

JOINT PACIFIC COUNTY HOUSING AUTHORITY

INDEPENDENT AUDITORS' REPORT

AND

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2021

JOINT PACIFIC COUNTY HOUSING AUTHORITY
YEAR ENDED DECEMBER 31, 2021

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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, 2021, 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, 2021, 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.

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.

INDEPENDENT AUDITORS' REPORT, CONTINUED

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 10, 2022, 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.

August 10, 2022
Seattle, Washington

JOINT PACIFIC COUNTY HOUSING AUTHORITY
Management's Discussion and Analysis
December 31, 2021

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 \$860,347, of which \$358,828 are unrestricted and \$501,519 are restricted for a specific use. Unrestricted cash and cash equivalents increased during the year by \$123,978 (53%) and restricted cash and equivalents increased by \$209,678 (72%). The Authority’s overall cash position remained stable during 2021.
- Total revenues were \$347,770 in 2021 and \$416,347 in 2020. Revenues decreased by \$68,577 (16%). Operating revenues increased by \$20,471 (7.6%) and non-operating revenues decreased by \$89,048 (61%). This decrease in non-operating revenue was primarily due to a decrease in operating subsidies and grants received and due to slightly lower interest income.
- Total expenses of all Authority programs increased by \$50,482 (15%). Total operating expenses were \$392,700 in 2021 and \$342,218 in 2020. In addition, non-operating expenses in 2021 and 2020 were \$218,085 and \$37,926, respectively.
- The Authority’s Net Position increased by \$258,734 during 2021 mainly driven by donated capital assets of \$210,000 and \$150,787 special item related to the transfer of operations for Pacific Place, and partially offset by debt issuance costs for new loans in 2021. The year-end Net Position is \$3,451,105.

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.

JOINT PACIFIC COUNTY HOUSING AUTHORITY
Management's Discussion and Analysis
December 31, 2021

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.

JOINT PACIFIC COUNTY HOUSING AUTHORITY
Management's Discussion and Analysis
December 31, 2021

Condensed Comparative Financial Information

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

Summary Statement of Net Position			
	2021	2020	Net Change
ASSETS:			
Current and Other Assets	\$ 1,512,096	1,102,252	409,844
Capital Assets (net)	5,709,320	3,570,158	2,139,162
Total Assets	\$ 7,221,416	4,672,410	2,549,006
LIABILITIES:			
Current Liabilities	\$ 785,103	346,907	438,196
Noncurrent Liabilities	2,985,208	1,133,132	1,852,076
Total Liabilities	\$ 3,770,311	1,480,039	2,290,272
NET POSITION:			
Invested in Capital Assets Net of Related Debt	\$ 3,018,562	2,499,437	519,125
Restricted	474,563	279,761	194,802
Unrestricted	(42,020)	413,173	(455,193)
Total Net Position	\$ 3,451,105	3,192,371	258,734

The Authority's current assets exceed current liabilities by \$726,993, for a current ratio of 1.93. Current assets increased by \$409,844 (37%) and current liabilities increased by \$438,196 (126%). 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 current liabilities, driven from an increase in accounts payable at year-end, primarily related to capital projects. The 2021 year-end construction costs payable balance is \$699,769, which represents 89% of total current liabilities.

The Authority has \$501,519 in cash that was restricted in use by grant regulations, required reserves related to debt, development funds and security deposits. This amount increased \$209,678 (72%) from a balance of \$291,841 at the beginning of the fiscal year.

The Authority's Net Position increased in 2021 by \$258,734. This increase is shown in the increase in the amount invested in capital assets and restricted and offset by the decrease in unrestricted. The net position Invested in Capital Assets Net of Related Debt increased due to donated land, land and building acquired through the transfer of operations, see details in Note 14, and increased construction in progress, and was offset by increased capital related debt, including debt acquired as part of the transfer of operations. Unrestricted net position is reporting negative \$42,020 as of 12/31/2021 with revenues being used to increase capital assets throughout the year.

