



I N C O R P O R A T E D

Teresa D. Johnson CPA, Inc.

Accountant's Compilation Report

Board of Commissioners
Joint Pacific County Housing Authority
Longview, Washington

Management is responsible for the accompanying financial statements of Joint Pacific County Housing Authority, which comprise the statement of net position as of December 31, 2020, and the related statement of revenues, expenses, and changes in fund net position, and statement of cash flows for the year then ended, and the related notes to the financial statements in accordance with accounting principles generally accepted in the United States of America. We have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. We did not audit or review the financial statements nor were we required to perform any procedures to verify the accuracy or completeness of the information provided by management. We do not express an opinion, a conclusion, nor provide any form of assurance on these financial statements.

The Management's Discussion and Analysis on pages 1 to 6 is presented for purposes of additional analysis and, although not a required 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 and for placing the basic financial statements in an appropriate operational, economic, or historical context. Such information is the responsibility of management. The supplementary information was subjected to our compilation engagement. We have not audited or reviewed the supplementary information and do not express an opinion, a conclusion, nor provide any assurance on such information.

We are not independent with respect to the Joint Pacific County Housing Authority.

Teresa D. Johnson, CPA
Ridgefield, Washington
April 21, 2021

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JOINT PACIFIC COUNTY HOUSING AUTHORITY
Management's Discussion And Analysis
December 31, 2020

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 \$526,691 of which \$234,850 are unrestricted and \$291,841 are restricted for a specific use. Unrestricted cash and cash equivalents decreased during the year by \$70,288 (23%) and restricted cash and equivalents increased by \$18,643 (6.8%). The Authority's overall cash position remained stable during 2020.
- Total revenues were \$416,347 in 2020 and \$386,713 in 2019. Revenues increased by \$29,634 (7.6%). Operating revenues increased by \$3,774 (1.4%) and non-operating revenues increased by \$25,860 (22%). This increase in non-operating revenue was primarily due to an increase in subsidies and grants received.
- Total expenses of all Authority programs decreased by \$85,940 (18.4%). Total operating expenses were \$342,218 in 2020 and \$365,840 in 2019. In addition, non-operating expenses in 2020 and 2019 were \$37,926 and \$100,244 respectively.
- The Authority's Net Position increased by \$12,747 during 2020 due to the increase in total revenues and decrease total expenses. The year-end Net Position is \$3,192,371.

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.

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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.

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Condensed Comparative Financial Information

The following table¹ presents the condensed Statement of Net Position compared to prior year:

Summary Statement of Net Position			
	2020	2019	Net Change
ASSETS:			
Current Assets	\$ 1,102,252	\$ 1,133,028	\$ (30,776)
Capital Assets (net)	3,570,158	3,255,188	314,970
Total Assets	4,672,410	4,388,216	284,194
LIABILITIES:			
Current Liabilities	346,907	45,933	300,974
Noncurrent Liabilities	1,133,132	1,162,659	(29,527)
Total Liabilities	1,480,039	1,208,592	271,447
NET POSITION:			
Invested in Capital Assets Net of Related Debt	2,499,437	2,385,029	114,408
Restricted	279,761	261,798	17,963
Unrestricted	413,173	532,797	(119,624)
Total Net Position	\$ 3,192,371	\$ 3,179,624	\$ 12,747

The Authority's current assets exceed current liabilities by \$755,345, for a current ratio of 2.18. Current assets decreased by \$30,776 (2.7%) and current liabilities increased by \$300,974 (655%). The current ratio is a measure of the ability to pay debts as they become due. Current assets continue to exceed current liabilities despite the increase in short term loans drawn in 2020 offsetting the Authority's cash reserves (operating and replacement) being held. If the Authority refinances these loans into long term debt the Authority's current ratio will improve. Current liabilities increased in 2020 due to the issuance of short-term debt in the amount of \$279,761.

The Authority has \$291,841 in cash that was restricted in use by grant regulations and security deposits. This amount increased \$18,643 (6.8%) from a balance of \$273,198 at the beginning of the fiscal year.

The Authority's Net Position increased in 2020 by \$12,747. This increase is shown in the increased in the amount invested in capital assets and restricted and heavily offset by the decrease in unrestricted. The net position Invested in Capital Assets Net of Related debt increased due to increased construction in progress and was offset by increased capital related debt.

