

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

**Housing Authority of the City of
Longview
(Longview Housing Authority)
Cowlitz County**

Audit Period
October 1, 2005 through September 30, 2006

Report No. 72709

Issue Date
May 31, 2007



Washington _____
State Auditor
_____ Brian Sonntag



**Washington State Auditor
Brian Sonntag**

May 31, 2007

Board of Commissioners
Longview Housing Authority
Longview, Washington

Report on Financial Statements and Federal Single Audit

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

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

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

Sincerely,

BRIAN SONNTAG, CGFM
STATE AUDITOR

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Cowlitz County
October 1, 2005 through September 30, 2006**

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Federal Summary

Longview Housing Authority Cowlitz County October 1, 2005 through September 30, 2006

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

- An unqualified opinion was issued on the Housing Authority's financial statements.
- We noted no instances of noncompliance that were material to the financial statements of the Housing Authority.
- We issued an unqualified opinion on the Housing Authority's compliance with requirements applicable to its major federal program.
- We reported no findings, which are required to be disclosed under OMB Circular A-133.
- We noted in our Independent Auditor's Report on Financial Statements that the Schedule of Expenditures of Federal Awards was fairly presented.
- The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was \$300,000.
- The Housing Authority qualified as a low-risk auditee under OMB Circular A-133.
- The following was a major program during the period under audit:

<u>CFDA No.</u>	<u>Program Title</u>
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14.871	Section 8 Housing Choice Vouchers
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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters in Accordance with *Government Auditing Standards*

**Longview Housing Authority
Cowlitz County
October 1, 2005 through September 30, 2006**

Board of Commissioners
Longview Housing Authority
Longview, Washington

We have audited the basic financial statements of the Longview Housing Authority, Cowlitz County, Washington, as of and for the year ended September 30, 2006, and have issued our report thereon dated May 9, 2007.

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the Housing Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Housing Authority's financial statements are free of material misstatement, we performed tests of the Housing Authority's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with these provisions. 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 herein under *Government Auditing Standards*.

This report is intended for the information and use of management, the Board of Commissioners, federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

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

BRIAN SONNTAG, CGFM
STATE AUDITOR

May 9, 2007

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

**Longview Housing Authority
Cowlitz County
October 1, 2005 through September 30, 2006**

Board of Commissioners
Longview Housing Authority
Longview, Washington

COMPLIANCE

We have audited the compliance of the Longview Housing Authority, Cowlitz County, Washington, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended September 30, 2006. The Housing Authority's major federal program is identified in the Federal Summary. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Housing Authority's management. Our responsibility is to express an opinion on the Housing Authority's compliance based on our audit.

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

In our opinion, the Housing Authority complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended September 30, 2006.

INTERNAL CONTROL OVER COMPLIANCE

The management of the Housing Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Housing Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of management, the Board of Commissioners, federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

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BRIAN SONNTAG, CGFM
STATE AUDITOR

May 9, 2007

Independent Auditor's Report on Financial Statements

Longview Housing Authority Cowlitz County October 1, 2005 through September 30, 2006

Board of Commissioners
Longview Housing Authority
Longview, Washington

We have audited the accompanying basic financial statements of the Longview Housing Authority, Cowlitz County, Washington, as of and for the year ended September 30, 2006, as listed on page 8. These financial statements are the responsibility of the Housing Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Longview Housing Authority, as of September 30, 2006, and the changes in financial position and cash flows, where applicable, thereof, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report on our consideration of the Housing Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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

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

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BRIAN SONNTAG, CGFM
STATE AUDITOR

May 9, 2007

Financial Section

**Longview Housing Authority
Cowlitz County
October 1, 2005 through September 30, 2006**

REQUIRED SUPPLEMENTAL INFORMATION

Management's Discussion and Analysis – 2006

BASIC FINANCIAL STATEMENTS

Statement of Net Assets – 2006
Statement of Revenues, Expenses and Changes in Net Assets – 2006
Statement of Cash Flows – 2006
Notes to the Financial Statements – 2006

SUPPLEMENTAL INFORMATION

Schedule of Expenditures of Federal Awards – 2006
Notes to the Schedule of Expenditures of Federal Awards – 2006
Financial Data Schedule – 2006

HOUSING AUTHORITY OF THE CITY OF LONGVIEW
Management's Discussion And Analysis
September 30, 2006

The Housing Authority of the City of Longview, doing business as the Longview 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