JOINT PACIFIC COUNTY HOUSING AUTHORITY
Management's Discussion and Analysis
December 31, 2021

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			
	2021	2020	Net Change
Revenues			
Operating			
Tenant Revenue	\$ 291,038	270,567	20,471
Non-Operating			
Government Operating Subsidies and Grants	33,929	126,517	(92,588)
Other Income	7,171	3,285	3,886
Interest Income	15,632	15,978	(346)
Total Revenue	347,770	416,347	(68,577)
Expenses			
Operating	392,700	342,218	50,482
Non-Operating	218,085	37,926	180,159
Total Expenses	610,785	380,144	230,641
Excess (Deficiency) of Revenues over Expenses	(263,015)	36,203	(299,218)
Capital Contributions	370,962	-	370,962
Special Items - Transfer of Operations	150,787	-	150,787
Change in Net Position	258,734	36,203	222,531
Beginning Total Net Position	3,192,371	3,179,624	12,747
Prior Period Adjustments	-	(23,456)	23,456
Ending Total Net Position	\$ 3,451,105	3,192,371	258,734

The increase in operating revenues reflects an improved occupancy rate and modest increases in rents. Operating expenses increased associated with tenant services and utilities costs while non-operating expenses increased due to significant debt issuance costs incurred in 2021, as well as due to a decrease in Pacific County recording fees received and passed through as a grant to Driftwood. In 2021 the Authority received \$210,000 in donated capital through the donation of land and \$160,962 in capital grant contributions for construction and rehabilitation of housing units. In December of 2021, the Authority recognized an increase to net position of \$150,787 related to the transfer of operations from Pacific Place.

Capital Asset and Long-Term Debt Administration

Capital Assets

At year end, the Authority had \$5.7 million reported in capital assets as shown on the following schedule, which represents a net increase of over \$2.1 million from the end of last year driven assets

JOINT PACIFIC COUNTY HOUSING AUTHORITY
Management’s Discussion and Analysis
December 31, 2021

acquired with the transfer of operations, donated land, and an increase in capital work in process, offset by annual depreciation.

The following table also summarizes the changes in capital assets between fiscal years 2021 and 2020.

Change in Capital Assets			Net
	2021	2020	Change
Land	\$ 791,903	506,903	285,000
Buildings	3,597,994	2,895,721	702,273
Equipment	6,037	6,037	-
Leasehold Improvements	1,225,566	1,225,566	-
Less Accumulated Depreciation	(1,743,697)	(1,624,166)	(119,531)
Capital Work in Progress	1,831,517	560,098	1,271,419
Total Capital Assets (net)	\$ 5,709,320	3,570,159	2,139,161

Long-Term Debt

The Authority’s long-term debt consists of \$2,517,139 in private placement debt and \$173,619 in recoverable grants. Increases were driven by assumption of a USDA Loan associated with the acquisition of Pacific Place as well as 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 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. 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 2022.
- The Authority acquired Pacific Place, a 24-unit USDA RD property. This property requires significant rehabilitation and preservation. Funding for these efforts has been established from a Department of Commerce recoverable grant.

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, 2021

	Primary Government	Component Unit
Assets		
Current assets:		
Cash and cash equivalents - unrestricted	\$ 358,828	57,094
Receivables, net	65,505	6,899
Accrued interest - due from Component Unit	49,848	-
Prepaid expenses	19,398	21,741
Total unrestricted current assets	493,579	85,734
Restricted assets:		
Tenant security deposits	26,956	15,471
Other restricted cash and cash equivalents	474,563	379,668
Total restricted current assets	501,519	395,139
Total current assets	995,098	480,873
Non-current assets:		
Notes receivable - due from Component Unit	516,958	-
Capital assets, net:		
Non-depreciable capital assets	2,623,420	-
Depreciable capital assets, net	3,085,900	6,669,368
Total capital assets, net	5,709,320	6,669,368
Other assets:		
Investments in partnerships - Component Unit	40	-
Deferred land lease, net - Primary Government	-	314,345
Other assets, net	-	173,620
Total other assets	40	487,965
Total noncurrent assets	6,226,318	7,157,333
Total assets	\$ 7,221,416	7,638,206

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

JOINT PACIFIC COUNTY HOUSING AUTHORITY
Statement of Net Position, continued
December 31, 2021