¹ For more detailed information see the Statement of Net Position.

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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			
	2020	2019	Net Change
Revenues			
Operating			
Tenant Revenue	\$ 270,567	\$ 266,793	\$ 3,774
Non-Operating			
Government Operating Subsidies and Grants	126,517	103,000	23,517
Other Income	3,285	-	3,285
Interest Income	15,978	16,920	(942)
Total Revenue	416,347	386,713	29,634
Expenses			
Operating	342,218	365,840	(23,622)
Non-Operating	37,926	100,244	(62,318)
Total Expenses	380,144	466,084	(85,940)
Excess (Deficiency) of Revenues over Expense:	36,203	(79,371)	115,574
Beginning Total Net Position	3,179,624	3,258,995	(79,371)
Prior Period Adjustment	(23,456)	-	(23,456)
Ending Total Net Position	\$ 3,192,371	\$ 3,179,624	\$ 12,747

The increase in operating revenues reflects an improved occupancy rate and modest increases in rents. Operating expenses increased associated with increased maintenance and operational needs while non-operating expenses decreased in line with the decrease in Pacific County recording fees received and passed through as a grant to Driftwood.

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Capital Asset and Long-Term Debt Administration

Capital Assets

At year end, the Authority had \$3.6 million reported in capital assets as shown on the following schedule, which represents a net increase of \$315 thousand from the end of last year driven from increased capital work in process and offset by annual depreciation. The following table also summarizes the changes in capital assets between fiscal years 2020 and 2019.

Change in Capital Assets			
	2020	2019	Net Change
Land	\$ 506,903	\$ 506,903	-
Buildings	2,895,721	2,895,721	-
Equipment	6,037	6,037	-
Leasehold Improvements	1,225,566	1,225,566	-
Less Accumulated Depreciation	(1,624,166)	(1,505,607)	(118,559)
Capital Work in Progress	560,097	126,568	433,529
Total Capital Assets (net)	\$ 3,570,158	\$ 3,255,188	\$ 314,970

Long-Term Debt

The Authority's long-term debt consists of \$828,693 in private placement debt. 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 trying to preserve 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 and permanent funding of \$10,746,968 has been committed to the project. The estimated date of completion has been extended into 2022.
- The Authority is in the process of acquiring Pacific Place, a 24-unit USDA RD property. This property requires significant rehabilitation and preservation. Funding for these efforts will come from Department of Commerce.
- The Authority is entertaining accepting a property donation where the property requires extensive rehabilitation effort. The Board will be deciding on this acquisition in 2021.

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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 18.

Joint Pacific County Housing Authority
Statement of Net Position
December 31, 2020

	Primary Government	Component Unit
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 234,850	\$ 124,809
Receivables, net	5,671	7,553
Receivables, net - Due from Component Unit	1,856	-
Prepaid expenses	16,644	13,075
Accrued Interest - Due from Component Unit	34,392	-
Restricted assets:		
Tenant security deposits	12,080	10,402
Other cash	279,761	219,957
Investments	-	173,346
Total restricted assets	291,841	403,705
TOTAL CURRENT ASSETS	585,254	549,142
Non-current assets:		
Notes - Due from Component Unit	516,958	-
Capital assets:		
Non-Depreciable Capital Assets	1,067,000	-
Depreciable Capital Assets, net	2,503,158	6,936,904
Total Capital assets, net	3,570,158	6,936,904
Other assets:		
Investments in Partnerships - Driftwood	40	-
Deferred land lease, net - Primary Government	-	317,630
Other assets, net	-	185,280
TOTAL NON CURRENT ASSETS	4,087,156	7,439,814
TOTAL ASSETS	4,672,410	7,988,956
LIABILITIES		
Current Liabilities:		
Accounts payable	62,876	9,710
Short term loan payable	242,028	-
Payable to Primary Government	-	34,392
Payable to Related Party	6,212	20,813
Current portion of Long Term Debt	13,191	-
Deferred revenue	10,520	4,914
Payables from restricted assets:		
Construction Costs	-	358,632
Tenant security deposits - payable from restricted	12,080	10,402
TOTAL CURRENT LIABILITIES	346,907	438,863
Non-current Liabilities:		
Deferred Revenue - Due to Component Unit	317,630	-
Accrued Interest - non current	-	44,935
Long Term Debt	815,502	2,332,241
Loans payable to Primary Government	-	516,958
TOTAL NON-CURRENT LIABILITIES	1,133,132	2,894,134
TOTAL LIABILITIES	1,480,039	3,332,997
NET POSITION		
Invested in capital assets, net of related debt	2,499,437	4,087,705
Restricted	279,761	34,671
Unrestricted	413,173	533,583
TOTAL NET POSITION	\$ 3,192,371	\$ 4,655,959

