have been met through the term of commitment that ends December 13, 2061. However, if the property is sold, refinanced, transferred, the use changes during the term of commitment, or the Authority is materially out of compliance with the terms and 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 HTF within thirty days of such event. This funding was awarded for renovation needs of the Authority's newly acquired Pacific Place property having 24 units. To ensure conditions are met a Promissory Note was established with the deed of the property as collateral. Total draws on this award at December 31, 2023 are $1,537,674.

The Authority acquired a long-term USDA Loan as part of the Pacific Place property acquisition. See Note 14. This loan was transferred in December at $632,177 with a 2.5% interest rate with a 30-year term amortized over 50 years. This loan matures on December 16, 2051 and is secured by an interest in the property. The balance on this loan at December 31, 2023 is $619,672.

All loans were used to acquire and renovate capital assets that provide low-income housing. The direct borrowing mortgages and loans currently outstanding are as follows:

Purpose	Original Amount	Issue Date	Maturity	Monthly Payments	Interest Rate	Amount Outstanding
Renovate Eagles Apartments	$ 557,813	6/30/2000	2051	$ 2,446 *	0.00%	$ 557,813
Renovate Eagles Apartments	206,423	6/28/2001	2032	1,323	6.50%	102,738
Acquire Timberland Apartments	180,000	6/21/2013	2028	908	3.50%	129,938
Willapa Center New Construction - State	2,703,511	7/9/2021	2062	N/A**	1.00%	6,679,972
Willapa Center New Construction - Federal	2,800,974	7/9/2021	2062	N/A**	1.00%	2,926,794
Willapa Center New Construction - State***	2,800,974	7/9/2021	2062	N/A**	0.00%	934,420
Pacific Place Apartments Purchase	632,177	12/16/2021	2048	2,336	2.50%	619,672
Pacific Place Apartments Rehabilitation***	1,412,877	12/16/2021	2061	N/A***	0.00%	1,537,674
Alder House Predevelopment - Impact Capital	85,000	8/14/2024	2024	N/A**	0.00%	65,889
	$ 11,379,749					13,554,910

* Payments are deferred until 2033.

These notes are an integral part of the financial statements.

8. LONG–TERM DEBT, continued

The following schedule provides the debt service requirements for the direct borrowing long-term debt for years ending December 31:

Year Ending	Total Required Debt Service and Future Maturities	
	Principal	Interest
2024	$ 84,032	32,326
2025	19,111	31,359
2026	20,140	30,331
2027	21,233	29,237
2028	141,391	23,998
2029-2033	117,922	76,042
2034-2038	192,475	65,223
2039-2043	198,551	60,423
2044-2048	205,435	53,710
2049-2053	475,760	27,678
2054-2058	-	-
2059-2063	12,078,860	3,775,033
	$ 13,554,910	4,205,360

Changes in long-term liabilities for the year ended December 31, 2023 are as follows:

Description	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
CTED	$ 7,475,175	5,161,498	-	12,636,673	$ -
Impact Capital	-	65,889	-	65,889	65,889
WCRA	110,906	-	(8,168)	102,738	9,533
USDA	626,271	-	(6,599)	619,672	6,766
Bank of the Pacific	133,437	-	(3,499)	129,938	1,844
Total direct placement debt	8,345,789	5,227,387	(18,266)	13,554,910	84,032
Accrued interest	21,071	79,704	-	100,775	-
Lease liability	82,377	7,796	(1,571)	88,602	2,660
	$ 8,449,237	5,314,887	(19,837)	13,744,287	$ 86,692

8. LONG–TERM DEBT, continued

Component Unit Long-Term Debt

The component unit has outstanding direct borrowing debt payable to the Authority:

Ground lease loan – The component unit entered into a lease of real property from the primary government in October 2018, for the purpose of building low-income housing. The lease includes annual payments of $10, in addition to $325,000 to be paid from net cash flow, with any unpaid balance due no later than December 31, 2058. Interest accrues at 2.99%. In order to avoid the acceleration clause, the component unit must be managed and operated pursuant to the Housing Authorities Act at all times during the term of the agreement. The balance at December 31, 2023 was $292,500. The lease expires on December 31, 2117. Payments are made based on available cash flow.