	Primary Government	Component Unit
Liabilities and Net Position		
Current liabilities:		
Accounts payable	\$ 23,714	22,339
Interest payable	231	-
Interest payable - due to Primary Government	-	49,848
Accounts payable - related party	5,542	9,843
Construction costs payable	699,769	-
Current portion of long-term debt	19,895	-
Unearned revenue	8,996	5,226
Payable from restricted assets:		
Developer fees payable	-	253,520
Tenant security deposits	26,956	11,804
Total payable from restricted assets	26,956	265,324
Total current liabilities	785,103	352,580
Non-current liabilities:		
Deferred ground lease revenue - due to Component Unit	314,345	-
Accrued interest - non-current	-	68,490
Long-term debt, net of current portion	2,670,863	2,332,241
Loans payable - Primary Government	-	516,958
Total noncurrent liabilities	2,985,208	2,917,689
Total liabilities	3,770,311	3,270,269
Net position:		
Invested in capital assets, net of related debt	3,018,562	3,820,169
Restricted	474,563	129,815
Unrestricted	(42,020)	417,953
Total net position	3,451,105	4,367,937
Total liabilities and net position	\$ 7,221,416	7,638,206

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, 2021

	Primary Government	Component Unit
Operating Revenues:		
Tenant rental revenue, net	\$ 282,443	282,998
Tenant revenue - other	8,595	15,911
Total operating revenue	291,038	298,909
Operating expenses:		
Administration	63,904	45,771
Tenant services	43,472	13,929
Utilities	41,582	65,017
Ordinary maintenance and operations	100,496	122,024
Depreciation and amortization expense	119,531	282,481
Other general expense	23,715	29,648
Total operating expenses	392,700	558,870
Operating income (loss)	(101,662)	(259,961)
Nonoperating revenues (expenses):		
Pacific County grants - operating	33,929	10,941
Grant to Component Unit	(10,941)	-
Investment income	15,632	10
Interest expense	(25,677)	(39,012)
Debt issuance costs	(181,467)	-
Other non-operating revenues	7,171	-
Total nonoperating revenues (expenses), net	(161,353)	(28,061)
Capital contributions and special items:		
Pacific County grants - capital	100,000	-
Other grants and contributions - capital	270,962	-
Special item - transfer of operations	150,787	-
Total capital contributions	521,749	-
Change in net position	258,734	(288,022)
Net position, beginning of year	3,192,371	4,655,959
Net position, end of year	\$ 3,451,105	4,367,937

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, 2021

	Primary Government
Cash flows provided by (used in) operating activities:	
Cash received from tenants	\$ 290,375
Cash received from Component Unit	1,856
Cash paid to suppliers	(300,267)
Cash paid to employees	<u>(15,488)</u>
Net cash provided (used) by operating activities	<u>(23,524)</u>
Cash flows from noncapital financing activities:	
Cash received from noncapital grants	33,929
Grants paid to Component Unit	<u>(10,941)</u>
Net cash provided (used) by noncapital financing activities	<u>22,988</u>
Cash flows from capital and related financing activities:	
Purchases of capital assets	(722,138)
Proceeds from sale of capital assets	9,510
Cash received from capital grants	100,000
Proceeds from issuance of long-term debt	1,060,845
Principal paid on long-term debt	(12,655)
Interest paid	(25,446)
Proceeds from transfer of operations	165,928
Proceeds from issuance of short-term debt	200,285
Principal paid on short-term debt	<u>(442,313)</u>
Net cash provided (used) by capital and related financing activities	<u>334,016</u>
Cash flows from investing activities:	
Interest and dividends	<u>176</u>
Net cash provided (used) by investing activities	<u>176</u>
Net increase (decrease) in cash and cash equivalents	<u>333,656</u>
Cash and cash equivalents at beginning of year	<u>526,691</u>
Cash and cash equivalents at end of year	<u>\$ 860,347</u>
RECONCILIATION TO STATEMENT OF NET POSITION:	
Cash - unrestricted	\$ 358,828
Cash - restricted	474,563
Cash - tenant security deposits	<u>26,956</u>
Total cash	<u>\$ 860,347</u>