Joint Pacific County Housing Authority
Statement of Revenues, Expenses, and Changes in Fund Net Position
For the Year Ended December 31, 2020

	Primary Government	Component Unit
OPERATING REVENUES		
Net tenant rental revenue	\$ 267,451	\$ 291,184
Tenant revenue - other	3,116	7,393
Total Operating Revenue	270,567	298,577
OPERATING EXPENSES		
Administration	62,031	86,726
Tenant services	27,128	19,661
Utilities	26,329	53,919
Ordinary maintenance and operations	90,964	35,663
Depreciation and Amortization expense	118,559	274,309
Other general expenses	17,207	10,583
Total Operating Expenses	342,218	480,861
OPERATING LOSS	(71,651)	(182,284)
NON-OPERATING REVENUES (EXPENSES)		
Pacific County grants	126,517	21,517
Grant to related party	(21,517)	-
Investment income	15,978	5
Interest expense	(16,409)	(150,696)
Other non-operating revenues	3,285	-
Total Non-operating Revenues (Expenses)	107,854	(129,174)
Income (loss) before contributions	36,203	(311,458)
Capital Contributions	-	3,983,761
CHANGE IN NET POSITION	36,203	3,672,303
TOTAL NET POSITION, BEGINNING OF YEAR	3,179,624	983,656
PRIOR PERIOD ADJUSTMENTS	(23,456)	-
TOTAL NET POSITION END OF YEAR	\$ 3,192,371	\$ 4,655,959

Joint Pacific County Housing Authority
Statement of Cash Flows
For the Year Ended December 31, 2020

	Business Type Activities
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Tenants	\$ 265,995
Cash Received (used) for Other Activities	3,285
Cash Received from Component Unit	3,454
Cash Paid to Suppliers	(197,566)
Cash Grants and subsidies received	105,000
Cash Paid to Employees	12,084
Net cash provided by operating activities	192,252
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Cash received from noncapital grants	21,517
Cash paid to related party	(21,517)
Net cash used by non-capital financing activities	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase of Capital Assets	(428,571)
Proceeds from Issuance of Short-Term Loans	213,469
Principal Paid on Capital Debt	(12,907)
Interest Paid	(16,409)
Net cash used by capital and related financing activities	(244,418)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest Received	521
Net cash provided by investing activities	521
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(51,645)
CASH AND CASH EQUIVALENTS, beginning of year	578,336
CASH AND CASH EQUIVALENTS, end of year	\$ 526,691
RECONCILIATION TO STATEMENT OF NET POSITION	
Cash - Unrestricted	234,850
Cash - Restricted	279,761
Cash - Tenant Security Deposits	12,080
Total Cash	\$ 526,691

Joint Pacific County Housing Authority
Statement of Cash Flows (continued)
For the Year Ended December 31, 2020

	Business Type Activities
RECONCILIATION OF NET INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES	
Net income (loss)	\$ (71,651)
Adjustments to reconcile net income (loss) to net cash from operating activities	
Depreciation and amortization	118,559
Increase (decrease) in cash due to changes in assets and liabilities	
Increase (decrease) in operational revenue	108,285
Decrease (increase) in accounts receivable	(1,093)
Increase (decrease) in accounts payable	40,103
Increase (decrease) in accounts payable to related party	2,393
Increase (decrease) in customer deposits	680
Decrease (increase) in prepaid expenses	(4,319)
Decrease (increase) in deferred revenue	(705)
Net adjustments	263,903
NET CASH FROM OPERATING ACTIVITIES	\$ 192,252
 NON CASH TRANSACTIONS	
Refinanced short-term loan	\$ 34,674
Prior period adjustment to CWIP	4,958

JOINT PACIFIC COUNTY HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2020

1. 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.