Sponsor loan – In October 2018, the primary government loaned the component unit $224,458 for the purpose of developing Driftwood Point Apartments. Payments are due based on cash flow and the loan is secured by the Driftwood Point Apartments. Should default occur all principal and interest will become immediately due and payable in full. Any unpaid principal balance will accrue interest at 12% per annum until paid in full. In order to avoid the acceleration clause, the component unit must be managed and operated pursuant to the Housing Authorities Act at all times during the term of this agreement. Interest accrues at 2.99%. The balance at December 31, 2023 was $224,458. Payments are made based on available cash flow.

The component unit entered into a loan with the Department of Commerce on February 1, 2019, for $2,332,241 for the purpose of developing Driftwood Point Apartments. The income from leases and rents associated with the property as well as the deed of trust have been pledged as collateral. Should default occur the component unit will be responsible for all the Lender's costs of collection and legal proceedings. The component unit must rent the apartments to tenants in accordance with the unit rental covenants set forth in the regulatory agreement in order to avoid the acceleration clause. Interest accrues at 1.00% and the first payment is due in 2037. The balance, including accrued interest of $116,311, was $2,448,552 at December 31, 2023.

The following schedule provides the debt service requirements for the direct borrowing long-term debt of the component unit for years ending December 31:

	Dept of Commerce		Required
	Principal	Interest	Debt Service
2024	$ -	-	-
2025	-	-	-
2026	-	-	-
2027	-	-	-
2028	-	-	-
2029-2033	-	-	-
2034-2038	-	270,054	270,054
2039-2043	344,934	330,200	675,134
2044-2048	587,399	87,735	675,134
2049-2053	617,363	57,771	675,134
2054-2058	648,855	26,279	675,134
2059	133,690	1,337	135,027
Total	$ 2,332,241	773,376	3,105,617

8. LONG–TERM DEBT, continued

Changes in component unit long-term liabilities for the year ended December 31, 2023 are as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One year
Private Placement Loans - Payable to Primary Government	$ 516,958	-	-	516,958	$ -
Private Placement Governmental Loan	2,332,241	-	-	2,332,241	-
Private Placement Governmental Loan - Accrued Interest	92,281	24,030	-	116,311	-
	$ 2,941,480	24,030	-	2,965,510	$ -

9. CONTINGENCIES

The Authority has recorded in its financial statements all material liabilities. This includes an estimate for situations, if any, which are not yet resolved but where, based on available information, management believes it is probable that the Authority will have to make payment. In the opinion of management, the Authority's insurance policies are adequate to pay all known or pending claims.

The Authority participates in a number of federal and state assisted programs. These grants are also subject to audit by the grantors or their representatives. Such audits could result in requests for reimbursement from the Authority for expenditures disallowed under the terms of the grants. The Authority's management believes that losses attributable to such disallowance, if any, would be immaterial.

The Housing Trust Fund (HTF) provided $21,476 in construction funding grant for the Eagles apartments. The grant is in the form of a recoverable grant and has no expectation of repayment if the terms and conditions of the contract have been met through the term of commitment that ends on April 30, 2051. However, if the property is sold, refinanced, transferred, the use changes during the term of commitment, or the Authority is materially out of compliance with the terms and 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 HTF within thirty days of such event.

The HTF provided a $3,070,000 construction funding grant for the Pacific Pearl apartments. This grant is in the form of a recoverable grant and has no expectation of repayment if the terms and conditions of the contract have been met through the term of commitment that ends August 31, 2050. However, if the property is sold, refinanced, transferred, the use changes during the term of commitment, or the Authority is materially out of compliance with the terms and 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 HTF within thirty days of such event.

General partners of Driftwood Point Apartments LLLP are obligated to advance all funds necessary to satisfy operating deficits of the component unit. Any accumulating operating deficit advances are subject to limitation of $114,233 commencing after the end of the stabilization period.

During the year ended December 31, 2023, the Authority entered into a construction contract to develop the Willapa Center property for a total of up to $12,800,769, with $12,800,769 expended to date and $0 remaining on the contract and $640,038 in retention payable to the contractor at December 31, 2023. The contractor has submitted additional costs for approval above the total contract price in the amount of approximately $117,182 to date, due to alleged unforeseen conditions resulting in cost overruns. JPCHA is in negotiations regarding these additional costs and has engaged legal counsel on the matter. No formal legal claims have been filed with respect to this issue, and management cannot estimate at this time the additional costs, if any, that will be approved as change orders on the contract. The contractor has agreed to complete the construction of the project and the resolution of this dispute is expected after completion of the project.