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, 2021

	Primary Government
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:	
Net operating income (loss)	\$ (101,662)
Adjustments to reconcile change in net assets to cash provided (used) by operating activities:	
Depreciation and amortization	119,531
(Increase) decrease in assets:	
Receivables, net	3,200
Prepays and other assets	(2,754)
Increase (decrease) in liabilities:	
Accounts and other payables	(39,832)
Prepaid rent	(1,577)
Accrued expenses	(430)
Total adjustments	78,138
Net cash provided (used) by operating activities	\$ (23,524)
 SUMMARY OF NON CASH TRANSACTIONS:	
Capital contribution - land	\$ 210,000
Transfer of operations - USDA loan	(632,408)
Transfer of operations - land and building	632,408
Transfer of operations - tenant receivables	218
Transfer of operations - tenant liabilities	(15,141)

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

JOINT PACIFIC COUNTY HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2021

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, 2021, the same as the Authority’s.

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. 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.

These notes are an integral part of the financial statements.

JOINT PACIFIC COUNTY HOUSING AUTHORITY
 NOTES TO FINANCIAL STATEMENTS, continued
 FOR THE YEAR ENDED DECEMBER 31, 2021

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 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.

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:

<u>Asset Categories</u>	<u>Years</u>
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.

These notes are an integral part of the financial statements.

JOINT PACIFIC COUNTY HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS, continued
FOR THE YEAR ENDED DECEMBER 31, 2021

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

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. In 2021, amortized lease revenue was \$3,285 and is recorded in other non-operating revenues. Unearned tenant rent payments were received by year-end before they were due.

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 Principles

The Authority also implemented GASB statement Number 89, *Accounting for Interest Cost Incurred before the end of a Construction Period*, on January 1, 2021. The objective of this standard is to improve financial reporting by providing users of financial statements with more relevant information about capital assets and the cost of borrowing for a reporting period and to simplify accounting for interest cost incurred before the end of a construction period. This statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred. The Authority will no longer capitalize interest incurred during construction of a project.

JOINT PACIFIC COUNTY HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS, continued
FOR THE YEAR ENDED DECEMBER 31, 2021

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

New Accounting Standards to be Adopted in Future Years

GASB Statement No. 87, *Leases*, is effective for reporting periods beginning after June 15, 2021. Its objective is to improve accounting and financial reporting for leases by governments by establishing a single model for lease accounting based on the principle that leases are financing of the right to use an underlying asset. It requires recognition of certain lease assets and liabilities that were previously classified as operating.

GASB Statement No. 91, *Conduit Debt Obligations*, is effective for reporting periods beginning after December 15, 2021. This Statement will provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures.

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).

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, is effective for fiscal years beginning after June 15, 2022. Its objective is to provide guidance on the accounting and financial reporting for subscription-based information technology arrangements for government end users.

GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, is effective for fiscal years beginning after June 15, 2021. Its objectives are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans.

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.

JOINT PACIFIC COUNTY HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS, continued
FOR THE YEAR ENDED DECEMBER 31, 2021

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, 2021:

<u>Description</u>	<u>Amount</u>
Tenant accounts	\$ 2,976
Grants receivable	60,962
Miscellaneous	1,567
	<u>\$ 65,505</u>

Management believes all amounts to be collectible; therefore, no allowance for bad debt has been recorded. There are no amounts outstanding greater than 90 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, 2021 was as follows:

	Balance 01/01/21	Additions	Disposals	Balance 12/31/21
Capital assets not being depreciated:				
Land	\$ 506,903	285,000	-	791,903
Construction in process	<u>560,098</u>	<u>1,277,043</u>	<u>(5,624)</u>	<u>1,831,517</u>
Total capital assets not being depreciated	<u>1,067,001</u>	<u>1,562,043</u>	<u>(5,624)</u>	<u>2,623,420</u>
Capital assets being depreciated:				
Buildings	2,895,721	702,273	-	3,597,994
Equipment	6,037	-	-	6,037
Leasehold improvements	<u>1,225,566</u>	<u>-</u>	<u>-</u>	<u>1,225,566</u>
Total capital assets being depreciated	4,127,324	702,273	-	4,829,597
Less total accumulated depreciation	<u>(1,624,166)</u>	<u>(119,531)</u>	<u>-</u>	<u>(1,743,697)</u>
Total capital assets being depreciated, net	<u>2,503,158</u>	<u>582,742</u>	<u>-</u>	<u>3,085,900</u>
Total capital assets, net	<u>\$ 3,570,159</u>	<u>2,144,785</u>	<u>(5,624)</u>	<u>5,709,320</u>

These notes are an integral part of the financial statements.