- Unrestricted cash and cash equivalents increased by \$280 thousand (81%) during FY2006. Total unrestricted cash and equivalents at year end were \$627 thousand.
- The Authority's net assets increased by \$143,218 (31%) during FY2006. The Authority provides affordable housing to the public. To maintain affordability the Authority does not recover depreciation costs or property taxes through rents. Accounting standards, however, require the Authority to record depreciation. In the opinion of management, depreciation of real estate is not an accurate measure of economic decrease in the value of the assets. The recording of the "non-cash expense" depreciation has accumulated to approximately \$3.7 million. The Authority maintains a positive cash flow (see above) and a positive equity basis when accumulated depreciation has been taken into account. Net Assets were (\$316) thousand and (\$459) thousand for FY2006 and FY2005 respectively.
- The Authority maintained average occupancy rate of 97% across all projects.
- The Authority revenues increased by \$434 thousand (5%) during FY2006. Revenues were \$8.52 million and \$8.09 million for FY2006 and FY2005 respectively.
- The total expenses of all Authority programs increased by \$215 thousand (or 3%). Total expenses were \$8.39 million and \$8.18 million for FY2006 and FY2005 respectively.

Authority Wide Financial Statements

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

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

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

HOUSING AUTHORITY OF THE CITY OF LONGVIEW
Management's Discussion And Analysis
September 30, 2006

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

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

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

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

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

The Authority consists exclusively of a single Enterprise Fund and uses 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 assets 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 periods and expenses are recorded even though they may not have used cash during the current period.

Condensed Comparative Financial Information

The following table¹ presents the condensed **Statement of Net Assets** compared to prior year.

Statement of Net Assets	9/30/2006	9/30/2005
Current and Other Assets	\$ 3,347,621	\$ 2,556,269
Capital Assets	13,961,557	12,720,030
Total Assets	\$ 17,309,178	\$ 15,276,299
Current Liabilities	\$ 878,704	\$ 1,222,382
Long-Term Liabilities	16,746,079	14,512,740
Total Liabilities	17,624,783	15,735,122
Net Assets:		
Invested in Capital Assets, Net of Related Debt	(3,072,751)	(2,073,303)
Restricted for Bond Debt Service	1,620,636	1,250,272
Unrestricted	1,136,510	364,208
Total Net Assets	\$ (315,605)	\$ (458,823)

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

HOUSING AUTHORITY OF THE CITY OF LONGVIEW
Management's Discussion And Analysis
September 30, 2006

The Authority's unrestricted current assets exceed current liabilities (payable from unrestricted assets) by \$843 thousand, for a current ratio of 2.12. The current ratio is a measure of the ability to pay debts as they become due.

The Authority had \$1.52 million in cash, investments and inventory that were restricted in use by various bond trust indentures and loan commitments. These assets may only be used only for bond debt service, capital replacements, or property improvements. This amount increased by \$993 thousand (288%) from a balance of \$529 thousand at the beginning of the fiscal year. A significant part of this increase results from the acquisition of two properties in 2006.

The Authority's net assets increased in FY2006 by \$143 thousand. A majority of this increase was from the USDA Rural Development properties and the Housing Choice Voucher Program. With respect to the total net assets of \$(315,605) the Housing Authority's capital assets are 99% real estate, buildings and improvements to those buildings. Those capital assets are used to rent to low-income tenants. To maintain affordability the Authority does not recover depreciation costs or property taxes through rents. It is the opinion of management that depreciation of real estate does not accurately portray the economic result of holding the real estate. The properties of the Authority are maintained and improved through its operating budget and other capital improvement funds. Additionally, real estate is subject to appreciation, based on market conditions. Historical cost is carried on the books of the Authority and subject to depreciation, so any appreciation is not captured in the financial statements.

The following table² presents the condensed **Statement of Revenues, Expenses and Changes in Net Assets** compared to prior year.

Statement of Revenues, Expenses and Changes in Net Assets	9/30/2006	9/30/2005
Revenues		
Tenant Revenue - Rents and Other	\$ 1,642,423	\$ 1,690,148
Operating Subsidies and Grants	6,797,306	6,335,259
Capital Grants	-	-
Investment Income	56,225	31,194
Other Revenues	24,817	29,832
Total Revenue	8,520,771	8,086,433
Expenses		
Operating	6,836,508	6,912,466
Non-Operating		
General	309,855	81,185
Interest	782,396	759,619
Depreciation/Amortization	448,793	426,459
Total Expenses	8,377,552	8,179,729
Net Increase	\$ 143,219	\$ (93,296)

The Housing Authority's total operating revenue increased approximately 1%. Rental income increased 1% due to rent increases and better occupancy performance over the fiscal year. Grants revenues in the Non-operating Revenues and (Expenses) increased by 7%. The growth in grant income can be attributed to the acquisition of two rental complexes which include rental assistance and an interest rate subsidy.