10. RISK MANAGEMENT

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

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

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

Coverage limits for General Liability, as well as Errors and Omissions, are $2 million per occurrence with a $2 million aggregate. Property limits are offered on an agreed amount, based on each structure's value. Limits for Automobile Liability are covered at $2 million, with no aggregate. HARRP self-insures $2 million of coverage for liability lines. For property, HARRP retains the first $2 million and then purchases $45 million of excess insurance from Munich Reinsurance for a combined total of $47 million. The HARRP Board of Directors determines the limits and coverage terms, at its sole discretion.

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

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

11. RELATED PARTY TRANSACTIONS

Housing Opportunities of Southwest Washington

The Authority contracts with the Housing Opportunities of Southwest Washington (HOSWWA) to provide administrative support and property management and accounting services. In 2023, the Authority was charged $67,708 by HOSWWA in management and accounting service fees, of which $12,935 was outstanding and payable to HOSWWA as of December 31, 2023. The Authority also contracts with HOSWWA for development support. During the year ended December 31, 2023, the Authority incurred $226,000 in developer fees payable to HOSWWA, of which $105,500 was outstanding and payable as of December 31, 2023.

The Chief Executive Officer of HOSWWA acts as the Executive Director for the Authority but receives no additional compensation.

11. RELATED PARTY TRANSACTIONS, continued

Component Unit
In 2016 the Authority was awarded a grant from the Washington Housing Trust Fund and in 2017 the Authority received an allocation of Tax Credits from the Washington Housing Finance Commission for Driftwood Point Apartments. The project started construction in 2018. As part of this project, the Authority has issued two long-term notes to Driftwood Point Apartments, a note for $292,500 for the Driftwood Point ground lease and a Sponsor loan to Driftwood of $224,458 to help pay for project costs. Both notes are secured by a Deed of Trust on the property, both pay an interest rate of 2.99% interest. The termination dates are December 31, 2058 and December 31, 2117, respectively. Both loans will be paid from cash flow from the Driftwood Point Apartments. The accrued interest due from the component unit on December 31, 2023, was $45,694 for the Driftwood Point ground lease and $35,066 for the Sponsor loan, for a total of $80,760.

As of December 31, 2023, the payable to related party balance at the component unit is comprised of: $40 in annual lease payments, $2,700 payable to the limited partner for investor services fees, and $7,227 for miscellaneous payables to the managing general partner, HOSWWA.

The component unit has recorded a right to use asset for the right to use the land associated with the above noted Driftwood Point ground lease, at $325,000 with accumulated amortization of $17,225. The balance of the right to use asset, net, was $307,775 on December 31, 2023.

The component unit incurred vapor mitigation costs of $82,504 for the year ended December 31, 2023, and additional costs of over $63,263 so far in 2024. Driftwood Point Apartments LLLP has been informed that the WA State Department of Ecology may require ongoing monitoring and testing. The future cost, if any, cannot be estimated at this time. The Authority has received grant funding of approximately $196,000 from the WA State Department of Ecology to help cover these costs to date, and is applying for additional grants to cover ongoing costs of mitigation. During the year ended December 31, 2023, the Authority had sub-grant $56,308 in WA State Department of Ecology grant funds to the Component Unit.

In 2023, the Authority received $3,742 from Pacific County in document recording fees that were intended to go to Driftwood. The Authority passed this funding on to Driftwood as an operating grant.

12. SUBSEQUENT EVENTS

On April 5, 2024, JPCHA purchased Alder House, a former assisted living facility for $900,000, to be rehabilitated and transitioned to affordable senior housing. The purchase and rehabilitation was funded by a fully deferred loan from the Department of Commerce for up to $7.58 million. At the time of closing, the draws on the loan were $1.4 million, with additional rehabilitation costs planned for 2024. The project was also awarded $105,000 in funds from Pacific County that will be used to fund the reserves on the project. At the time of closing, none of these funds had been drawn.

On June 18, 2024, JPCHA was awarded $1,135,000 in funds from the 2023-2025 Biennial Budget appropriation for the Housing Trust Fund and $1,455,000 in a direct appropriation from the Washington State Legislature for the acquisition of Raymond Manor. This project is projected to close in December 2024.

On May 15, 2024, JPCHA entered into a contract for services with the Office of Rural and Farmworker Housing (ORFH) for technical assistance related to the possible acquisition of Raymond House in Raymond WA. The technical assistance is provided at no cost to JPCHA through a grant from USDA to ORFH.