JOINT PACIFIC COUNTY HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS, continued
FOR THE YEAR ENDED DECEMBER 31, 2021

5. CAPITAL ASSETS, continued

Component Unit

Capital asset activity for year ended December 31, 2021 for the component unit was as follows:

	Balance 01/01/21	Additions	Disposals	Balance 12/31/21
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	(294,782)	(267,536)	-	(562,318)
Total capital assets, net	<u>\$ 6,936,904</u>	<u>(267,536)</u>	<u>-</u>	<u>6,669,368</u>

6. RESTRICTED ASSETS

“Tenant security deposits” of \$26,956 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 \$367,790, operating and debt service reserves of \$92,053 and development funds of \$14,720. Withdrawals from these reserve accounts are subject to lender or grantor approval.

Component unit restricted assets include “tenant security deposits” of \$15,471, which are held in trust for tenants of the Driftwood Point Apartments, and “other cash”, 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

The Authority is committed under a lease agreement for the use of the Eagles Apartments. This lease is considered an operating lease for accounting purposes. Lease expense for the year ended December 31, 2021 amounted to \$6,671. 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 for the years ending December 31:

<u>Year</u>	<u>Amount</u>
2022	\$ 5,191
2023	5,191
2024	5,191
2025	5,191
2026	5,191
2027-2031	25,955
2032-2036	25,955
2037-2041	25,955
2042-2046	25,955
2047-2051	15,573
	<u>\$ 145,348</u>

JOINT PACIFIC COUNTY HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS, continued
FOR THE YEAR ENDED DECEMBER 31, 2021

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, 2021. 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, through the Washington State Department of Commerce HTF. The Authority was awarded \$7,535,675 for the state loan and \$3,112,193 for the federal loan. These loans have a 1% simple interest applicable with all principal and interest due on March 30, 2062, in one lump sum. Both loans, in addition to a recoverable grant, some local funding and donations, 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. These loans are 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 commencing on March 31, 2022 and ending on March 30, 2062 and applies to the thirty (30) units funded by this Contract. As of December 31, 2021, the state loan has total draws of \$322,271 and the federal loans had total draws of \$746,653.

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, 2021 are \$173,619.

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, 2021 is \$632,177.

JOINT PACIFIC COUNTY HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS, continued
FOR THE YEAR ENDED DECEMBER 31, 2021

8. LONG-TERM DEBT, continued

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%	119,280
Acquire Timberland Apartments	180,000	6/21/2013	2028	908	3.50%	138,945
Willapa Center New Construction - State	322,271	7/9/2021	2062	N/A**	1.00%	322,271
Willapa Center New Construction - Federal	746,653	7/9/2021	2062	N/A**	1.00%	746,653
Pacific Place Apartments Purchase	632,177	12/16/2021	2048	2,336	2.50%	632,177
Pacific Place Apartments Rehabilitation	<u>173,619</u>	12/16/2021	2061	N/A***	0.00%	<u>173,619</u>
	<u>\$2,818,956</u>					<u>\$2,690,758</u>

* Payments are deferred until 2033.

** No payments due until maturity

*** Recoverable Grant

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	
	Principal	Interest
2022	\$ 19,895	29,413
2023	21,436	29,027
2024	22,503	27,959
2025	23,630	26,833
2026	24,821	25,642
2027-2031	197,388	92,946
2032-2036	181,118	67,519
2037-2041	196,029	61,669
2042-2046	202,577	55,120
2047-2051	558,818	47,701
2052-2056	-	-
2057-2061	173,619	-
2062	1,068,924	427,570
	<u>\$ 2,690,758</u>	<u>891,399</u>

JOINT PACIFIC COUNTY HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS, continued
FOR THE YEAR ENDED DECEMBER 31, 2021

8. LONG-TERM DEBT, continued

Changes in direct borrowing long-term debt for the year ended December 31, 2021 are as follows:

Description	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
CTED	\$ 557,813	1,242,543	-	1,800,356	\$ -
WCRA	127,129	-	(7,849)	119,280	8,374
USDA	-	632,177	-	632,177	5,906
Bank of the Pacific	143,751	-	(4,806)	138,945	5,615
	<u>\$ 828,693</u>	<u>1,874,720</u>	<u>(12,655)</u>	<u>2,690,758</u>	<u>\$ 19,895</u>

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, 2021 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, 2021 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 \$68,490, was \$2,400,731 at December 31, 2021.