Discretely Presented Component Unit:

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, Washington. The partnership consists of two general partners, LHA Driftwood Point GP LLC as managing partner (of which Housing Authority of the City of Longview 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.

JOINT PACIFIC COUNTY HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2020

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, housing assistance payments, 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.

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” consists of security deposits held pursuant to residential rental agreements. A “tenant securities deposits” liability is included in current liabilities until the tenant moves out at which time the deposits are refunded or taken as income.
- “Other Cash” includes replacement and operating reserves and cash advanced by grantors for construction. The reserves are held by a third party in accordance with debt covenants. The grant funds were received from grantors but undistributed at year end.

JOINT PACIFIC COUNTY HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2020

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. A purchase of equipment or a building improvement costing \$3,000 or more, which is not deemed a repair, is recorded at historical cost and depreciated over its expected life.

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
Leasehold Improvements	27.5
Office Equipment	12

It is the Authority's policy that the original cost of unsegregated components of operating property 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 work-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.

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 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 ("WPDP"). 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

JOINT PACIFIC COUNTY HOUSING AUTHORITY
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For the Year Ended December 31, 2020

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, 2020:

Description	Amount
Tenant accounts	490
Miscellaneous	<u>5,181</u>
	5,671

Management believes all amounts to be collectible; therefore, no allowance for bad debt has been recorded. There are no amounts outstanding greater than ninety days.

For receivables from Component Units, see Related Parties Transactions Note 13.

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, 2020 was as follows:

	Beginning Balance 2020	Increase	Decrease	Ending Balance 2020
Capital assets not being depreciated:				
Land	\$ 506,903	\$ -	\$ -	\$ 506,903
Construction in progress	126,568	433,529	-	560,097
Total capital assets not being depreciated	<u>587,723</u>	<u>433,529</u>	<u>-</u>	<u>1,067,000</u>
Capital assets being depreciated:				
Buildings	2,895,721	-	-	2,895,721
Equipment	6,037	-	-	6,037
Leasehold Improvements	1,225,566	-	-	1,225,566
Total capital assets being depreciated	<u>4,127,324</u>	<u>-</u>	<u>-</u>	<u>4,127,324</u>
Less total accumulated depreciation	(1,505,607)	(118,559)	-	(1,624,166)
Total capital assets being depreciated, net	<u>2,740,276</u>	<u>(118,559)</u>	<u>-</u>	<u>2,503,158</u>
Total capital assets, net	<u>\$ 3,328,000</u>	<u>\$ 314,970</u>	<u>\$ -</u>	<u>\$3,570,158</u>

JOINT PACIFIC COUNTY HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2020

Component Unit

Changes in capital assets for the component unit during 2020 were as follows:

	Beginning Balance 2020 (Restated)			Ending Balance 2020
	Increase	Decrease		
Capital assets being depreciated:				
Buildings	6,514,618	711,619	-	7,226,237
Equipment	5,449	-	-	5,449
Total capital assets being depreciated	6,520,067	711,619	-	7,231,686
Less total accumulated depreciation	(32,028)	(262,754)	-	(294,782)
Total capital assets being depreciated, net	6,488,039	448,865	-	6,936,904
Total capital assets, net	\$6,488,039	\$ 448,865	\$ -	\$6,936,904

6. RESTRICTED ASSETS

“Tenant security deposits” of \$12,080 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 cash” consists of replacement reserves of \$186,978 held by Bank of the Pacific, replacement reserves of \$48,866 held by Washington Community Reinvestment Association (“WCRA”) and operating and debt service reserves of \$43,917 held by WCRA. Component unit restricted assets include “Tenant security deposits” of \$10,402 which are held in trust for tenants of the Driftwood Point Apartments.

7. LEASE COMMITMENTS

The Authority is committed under lease agreements for the use of the Eagles Apartments. This lease is considered an operating lease for accounting purposes. Lease expenses for the year ended December 31, 2020 amounted to \$6,611. The lease calls for an annual increase equal to the percentage increase of rent charged to tenants.