² For more detailed information see the Statement of Revenues, Expenses and Changes in Net Assets.

HOUSING AUTHORITY OF THE CITY OF LONGVIEW
Management's Discussion And Analysis
September 30, 2006

Operating expenses increased 2% from the prior year. The modest increase of \$164 thousand can be attributed to the acquisition of two rental complexes (16 and 35 units respectively) and their operating costs. Depreciation and amortization expense increased 7% over the previous year for the same reason.

Capital Asset and Long-Term Debt Administration

As of the year end, the Authority had \$14.0 million invested in a variety of capital assets as reflected in the following schedule, which represents a net increase of \$1.24 million from the end of last year. The following table also summarizes the changes in capital assets between fiscal years 2006 and 2005:

	FY2006	FY2005	Net Change
Land	\$ 1,288,847	\$ 1,114,598	\$ 174,249
Buildings, improvements & fixtures	13,475,557	11,989,577	1,485,980
Leasehold improvements	2,727,052	2,708,413	18,639
Machinery, vehicles, & equipment	188,023	177,853	10,170
Construction in progress	-	-	-
Less accumulated depreciation	(3,717,922)	(3,270,411)	(447,511)
Total capital assets (net)	\$ 13,961,557	\$ 12,720,030	\$ 1,241,527

Long-Term Debt

The Housing Authority's long-term debt consists of loans, notes and revenue bonds issued for the purpose of acquisition and improvement of real property to provide housing for low income tenants. At September 30, 2006, the total liabilities reported by the Authority are \$17.6 million of which \$16.7 million are classified as long-term and \$879 thousand are current liabilities. Of the long term liabilities \$1.1 million in restricted assets have been set aside for debt service payments.

Payments of \$286 thousand were made on outstanding bonds and loans during the year.

Other Potentially Significant Matters

The Authority in partnership with the Joint Pacific County Housing Authority is negotiating with the WCDA of Pacific County to acquire the Eagles Apartments. The Eagles Apartments is funded through the WCRA and the Washington Housing Trust Fund.

The Authority has issued two purchase and sale agreements. The first purchase and sales agreement is for a 12 unit Mod/Rehab complex in Longview, Washington. The Authority is attempting to acquire this project to preserve the complex as an affordable rental property within our community. Currently the project has project based rental subsidies through HUD. If allowed to be sold the units would convert to conventional market driven rents and the subsidies would be lost to the community.

The second purchase and sales agreement is for a parcel on which to build the Phoenix House. Phoenix House is intended for single, post partum women (and their dependents) who are in a substance abuse recovery program. Each family will have their own bedroom and bathroom. These units will be Single Room Occupancy apartments and four families will share a common kitchen and living space. The residents of the twenty apartments at Phoenix House will share a common laundry facility and secure outdoor play area. The project will also include one two bedroom self-contained apartment that will serve as a residence for an on site supervisor/manager and it will provide a private office that can be used, as needed, for the women living in Phoenix House.

HOUSING AUTHORITY OF THE CITY OF LONGVIEW
Management's Discussion And Analysis
September 30, 2006

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 Tom Drake, CFE, CPA, Finance Director for the Longview Housing Authority. The Authority's offices are located at 1207 Commerce Ave., Longview, WA 98632. The telephone number is (360) 423-0140 x 16.

Housing Authority of the City of Longview

Statement of Net Assets September 30, 2006

ASSETS

Current assets:

Cash and cash equivalents	\$	627,256
Investments		68,674
Receivables, net		738,637
Prepaid expenses and other assets		162,946
Inventories		1,632
Assets held for resale		300
Restricted assets:		
Tenant security deposits		97,448
Other		1,523,188
TOTAL CURRENT ASSETS		3,220,081

Non-current assets:

Notes and mortgages		-
Capital assets:		
Land		1,288,847
Buildings and equipment		16,390,632
Accumulated depreciation		(3,717,922)
Total Capital assets, net		13,961,557
Other assets		127,540
TOTAL NON CURRENT ASSETS		14,089,097
TOTAL ASSETS	\$	17,309,178

LIABILITIES

Current Liabilities:

Accounts payable	\$	71,170
Accrued liabilities		277,955
Intergovernmental payables		1,430
Current portion of Long Term Debt		299,760
Deferred revenue		27,093
Other current liabilities		78,099
Payables from restricted assets		
Accrued Bond Interest		25,899
Tenant security deposits and escrow		97,298
TOTAL CURRENT LIABILITIES		878,704

Non-current Liabilities:

Accrued compensated absences		11,531
Long Term Debt		16,734,548
TOTAL NON-CURRENT LIABILITIES		16,746,079
TOTAL LIABILITIES		17,624,783

NET ASSETS

Invested in capital assets, net of related debt		(3,072,751)
Restricted		1,620,636
Unrestricted		1,136,510
TOTAL NET ASSETS	\$	(315,605)

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

Housing Authority of the City of Longview

Statement of Revenues, Expenses, and Changes in Net Assets For the Year Ended September 30, 2006

OPERATING REVENUES	
Net tenant rental revenue	\$ 1,536,808
Tenant revenue - other	105,615
Other revenue	24,817
Total Operating Revenue	1,667,240
OPERATING EXPENSES	
Administration	981,455
Tenant services	4,891,438
Utilities	279,851
Ordinary maintenance and operations	669,822
Depreciation expense	448,793
Other general expenses	323,797
Total Operating Expenses	7,595,156
OPERATING INCOME (LOSS)	\$ (5,927,916)
NON-OPERATING REVENUES (EXPENSES)	
Government operating subsidies	5,627,958
Other government grants	1,169,348
Investment income	56,225
Interest expense	(782,396)
Other non-operating revenue (expenses)	0
Total Non-operating Revenues (Expenses)	6,071,135
Income (loss) before contributions, transfers, extraordinary and special items	143,219
HUD Capital Contributions	-
Extraordinary/special Items	-
CHANGE IN NET ASSETS	143,219
TOTAL NET ASSETS 9/30/2005	\$ (458,824)
TOTAL NET ASSETS 9/30/2006	\$ (315,605)

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

Housing Authority of the City of Longview

Statement of Cash Flows for the Year Ended September 30, 2006

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from tenants	\$ 1,321,069
Payments to suppliers	(1,197,799)
Payments for tenant services	(4,891,438)
Payments to employees	(1,026,617)
Other receipts (payments)	646,208
Net cash used by operating activities	<u>(5,148,577)</u>

CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES

Grant receipts	6,186,748
Other receipts (payments)	(78,511)
Net cash provided by non-capital financing activities	<u>6,108,237</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Proceeds from capital debt	2,221,808
Capital contributions	-
(Purchases of capital assets)	(1,690,319)
(Principal paid on capital debt)	(171,162)
(Interest paid on capital debt)	(1,012,854)
Net cash used in capital and related financing activities	<u>(652,527)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from sale (purchase) of investments	35,319
Interest and dividends	56,225
Net cash used in investing activities	<u>91,544</u>

Net increase (decrease) in cash and cash equivalents	398,677
Balances - beginning of the year	1,849,215
Balances - end of the year	<u><u>\$ 2,247,892</u></u>

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES

Operating income (loss)	\$ (5,927,916)
Adjustments:	
Depreciation expense	448,793
Changes in assets and liabilities:	
Receivables, net	(145,919)
Inventories	330,742
Accounts and other payables	(108,569)
Accrued expenses	254,292
Net cash used by operating activities	<u><u>\$ (5,148,577)</u></u>

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

HOUSING AUTHORITY OF THE CITY OF LONGVIEW

Notes to the Financial Statements
For the Year Ended September 30, 2006

Note 1 - SUMMARY OF SIGNIFICANT POLICIES

The accounting policies of the Housing Authority of the City of Longview (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. In June 1999, GASB approved Statement 34, Basic Financial Statements – and Management Discussion and Analysis - for State and Local Governments. This and consecutive statements are reflected in the accompanying financial statements (including notes to financial statements). The following is a summary of the most significant policies:

a. Reporting Entity

The Housing Authority of the City of Longview is a municipal corporation governed by an appointed six member board. The Authority was incorporated on July 24, 1975 and operates under the laws of the state of Washington applicable to Housing Authorities. The six member board is appointed by the Mayor of the City of Longview. As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity. The Authority has no component units.

b. Basis of Accounting And Presentation

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

The Authority has elected to report as a single-enterprise proprietary fund and uses the accrual basis of accounting. The measurement focus is on the flow of economic resources. The proprietary fund is composed of a number of programs over a three-county area which includes Cowlitz County, Pacific County and Wahkiakum County. These include Housing and Urban Development programs and Department of Agriculture, Rural Housing, programs. The Authority also administers housing programs funded by the State and by the Longview-Kelso Consortium, some of which are indirectly funded by the federal government. Several apartment complexes have been purchased using Housing Revenue Bonds and are also owned and managed by the Authority for the purpose of providing affordable housing stock in our community. These programs are designed to provide low income individuals with housing.