On August 13, 2024, JPCHA signed a 15-year lease agreement with Wild Roots Learning Center for the commercial daycare space at Willapa Center, which requires monthly payments of $1,000.

JOINT PACIFIC COUNTY HOUSING AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2023

Federal Agency / Pass-Thru Agency	Federal Program	ALN	Other Award Number	Expenditures: From Pass-Thru Awards	Expenditures: From Direct Awards	Expenditures: Total	Passed - thru to Subrecipients	Note	
U.S. DEPARTMENT OF AGRICULTURE									
	Rural Rental Housing Loans	10.415	56-025-330859589-01-3	$ -	626,271	626,271	$ -	3	
	Rural Rental Housing Loans - Int Subsidy	10.415	56-025-330859589-01-3	-	3,886	3,886	-		
			Total ALN 10.415	-	630,157	630,157	-		
	Rural Rental Assistance	10.427	56-025-330859589-01-3	-	124,999	124,999	-		
	Total U.S. Department of Agriculture			**-**	**755,156**	**755,156**	**-**		
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT									
WA State Department of Commerce	Housing Trust Fund	14.275	18-42502-002	2,926,794	-	2,926,794	-	3	*
WA State Department of Commerce	Home Investments Partnerships Program	14.239	00-40498-252	557,813	-	557,813	-	3	
City of Raymond	Community Development Block Grants	14.228	B-19-DC-53-001	492,784	-	492,784	-		
	Total U.S. Department of Housing and Urban Development			**3,977,391**	**-**	**3,977,391**	**-**		
Total Expenditures of Federal Awards				**$ 3,977,391**	**755,156**	**4,732,547**	**$ -**		

* Denotes Major Program

See Independent Auditors' Report and accompanying notes to this schedule.

NOTE 1 – BASIS OF ACCOUNTING

This schedule is prepared on the same basis of accounting as the Authority's financial statements. The Authority uses the accrual basis of accounting.

NOTE 2 – FEDERAL DEMINIMIS INDIRECT COST RATE

The Authority has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

NOTE 3 – FEDERAL LOANS

The Authority was approved by the Department of Commerce to receive a federal loan totaling up to $3,112,193 for construction of the Willapa Center, which is a mixed-use project containing 30 units of affordable housing, a childcare facility which will contain two classrooms and accessory spaces operated by the Raymond School District, and additional space for social service providers. During the year, draws of $125,820 were made on the loan. The December 31, 2023 balance outstanding on this loan was $2,926,794.

The amounts shown as federal expenditures for the USDA Rural Housing Loan program under assistance listing 10.415 represent outstanding loan balances as of the beginning of the period. The loan balance outstanding at December 31, 2023 was $619,672.

The amounts shown as federal expenditures for the HOME Investments Partnership Program under assistance listing 14.239 represent outstanding loan balances for the Eagles Apartments construction completed in prior years. The loan balance outstanding at December 31, 2023 was $557,813.

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

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Directors
Joint Pacific County Housing Authority
Pacific County, Washington

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and the discretely presented component unit of the Joint Pacific County Housing Authority (the "Authority"), as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated September 26, 2024.

The financial statements of Driftwood Point Apartments, LLLP, the discretely presented component unit, were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with Driftwood Point Apartments, LLLP.

Report on Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2023-001, 2023-002, and 2023-003 that we consider to be material weaknesses.

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

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standard, continued*

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Joint Pacific County Housing Authority's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Finney, Neill & Company, P.S.

September 26, 2024
Seattle, Washington

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

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

Board of Directors
Joint Pacific County Housing Authority
Pacific County, Washington

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Joint Pacific County Housing Authority's (the Authority's) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended December 31, 2023. Joint Pacific County Housing Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, Joint Pacific County Housing Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2023.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

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

Responsibilities of Management for Compliance

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

Auditors' Responsibilities for the Audit of Compliance

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

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

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

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

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

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

Report on Internal Control over Compliance

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

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Finney, Neill & Company, P.S.