JOINT PACIFIC COUNTY HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS, continued
FOR THE YEAR ENDED DECEMBER 31, 2021

8. LONG-TERM DEBT, continued

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

	<u>Dept of Commerce</u>		<u>Required</u>
	<u>Principal</u>	<u>Interest</u>	<u>Debt Service</u>
2022	\$ -	-	-
2023	-	-	-
2024	-	-	-
2025	-	-	-
2026	-	-	-
2027-2031	-	-	-
2032-2036	-	-	-
2037-2041	118,036	557,098	675,134
2042-2046	575,825	99,308	675,133
2047-2051	605,198	69,935	675,133
2052-2056	636,070	39,064	675,134
2057-2061	<u>397,112</u>	<u>7,969</u>	<u>405,081</u>
Total	<u>\$2,332,241</u>	<u>773,374</u>	<u>3,105,615</u>

Changes in component unit long-term liabilities for the year ended December 31, 2021 are as follows:

	<u>Beginning</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u>	<u>Due within</u>
	<u>Balance</u>			<u>Balance</u>	<u>One year</u>
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	<u>44,935</u>	<u>23,555</u>	-	<u>68,490</u>	-
	2,894,134	23,555	-	2,917,689	-
Less: debt issuance costs	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 2,894,134</u>	<u>23,555</u>	<u>-</u>	<u>2,917,689</u>	<u>\$ -</u>

9. SHORT-TERM DEBT

The Authority had two a short-term construction loans through Impact Capital for the predevelopment preservation of Pacific Place and Willapa Center Phase II predevelopment. No collateral was pledged for these loans. These loans were paid in full in 2021.

10. CONTINGENCIES AND COMMITMENTS

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.

JOINT PACIFIC COUNTY HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS, continued
FOR THE YEAR ENDED DECEMBER 31, 2021

10. CONTINGENCIES AND COMMITMENTS, continued

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.

General partners of the component unit 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, 2021, the Authority entered into a construction contract to develop the Willapa Center property for a total of up to \$11,509,507, with \$673,920 expended to date and \$10,835,587 remaining on the contract.

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.

12. RISK MANAGEMENT

The Joint Pacific County Housing Authority is not facing any type of risk and has no settlements that exceeded the insurance coverage traditionally insured with property and casualty insurance. We are unaware of any loss exposures that may need specialized coverage traditionally excluded in property and casualty insurance.

The Joint Pacific County Housing Authority is a member of Housing Authorities Risk Retention Pool (HARRP). Utilizing Chapter 190.080 ORS and 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 member/owner housing authorities in the states of Washington, Oregon, California and Nevada. Thirty of the eighty members are Washington State public housing entities.

JOINT PACIFIC COUNTY HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS, continued
FOR THE YEAR ENDED DECEMBER 31, 2021

12. RISK MANAGEMENT, continued

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. (Due to special underwriting circumstances, some members may be subject to greater deductibles and E & O co-payments). Coverage limits for General Liability, Automobile Liability, as well as Errors and Omissions, are \$2,000,000 per occurrence with a \$2,000,000 aggregate.

The Property coverage offered by HARRP is on a replacement cost basis, with deductibles ranging from \$2,500 to \$25,000. Our Property coverages include Equipment Breakdown, as well as Fidelity coverage with limits of \$100,000 (with options up to \$2,000,000) for employee dishonesty, forgery or alteration and \$50,000 for theft, with a \$1,000 deductible.

HARRP self-insures coverage for liability lines. HARRP self-insures the first \$2,000,000 for property, then purchases \$45 million of excess insurance from Munich Reinsurance for a combined total of \$47,000,000. 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.

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 2021, the Authority paid HOSWWA \$40,418 for the management services. The Authority owed HOSWWA \$5,542 as of December 31, 2021. The component unit also contracts with Housing Opportunities of Southwest Washington (HOSWWA) for development support and management services.