Proprietary funds are used to account for activities that are operated in a manner similar to private enterprise business. Under this method revenues are recognized

when earned and expenses are recognized when incurred. Capital asset purchases are capitalized and long term liabilities are accounted for in the fund.

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

c. Cash And Cash Equivalents

“Cash and cash equivalents” are considered to be cash on hand and demand deposits. For the purposes of the Statement of Net Assets 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.

d. 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. An estimate of uncollectible accounts is made monthly and subject to approval of the board of commissioners expensed at the end of each month. The change in the Allowance 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.

e. Inventories

The “Inventories” account includes any material dollar amount of rental property components on hand and not installed at a particular property as of the date of the balance sheet. Generally, components are ordered as needed for specific repairs and not maintained as inventory. Inventory is valued at cost which approximates the market value.

f. 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 Balance Sheet, restricted resources currently include the following:

“Tenant security deposits” includes monies in the amount of \$97,448 at 9/30/2006 are held in trust for tenants of the Longview 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” includes \$1,092,417 for debt service reserves. Bond covenants entered into by the Housing Authority require portions of the debt proceeds as well as other resources to be set aside for various purposes. Also included are monies loaned by USDA in the form of equity loans on Tulip Valley and Columbia View Harbor Apartments. The unspent proceeds balance is restricted for capital work.

The “Payables from restricted assets” group of accounts presents the current liabilities accrued and payable from the “Restricted cash and equivalents” group of assets. At 9/30/2006 this balance was \$123,197.

g. 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, is not capitalized. 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 fair market value determined at the date of donation.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest expense incurred during the construction phase is reflected in the capitalized value of the asset constructed.

Property, plant, 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
Site improvements, sidewalks, paving, etc.	20
Vehicles-autos & light trucks	5
Office equipment-non computer	6
Computer & telecommunications equipment	5
Office furnishings	10
Other equipment, carpets, appliances	12

i. Investments

Investments are stated at cost, which approximates fair market value. For various risks related to the investments see Note 3 – Deposits and Investments.

j. Operating Revenues and Expenses

The authority reports operating revenues as defined in GASB Statement No. 9. Operating revenues result from fees and charges from providing services in connection with the ongoing operations of providing low income housing. Operating subsidies and grants are reported as non-operating revenues and are presented as cash flows from non-capital financing activities in the statement of cash flows. Operating expenses are those expenses that are directly incurred in the operation of providing low income housing.

k. Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation leave. The authority records unpaid leave for compensated absences as an expense and liability at year end if the compensation is guaranteed by the Authority's policy.

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

l. Revenue Bonds Payable

"Revenue bonds payable-current portion" includes all redemption amounts owed to bond holders within one year from the date of the statement. Bonds are also reported herein net of premium or discount; annual interest expense is increased by the amortization of the discount. Unamortized discounts are reported as an adjustment to the bonds payable reported on the balance sheet (see note 7).

As prescribed by GASB Statement No. 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities*, the difference between the carrying amount of redeemed defeased debt in a refunding transaction, and its reacquisition price, is deferred and amortized over the shorter of: 1) the life of the refunded debt, or, 2) the life of the refunding debt. During the period of amortization, the balance of this difference is also reported as a direct reduction of (or addition to) the amount of refunding debt reported on the balance sheet. Amortization expense includes the amortized refunding loss and the annual amortization amount of the debt issuance costs.

Note 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.

Note 3 – DEPOSITS AND INVESTMENTS

a. 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 (PDPC). 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 Washington Public Deposit Protection Commission (PDPC) 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.

b. Investments

Available excess cash or demand deposits of the Authority are invested in accordance with RCW 35.82.070(6) and the Authority’s policies. Investments consist of deposits with qualified public depositories, obligations of the U.S. Treasury and agencies, banker’s acceptances, commercial paper, and repurchase agreements. All restricted cash and investments held in bond trust accounts are invested in accordance with the provisions of the various trust indentures. Certain investments may meet the criteria of cash and cash equivalents, but are treated as investments by the Authority because of their intended long term use.