September 26, 2024
Seattle, Washington

JOINT PACIFIC COUNTY HOUSING AUTHORITY
Schedule of Findings and Questioned Costs
For the year ended December 31, 2023

Section I – Summary of Auditors' Results

Financial Statements

Type of auditors' report issued	Unmodified	
Internal control over financial reporting:		
• Material weakness(es) identified?	X yes	no
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	yes	X none reported
Noncompliance material to financial statements noted?	yes	X no

Federal Awards

Internal control over major programs:		
• Material weakness(es) identified?	yes	X no
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	yes	X none reported
Type of auditors' report issued on compliance for major programs		Unmodified
Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance?	yes	X no

Identification of major programs:

Assistance Listing	Name of Federal Program
14.275	*U.S. Department of Housing and Urban Development – Housing Trust Fund*

Dollar threshold used to distinguish between type A and type B programs:		$750,000
Auditee qualifies as low-risk auditee?	X yes	no

Section II – Financial Statement Findings

2023-001 – Accounting for Construction Costs

Federal Award
N/A - the finding relates to internal controls over financial reporting and not to a specific major program.

Finding
Internal control processes over accounting for construction costs and construction loan and grant draws at or near year-end did not ensure proper cut-off of costs incurred or loan and grant draws related to construction projects.

Repeat Finding
Yes. Repeat of Finding 2022-001.

Criteria
In accordance with GASB 66, *Items Previously Reported as Assets and Liabilities*, the Authority is required to record costs associated with the issuance of debt as expenses in the period those costs are incurred. In addition, the Authority is required to record costs in accordance with the economic resources measurement focus and the full accrual basis of accounting, which requires that expenses be recognized in the period the goods and services were provided.

Condition and Context
During our testing of capital assets and construction in progress costs recorded in 2023, we identified $787,671 in construction costs incurred during the period under audit which were not accrued at year-end. Additionally, we identified construction grant revenues of $117,182 which were earned during the period under audit, but were not recognized as revenue during the year. Finally, we also identified a construction loan draw which was recorded as both a loan receivable from and a loan payable to the same entity for $236,139.

Cause
Management's internal controls over construction accounting did not provide for proper cut-off of costs associated with construction and development projects during the year under audit.

Effect
The misstatements resulted in the understatement of total assets by $668,714, and the overstatement of total liabilities by $551,532, and the overstatement of revenues by $117,182. These errors were corrected by management during the course of the audit in the financial statements; however, these errors were included in internal financial reports used by management and the board prior to the audit.

Questioned Costs
None.

Recommendations
We recommend the Authority implement a process to review construction costs invoiced several months subsequent to year-end, to ensure proper cut-off and completeness, and to review all construction loan and grant draws made near year-end for proper cut-off and classification.

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

Contact Person
Jennifer Westerman, Executive Director

Section II – Financial Statement Findings, continued

2023-002 – SEFA Preparation

Federal Award
N/A - the finding relates to internal controls over financial reporting and not to a specific major program.

Finding
Internal control processes over the preparation of the schedule of expenditures of federal awards (SEFA) did not ensure that the schedule included only expenditures of federal awards for which the Authority was a recipient or sub-recipient.

Repeat Finding
No.

Criteria
In accordance with 2 CFR Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, §200.510(b), the Authority must prepare a schedule of expenditures of federal awards ("SEFA") which must include only the total federal awards expended as determined in accordance with §200.101, *Applicability*.

Condition and Context
During our testing of the SEFA, we identified one grant was improperly included in the schedule prepared by management for $750,000 which was expended by the organization during 2023. The grant was not awarded by a federal agency, nor did the award include federal pass-through funds from a local government or not-for-profit agency.

Cause
Management's internal controls over year-end financial reporting did not identify a material overstatement in the SEFA.

Effect
The misstatements resulted in the overstatement of the initial SEFA provided by management of $750,000. The error was corrected in the final SEFA; however, this error could have resulted in the selection of major programs for the Single Audit compliance testing that were not major during the year under audit, based on the major program selection rules under the Uniform Guidance.

Questioned Costs
None.

Recommendations
We recommend the Authority implement a process to trace all expenditures included in the SEFA to the underlying award contracts, to ensure that the federal programs are properly identified and that any non-federal funds are excluded from the SEFA.

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

Contact Person
Jennifer Westerman, Executive Director

Section II – Financial Statement Findings, continued

<u>2023-003 – Accounting for New Leasing Arrangements</u>

Federal Award
N/A - the finding relates to internal controls over financial reporting and not to a specific major program.

Finding
Internal control processes over accounting for leases did not properly identify and account for a new lessor arrangement entered into during the year.

Repeat Finding
No.

Criteria
In accordance with GASB 87, *Leases*, the Authority is required to record the net present value of future lease receipts as a lease receivable and as deferred inflows of resources for all noncancelable lease terms that exceed one year.