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, 2021, was \$28,204 for the Driftwood Point ground lease and \$21,644 for the Sponsor loan, for a total of \$49,848.

These notes are an integral part of the financial statements.

JOINT PACIFIC COUNTY HOUSING AUTHORITY
NOTES TO FINANCIAL STATEMENTS, continued
FOR THE YEAR ENDED DECEMBER 31, 2021

13. RELATED PARTY TRANSACTIONS, continued

In 2021 included in the payable to related party balance at the component unit is \$30 in annual lease payments, \$2,700 payable to the limited partner for investor services fees, and \$7,113 for miscellaneous payables to the managing general partner, HOSWWA.

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 \$10,655. The balance of the deferred land lease, net, was \$314,345 on December 31, 2021.

In 2021, the Authority received \$10,941 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.

14. SPECIAL ITEMS – TRANSFER OF OPERATIONS

The Authority purchased and transferred the operations of an apartment complex, Pacific Place, in December of 2021. The net impact of this transfer of operations is reported as a special item on the Statement of Revenues, Expenses, and Changes in Fund Net Position in accordance with GASB 69. The transactions associated with the purchase and transfer of operations are detailed below and include transfers of cash and tenant accounts receivable, and liabilities in the form of pre-paid rents and deposits as well as loans assumed.

Transfer of Operations:

Building	\$ 637,178
Land	75,000
Cash reserves - from property	166,095
Tenant A/R	218
USDA Loan - Assumed	632,178
Cash paid to seller	80,000
Tenant liabilities	15,359
Revenues	167
Special item - Gain on transfer of operations	150,787

15. SUBSEQUENT EVENTS

Subsequent events were evaluated by management through August 10, 2022, which is the date the financial statements were available to be issued.

JOINT PACIFIC COUNTY HOUSING AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2021

Federal Agency	Pass-Thru Agency	Federal Program	Assistance Listing	Other Award Number	Expenditures			Passed - thru to Subrecipients	Note
					From Pass-Thru Awards	From Direct Awards	Total		
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT									
WA State Department of Commerce		Housing Trust Fund	14.275	18-42502-002	\$ 769,749	-	769,749	\$ -	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	60,962		60,962	-	
Total U.S. Department of Housing and Urban Development					1,388,524	-	1,388,524	-	
U.S. DEPARTMENT OF AGRICULTURE									
		Rural Rental Housing Loans	10.415		-	632,177	632,177	-	3
Total U.S. Department of Agriculture					-	632,177	632,177	-	
Total Expenditures of Federal Awards					\$ 1,388,524	632,177	2,020,701	\$ -	

* Denotes Major Program

JOINT PACIFIC COUNTY HOUSING AUTHORITY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2021

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. The December 31, 2021 balance outstanding on this loan was \$746,653; however, a total of \$769,749 is shown as federal expenditures expended under assistance listing 14.275 in 2021, due to a draw occurring in February 2022 with an additional \$23,096 in federal expenditures incurred in 2021.

The amounts shown as federal expenditures for the USDA Rural Housing Loan program under assistance listing 10.415 represent outstanding loan balances assumed during 2021. The loan balance outstanding at December 31, 2021 was \$632,177.

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, 2021 was \$557,813.

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, 2021, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated August 10, 2022.

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 have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2021-001 and 2021-002 that we consider to be significant deficiencies.

**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*.

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, Hill & Company, P.S.

August 10, 2022
Seattle, Washington

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, 2021. 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, 2021.

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.

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, Hill & Company, P.S.

August 10, 2022
Seattle, Washington

JOINT PACIFIC COUNTY HOUSING AUTHORITY
 Schedule of Findings and Questioned Costs
 For the year ended December 31, 2021

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes X no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ X yes _____ 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:

<u>Assistance Listing</u>	<u>Name of Federal Program</u>
14.239	<i>U.S. Department of Housing and Urban Development – HOME Investment Partnerships Program</i>
14.275	<i>U.S. Department of Housing and Urban Development – Housing Trust Fund</i>

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualifies as low-risk auditee? _____ yes X no

JOINT PACIFIC COUNTY HOUSING AUTHORITY
Schedule of Findings and Questioned Costs, continued
For the year ended December 31, 2021

Section II – Financial Statement Findings

2021-001 – SEFA Preparation

Federal Award

Not applicable. The finding relates to the preparation of the SEFA and not to a specific major program.