Future minimum rental commitments for this lease are as follows:

<u>Year</u>	<u>Amount</u>
2021	5,191
2022	5,191
2023	5,191
2024	5,191
2025	5,191
2026-2030	25,955
2031-2035	25,955
2036-2040	25,955
2041-2045	25,955
2046-2050	25,955
	<u>\$ 155,730</u>

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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 principle 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, 2021. In order to avoid the acceleration clause, the Authority shall at all times 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 principle and interest are due and payable immediately. In order 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 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 principle and interest would be due and payable immediately.

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:

<u>Purpose</u>	<u>Original Amount</u>	<u>Issue Date</u>	<u>Maturity</u>	<u>Monthly Payments</u>	<u>Interest Rate</u>	<u>Amount Outstanding</u>
Renovate Eagles Apartments	\$ 557,813	6/30/2000	2051	2,446*	0.0%	\$ 557,813
Renovate Eagles Apartments	206,423	6/28/2001	2032	1,323	6.5%	127,129
Acquire Timberland Apartments	180,000	6/21/2013	2028	908	3.5%	143,751
	<u>\$ 944,236</u>					<u>\$ 828,693</u>

*Payments are deferred until 2033.

** No payments due until Maturity

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The following schedule provides the debt service requirements for the direct borrowing long-term debt as of December 31, 2020:

Year Ending	WCRA		State of Washington		Bank of the Pacific		Required Debt Service
	Principal	Interest	Principal	Interest	Principal	Interest	
2021	\$ 7,849	\$ 8,032	\$ -	\$ -	\$ 5,342	\$ 7,060	\$ 28,283
2022	8,374	7,507	-	-	5,615	6,787	28,283
2023	8,935	6,946	-	-	5,902	6,500	28,283
2024	9,533	6,347	-	-	6,204	6,198	28,282
2025	10,172	5,709	-	-	6,521	5,880	28,283
2026-2030	62,038	17,367	-	-	114,167	13,604	207,175
2031-2035	20,228	944	88,076	-	-	-	109,248
2036-2040	-	-	146,793	-	-	-	146,793
2041-2045	-	-	146,793	-	-	-	146,793
2046-2050	-	-	146,793	-	-	-	146,793
2051-2055	-	-	29,358	-	-	-	29,358
	<u>\$ 127,129</u>	<u>\$ 52,851</u>	<u>\$ 557,813</u>	<u>\$ -</u>	<u>\$ 143,751</u>	<u>\$ 46,029</u>	<u>\$ 927,574</u>

Changes in direct borrowing long-term debt for the year ended December 31, 2020 are as follows:

Description	Beginning			Ending Balance	Due Within One Year
	Balance	Reductions	Additions		
CTED	\$ 557,813	\$ -	\$ -	557,813	\$ -
WCRA	135,077	(7,948)	-	127,129	7,849
Bank of the Pacific	148,710	(4,959)	-	143,751	5,342
Impact Capital 2018	28,559	(34,674)	6,115	\$ -	-
	<u>\$ 870,159</u>	<u>\$ (47,581)</u>	<u>\$ 6,115</u>	<u>\$ 828,693</u>	<u>\$ 13,191</u>

Component Unit Long-Term Debt

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

Ground lease – 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 this agreement. The balance at December 31, 2020 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 principle and interest will become immediately due and payable in full. Any unpaid principle balance will accrue interest at 12% per annum until paid in full. In order to avoid the acceleration clause, the

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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, 2020 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 \$44,935, was \$2,377,176 at December 31, 2020.

The following schedule provides the debt service requirements for the Department of Commerce long-term debt as of December 31, 2020:

Year Ending	Dept of Commerce		Required Debt Service
	Principal	Interest	
2021	-	-	-
2022	-	-	-
2023	-	-	-
2024	-	-	-
2025	-	-	-
2026-2030	-	-	-
2031-2035	-	-	-
2036-2040	325,451	79,630	405,081
2041-2045	564,479	110,654	675,133
2046-2050	593,274	81,860	675,134
2051-2055	623,536	51,597	675,133
2056-2060	655,343	19,791	675,134
	\$2,762,083	\$ 343,532	\$ 3,105,615

Changes in component unit long-term liabilities for the twelve-month period ended December 31, 2020 are as follows:

Description	Beginning			Ending Balance	Due Within One Year
	Balance	Additions	Reductions		
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	21,379	23,556	-	44,935	-
	\$2,870,578	\$ -	\$ -	\$2,894,134	\$ -

9. SHORT TERM DEBT

The Authority has two a short-term construction loans through Impact Capital for the predevelopment preservation of Pacific Place and Willapa Center Phase II predevelopment. No collateral has been pledged for these loans. Any amounts due and not paid on the maturity date shall thereafter bear interest at a rate of 12 and 6% per annum respectively. The acceleration clause would be enacted and all principal and interest immediately due if fraud or misrepresentation had occurred in the documentation of the application for funds or if funds are used for reasons other than ones approved in connection with these projects. These loans have been approved for up to \$85,000 and \$385,000 with the Authority anticipating withdrawing to

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the full extent of the loans prior to maturity. The current balances on December 31, 2020, was \$21,076 and \$220,952. The balances are due in full on July 31, 2021. The Authority plan to refinance or extend these short-term loans at maturity.

Component Unit Long-Term Debt

The component unit entered into a short-term loan with US Bank for up to \$3,511,950 in 2019 with a 4.135% interest rate that matured on 12/22/2020 with the intention of refinancing to a long-term debt in 2020. This Loan as well as the associated loan fees of \$96,746 were paid in full before 12/31/2020.

10. 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 a \$21,476 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.

11. COVID – 19 PANDEMIC

In February 2020, the Governor of the State of Washington declared a state of emergency in response to the spread of COVID-19, a deadly new virus. Throughout the year a declaration and various precautionary measures were issued to slow the spread of the virus. These measures included closing schools, colleges and universities, cancelling public events, and limiting gathering sizes. The social distancing measures put in place reduced or eliminated access to some service industries causing a spike in unemployment in the service sector. It is anticipated that some tenants may have difficulty meeting rent obligations and that overall revenue will decrease due to the impact of COVID-19 in 2021.

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12. RISK MANAGEMENT

The Authority is not facing any type of risk and has no settlements that exceed the insurance coverage traditionally insured with property and casualty insurance. The Authority is unaware of any loss exposures that may need specialized coverages traditionally excluded in property and casualty insurance.

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

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

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

Coverage limits for General Liability, Errors & Omissions and Property are \$2,000,000 per occurrence and \$2,000,000 annual aggregate. (Some members have chosen greater Property limits for higher valued properties.) Limits for Automobile Liability are \$1,000,000/\$1,000,000.

HARRP self-insures the full layer of coverage for liability lines (\$2,000,000 per occurrence and \$2,000,000 annual aggregate). There is no purchased reinsurance above this limit. For property, HARRP retains \$2,000,000 and \$63,000,000 of reinsurance from St. Paul/Travelers Insurance Company for a combined total of \$65,000,000. The HARRP Board of Directors determines the limits and coverage terms, at its sole discretion.

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

HARRP is fully funded by member assessments that are adjusted annually by the HARRP Board on the basis of independent actuarial studies. These assessments cover loss, loss adjustment expenses, 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.

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13. RELATED PARTY TRANSACTIONS

Housing Opportunities of Southwest Washington

The Authority contracts with the Housing Opportunities of Southwest Washington (HOSWWA) to provide administrative support, development support and property management staff. In 2020, the Authority paid HOSWWA \$39,788 for the management services. The Authority owed HOSWWA \$6,212 as of December 31, 2020.

The component unit also contracts with Housing Opportunities of Southwest Washington (HOSWWA) for development support and management services. At December 31, 2020, the component unit owed HOSWWA \$11,283 for development fees that are reported in related party payables.

The C.E.O. of HOSWWA acts as the Executive Director for the Authority but receives no additional compensation.

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, 2020, was \$19,459 for the Driftwood Point ground lease and \$14,933 for the Sponsor loan, for a total of \$34,392.

In 2020 there were accounts receivables due from the component unit of \$1,856. Included in the payable to related party balance is the \$10 annual lease payment and \$9,520 for miscellaneous payables.

The component unit has recorded a deferred land lease asset for the right to use the land associated with the above noted Driftwood Point ground lease, at \$325,000 with accumulated amortization of \$7,370. The balance of the deferred land lease, net, was \$317,630 on December 31, 2020.

In 2020, the Authority received \$21,517 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.