Condition and Context
During our testing of completeness of lease receivable and lease payable balances, we identified one commercial lease where the Authority is the lessor which commenced during 2023 and was not recorded in accordance with GASB 87, *Leases.*

Cause
Management's internal controls over lease accounting did not provide for a search for new or modified leases after the initial year of implementation of GASB 87, such that new or modified leasing arrangements would be properly identified, valued, and disclosed in accordance with GASB standards.

Effect
The misstatements resulted in the understatement of total assets and the understatement of deferred inflows of resources by approximately $155,000. These errors were corrected by management during the course of the audit in the financial statements; however, these errors were included in internal financial reports used by management and the board prior to the audit.

Questioned Costs
None.

Recommendations
We recommend the Authority implement a process to review all new leasing arrangements for proper valuation and disclosure in accordance with GASB 87, Leases. We also recommend management ensure that all existing leasing arrangements are reviewed to capture any changes in assumptions or terms in the valuation and disclosure.

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

Contact Person
Jennifer Westerman, Executive Director

JOINT PACIFIC COUNTY HOUSING AUTHORITY
Schedule of Findings and Questioned Costs, continued
For the year ended December 31, 2023

Section III – Federal Award Findings and Questioned Costs

NONE

JOINT PACIFIC COUNTY HOUSING AUTHORITY
820 11th Ave. Longview WA 98632

Construction Cost Accounting, SEFA Preparation,
Accounting for New Leasing Agreements
Corrective Action Plan
For the Year Ended December 31, 2023

Corrective Action Plan for Finding #2023-001 – Accounting for Construction Costs

The Housing Authority has created a new standard operating procedure to address this finding. Every Construction invoice will be required to have a physical stamp noting “date of work completed” and a signoff. The accounting tech will then utilize that “date of work completed” as the “postdate” when entering the data into the Yardi Accounting system. These documents will have two levels of review to ensure that all construction paperwork is inputted in the correct fiscal year. The Senior Accountant for Grants and Construction is required to review each invoice and check the data entry in Yardi to ensure that it has been entered with the correct date. Additionally, the Finance Manager will periodically review construction invoices throughout the year to address any issues and will conduct a thorough review at year end.

Date of Planned Corrective Action: Immediate.

Corrective Action Plan for Finding #2023-002 – SEFA Preparation

The Housing Authority has created a contract matrix that tracks all grants and contracts. However, this finding has shown us that that process is not working as designed. The contract matrix was too complex, leading to mistakes. The process is currently being redesigned to be more user friendly. All document retention and cataloging has now been assigned to the Executive Assistant with oversight from the CEO. We are designing a spreadsheet specifically for SEFA documents that will be prepared throughout the year so that it is complete by end of year. Both the CEO and the Finance Manager will review this document periodically and at year end.

Date of Planned Corrective Action: Redesign of process to be completed by November 30 in preparation for the next Year End.

EQUAL HOUSING OPPORTUNITY

360-423-0140 fax 888-424-7145

Corrective Action Plan for Finding #2023-003 – Accounting for New Leasing Arrangements

The Housing Authority has developed a process for collecting new lease agreements and ensuring that the Finance Team knows of these agreements to assess correctly for GASB 87. All lease agreements will be catalogued in a spreadsheet and electronically filed on the Accounting Drive. The Finance Manager will be responsible for reviewing that file throughout the year and at year end. The Executive Assistant, with oversight from the CEO is responsible for ensuring that the spreadsheet catalog is accurate, and all documents are collected electronically. The CEO and the Director of Operations who sign these documents are responsible for ensuring this process is completed correctly.

Date of Planned Corrective Action: Immediate.

Signature: ______________________

Printed Name: Jennifer Westerman, CEO

JOINT PACIFIC COUNTY HOUSING AUTHORITY

Schedule of Prior Year Findings and Responses

Reference Number:	2022-001
Topic:	Accounting for Construction Cost Cut-off
Audit Finding:	Internal control processes over accounting for construction costs and capital assets added during the year did not ensure proper cut-off and classification of costs incurred on construction projects. During our testing of capital assets and construction in progress costs recorded in 2022, we identified $429,044 in construction costs incurred during the period under audit which were not accrued at year-end.
Corrective Action:	The Authority implemented an accrual policy which will include a review of all expenditures for which an invoice is received within 60 days of the end of the fiscal year, or within 75 days of the fiscal year if the invoice exceeds $25,000.
Status:	Repeat finding in 2023 – see Finding 2023-001.