As of year ended September 30, 2006 investments consisted of the following:

Investment	Value
Market Rate Demand Deposit	\$ 68,674
U.S. Treasury Bill	1,092,417
Total	<u>\$1,161,091</u>

Interest Rate Risk – The Authority’s investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk – As noted above, state law limits the types of investments that can be made by the Authority to those identified in RCW 35.82.070(6).

Concentration of Credit Risk – The Authority places no limit on the amount that can be invested in any one investment.

Custodial Credit Risk – is the risk that in event of a failure of the counterparty to an investment transaction the Authority would not be able to recover the value of the investment of collateral securities. Of the Authority’s total position of \$1,161,091 in 2006, \$1,092,417 is exposed to custodial credit risk because the investments are held by the Authority’s brokerage firm, which is also the counterparty in those particular securities.

Note 4 – CAPITAL ASSETS

Major expenses (\$3,000 or more and a useful life of one year or more) for capital assets, including capital leases, and major repairs that increase useful lives are capitalized. Maintenance, repairs, and minor renewals are accounted for as expenses when incurred.

All capital assets are valued at historical cost or estimated historical cost, where historical cost is not known. Donations are recorded at the fair market value as determined by appraisal. Construction in progress is decreased when the construction is completed and the asset is placed in service. The decrease is equal to the increase in the class of assets that have been constructed.

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

Capital asset activity for the year ended September 30, 2006 was as follows:

	Beginning Balance 10/01/05	Increase	Decrease	Ending Balance 9/30/06
Capital assets not being depreciated:				
Land	\$ 1,114,598	\$ 174,249	-	\$ 1,288,847
Construction in progress	-	-	-	-
Total capital assets not being depreciated	1,114,598	174,249	-	1,288,847
Capital assets being depreciated:				
Buildings/improvements	11,989,578	1,485,979	-	13,475,557
Furniture, Equipment & Machinery - Dwellings	14,301	-	-	14,301
Furniture, Equipment & Machinery - Administration	163,552	10,170	-	173,722
Leasehold Improvements	2,708,413	18,639	-	2,727,052
Total capital assets being depreciated	14,875,844	1,514,788	-	16,390,632
Less total accumulated depreciation	(3,270,411)	(448,792)	(1,281)	(3,717,922)
Total capital assets being depreciated, net	11,605,433	1,065,996	(1,281)	12,672,710
Total capital assets, net	\$ 12,720,031	\$ 1,240,245	\$ (1,281)	\$ 13,961,557

The original cost of operating property retired or otherwise disposed of and the cost of installation, less salvage, is charged to accumulated depreciation. However, in the case of the sale of a significant operating unit or system, the original cost is removed from the capital asset accounts, accumulated depreciation is charged with the accumulated depreciation related to the property sold, and the net gain or loss on disposition is credited or charged to income.

Preliminary costs incurred for proposed projects are deferred pending construction of the

facility. Costs relating to projects ultimately constructed are transferred to the project; charges that related to abandoned projects are expensed.

Note 5 – CONSTRUCTION IN PROGRESS

There was no construction in progress at the end of fiscal year 2006

Note 6 – LEASE COMMITMENTS

a. Operating Lease(s)

The Authority is committed under various leases for use of copiers and postage equipment. These leases are considered operating leases for accounting purposes. Lease expenses for the year ended September 30, 2006 amounted to \$1,538.

Future minimum rental commitments for these leases are as follows:

Fiscal Year Ended	Minimum Lease Commitment
2007	\$ 2,988
2008	2,988
2009	2,988
2010	2,988
2011	2,988
Total	<u>\$ 14,940</u>

b. Capital Lease(s)

The Authority has not entered into any lease agreements which qualify as capital leases for accounting purposes.

Note 6 - PAYABLES FROM RESTRICTED ASSETS

“Client deposits payable” includes security deposits held pursuant to residential rental agreements. They are included, while not all will be payable in current period, because they are payable from the “Cash- client deposits” account listed under restricted assets.

In the Voucher program, “Client deposits payable” includes Family Self-Sufficiency (FSS) deposits held in escrow for tenants who complete that program. If they fail to complete or withdraw from the program, their deposit is refunded to HUD through the year-end settlement process. These deposits are payable from restricted assets also. At the end of the current year there was also \$68,674 in deposits included on this line which was received from participants in a new homeownership program.