Finding

Internal control processes over SEFA preparation did not ensure that all material federal awards were recorded completely and correctly.

Repeat Finding

N/A – Not considered a repeat finding.

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 the total Federal Awards expended as determined in accordance with §200.502 *Basis for Determining Federal Awards Expended*.

Condition and Context

During our review of the initial draft of the SEFA prepared by management, we observed the SEFA incorrectly excluded two federal loan award balances under assistance listings 14.239 and 10.415 for a combined total of \$1,189,990, as well as federal grant award expenditures of \$60,962 under assistance listing 14.218.

Cause

Management’s internal review process did not provide for adequate preparation and review of the SEFA.

Effect

The misstatements could result in errors in the determination of major federal programs for compliance testing and in material misstatements to the total of federal awards expended.

Questioned Costs

None.

Recommendations

We recommend the Authority develop a process to review all loan agreements and grant award agreements annually, to ensure that the SEFA is complete. We also recommend the Authority implement a thorough review process for the SEFA, to ensure that it has been prepared accurately and in accordance with applicable guidance.

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, 2021

Section II – Financial Statement Findings, continued

2021-002 – Accounting for Construction Costs

Federal Award

Not applicable. 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 capital assets added during the year did not ensure proper cut-off and classification of costs incurred on construction projects.

Repeat Finding

N/A – Not considered a repeat finding.

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 2021, we observed management incorrectly capitalized over \$180,000 in loan fees associated with the issuance of new loans, which are required to be expensed in the period they were incurred. In addition, we identified \$90,822 in construction costs incurred during the period under audit which were not accrued at year-end.

Cause

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

Effect

The misstatements could result in errors in internal financial reports used by management and the board. They could also result in overstated capital assets that are depreciated over time and understated current year costs related to debt issuance.

Questioned Costs

None.

Recommendations

We recommend the Authority develop a process to review all construction costs capitalized during the year to ensure they are in compliance with GASB accounting and reporting requirements. We also recommend management implement a process to review construction costs invoiced several months subsequent to year-end, to ensure proper cut-off and completeness.

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, 2021

Section III –Federal Award Findings and Questioned Costs

NONE



JOINT PACIFIC COUNTY HOUSING AUTHORITY

820 11th Ave. Longview WA 98632

SEFA Preparation and Construction Cost Accounting Corrective Action Plan For the Year Ended December 31, 2021

Corrective Action Plan for Finding #2021-001 – SEFA Preparation

1. The Housing Authority will more carefully review the Schedule of Federal Expenditures to ensure that it is more accurately prepared.
2. The Housing Authority will ensure that all future loans are thoroughly reviewed for federal components.
3. The Housing Authority will create a contract matrix for all contracts and grants executed on behalf of the authority. This matrix will be shared with finance staff to ensure that no loans are missed on the SEFA.
4. Federal loans will be reported on the SEFA annually in accordance with federal regulations until the continuing compliance requirements have been met.

Date of Planned Corrective Action: Immediate.

Corrective Action Plan for Finding #2021-002 – Accounting for Construction Costs

1. The Housing Authority will implement an accrual policy wherein expenditures are accrued to the period the liability is incurred if the invoice is received within 60 days of the end of the current fiscal period for all amounts, when received between day 61 and 75 invoices exceeding \$25,000 will be accrued, and no accrual will occur after day 75 in order to facilitate preparation of financial statements and the year-end close.
2. The Housing Authority will ensure that no future debt issuance costs are capitalized and instead treated as period costs by having the Finance Director/Controller review asset capitalization projects to ensure debt issue costs are expensed.

Date of Planned Corrective Action: Immediate.

Signature: _____

A handwritten signature in blue ink, appearing to read 'Jennifer Westerman', is written over a horizontal line.

Printed Name: Jennifer Westerman, CEO



360-423-0140 fax 888-424-7145



JOINT PACIFIC COUNTY HOUSING AUTHORITY
Schedule of Prior Year Findings and Responses

No matters were reported.