“Bond interest payable” and “Revenue bonds payable- current” include accrued bond debt service amounts, held by trustee, until the next bond payment date. These amounts are

payable from cash held on bond covenant accounts.

Note 7 - LONG TERM DEBT AND LIABILITIES

a. Revenue Bonds:

The Authority issues revenue bonds to finance the acquisition or construction of low-income housing units. Bonded indebtedness has also been entered into (currently and in prior years) to advance refund several revenue bond issues. The revenue bonds are being repaid by the Authority's revenues.

On the refunding issues (Stratford 1996 and Pooled 1998), the earlier issues are legally defeased. Losses resulting from an advance refunding are carried on the balance sheet as an adjustment to the amount of the refunding debt, amortized over the shorter of the remaining life of the original issue or the life of the new issue. The remaining balance of the refunding loss was fully amortized in prior years.

Governmental GAAP for Proprietary Funds requires that Original Issue Discount (OID) be carried as an adjustment to the bond debt owing and amortized over the life of the bonds, which is 30 years. The amount amortized each year is added to interest expense. The unamortized bond discount amounts as of 9/30/06 were as follows

Project	Balance 9/30/06 of Bond Discount	FY2006 Amortization
OID- Stratford 1996 Issue	\$ 13,637	\$ 696
OID- Pooled 1998 Issue	\$ 113,902	\$ 5,177

The revenue bonds currently outstanding are as follows:

Purpose	Original Amount	Issue Date	Interest Rate	Amount Outstanding
Acquire Hawthorne House apartments.	\$ 940,000	October 12, 1995	7.50%	\$ 785,000
Stratford Apartments advance refunding of 1990 bond issue and to fund improvements and debt service reserve.	530,000	May 1, 1996	6.00% to 6.60%	450,000
Acquire Mint Place Apartments, advance refund 1992 bond issue, fund improvements and a debt service reserve.	9,090,000	October 1, 1998	5.13%	7,955,000
Total	<u>\$ 10,560,000</u>			<u>\$ 9,190,000</u>

Revenue bond debt service requirements to maturity are as follows:

Year Ending 9/30/xxxx	Principal	Interest	Required Debt Service
2007	\$ 215,000	\$ 497,298	\$ 712,298
2008	225,000	485,978	710,978
2009	245,000	473,443	718,443
2010	255,000	459,648	714,648
2011	265,000	445,333	710,333
2016	1,575,000	1,979,135	3,554,135
2021	2,060,000	1,464,174	3,524,174
2026	2,695,000	788,658	3,483,658
2031	1,655,000	94,600	1,749,600
	<u>\$ 9,190,000</u>	<u>\$ 6,688,264</u>	<u>\$ 15,878,264</u>

There is \$1,092,417 in bond covenant accounts shown under restricted assets of the Authority. These represent debt service funds and reserve requirements as contained in the various indentures.

c. Real Estate Mortgages

The Authority has long term loans which may be secured by capital assets. These loans were used to acquire capital assets that provide low income housing. In addition, in fiscal year 2003 the Authority entered into a loan to renovate office space and the 1201 commercial rental space. This loan is not secured against any real property. Loans and notes are being repaid from revenues generated by the Authority.

Purpose	Original Amount	Issue Date	Interest Date	Amount Outstanding
Renovate Administrative Office and Commercial Space	285,000	10/24/2002	6.50%	\$ 253,187
Purchase Hemlock (4 plex)	85,500	4/6/2001	8.25%	81,052
Refinance Harmony House	35,000	8/21/1998	8.00%	20,053
Acquire land and construct 17 units of elderly housing*	850,500	8/11/1998	1.00%	850,500
Acquire land and construct 17 units of elderly housing	250,000	4/30/1998	2.00%	135,841
Acquire land and construct 17 units of elderly housing	199,500	3/4/1998	6.50%	179,011
Purchase 61 units of senior housing	1,438,736	10/12/1995	1.00%	1,343,115
Purchase 39 units of elderly/disabled housing	1,238,636	8/1/1995	1.00%	1,089,940
Finance leasehold improvements for Sylvester Arms apartments	1,503,567	1/9/1994	1.00%	1,503,576
	493,046	10/25/2005	0.00%	493,046
Purchase 16 units of family housing	99,743	1/19/2006	1.00%	99,321
	242,569	1/19/2006	1.00%	241,542
Purchase 35 units of family housing	555,032	10/25/2005	0.00%	555,035
	360,748	1/19/2006	1.00%	359,220
	571,735	1/19/2006	1.00%	569,314
	<u>\$ 8,209,312</u>			<u>\$ 7,773,753</u>

* The table does not reflect \$70,470 of interest at the end of 9/30/2006.

Mortgage debt service requirements to maturity are as follows:

Year Ending 9/30/xxxx	Principal*	Interest**	Required Debt Service
2007	\$ 112,649	\$ 237,492	\$ 350,141
2008	132,456	232,168	364,624
2009	120,383	225,623	346,005
2010	194,394	234,932	429,326
2011	201,205	228,121	429,326
2016	1,129,008	1,073,239	2,202,247
2021	1,275,160	858,399	2,133,559
2026	1,313,130	603,149	1,916,279
2031	1,178,998	340,355	1,519,353
2036	783,376	98,310	881,687
2041	185,421	19,379	204,800
2046	1,242,961	9,920	1,252,881
2051	80,703	1,217	81,920
	<u>\$ 7,949,844</u>	<u>\$ 4,162,304</u>	<u>\$ 12,112,148</u>

* Principal includes \$176,090 of interest.

** USDA note repayments included in the preceding schedule are the debt payment amounts net of the interest credit subsidy committed by USDA to these projects.

c. Changes in Long-Term Liabilities

During the year ended September 30, 2006, the following changes occurred in long-term liabilities:

	Beginning Balance 10/1/2005	Additions	Reductions	Ending Balance 9/30/2006	Due Within One Year
Revenue Bonds Payable	\$ 9,400,000	\$ -	\$ 210,000	\$ 9,190,000	\$ 215,000
Less Deferred amounts for OID	(133,413)	5,874		(127,539)	
Total Bonds Payable	9,266,587	5,874	210,000	9,062,461	215,000
Mortgages Payable	5,260,507	2,393,343	62,814	7,591,036	83,244
Unsecured Notes Payable	266,239		13,052	253,187	29,405
Total Long Term Liabilities	<u>\$ 14,793,333</u>	<u>\$ 2,399,217</u>	<u>\$ 285,866</u>	<u>\$ 16,906,684</u>	<u>\$ 327,649</u>

d. Arbitrage

The Authority periodically monitors for the existence of any rebatable arbitrage interest associated with its tax-exempt debt. The rebate is based on the difference between the interest earnings from the investment of bond proceeds and the interest expense associated with the debt. As of September 30, 2006 the Authority estimates that no arbitrage rebate exists and that no liability exists.

Note 8 - PENSION PLANS

Substantially all authority full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380. The following disclosures are made pursuant to GASB Statement 27, *Accounting for Pensions by State and Local Government Employers*.

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

Plan Description

PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a defined benefit plan with a defined contribution component. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts (other than judges currently in a judicial retirement system); employees of legislative committees; community and technical colleges, college and university employees not participating in national higher education retirement programs; judges of district and municipal courts; and employees of local governments. PERS participants who joined the system by September 30, 1977, are Plan 1 members. Those who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercise an option to transfer their membership to Plan 3. PERS participants joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS Plan 3. PERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. PERS retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

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

Plan 2 retirement benefits are vested after an employee completes five years of eligible service. Plan 2 members may retire at the age of 65 with five years of service, or at the age of 55 with 20 years of service, with an allowance of 2 percent of the average final compensation per year of service. The average final compensation is based on the greatest compensation during any eligible consecutive 60-month period. Plan 2 retirements prior to the age of 65 receive reduced

benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. There is no cap on years of service credit; and a cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at 3 percent annually.

Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. The defined benefit portion provides a benefit calculated at 1 percent of the average final compensation per year of service. The average final compensation is based on the greatest compensation during any eligible consecutive 60-month period. Effective June 7, 2006, Plan 3 members are vested in the defined portion of their plan after ten years of service; or after five years if twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 prior to June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan. Vested Plan 3 members are eligible to retire with full benefits at age 65, or at age 55 with 10 years of service. Retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. The benefit is also actuarially reduced to reflect the choice of a survivor option. There is no cap on years of service credit; and Plan 3 provides the same cost-of-living allowance as Plan 2. The defined contribution portion can be distributed in accordance with an option selected by the member, either as a lump sum or pursuant to other options authorized by the Employee Retirement Benefits Board.

There are 1,181 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of September 30, 2005^{1/}:

Retirees and Beneficiaries Receiving Benefits	68,609
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	22,567
Active Plan Members Vested	104,574
Active Plan Members Nonvested	51,004
Total	246,754

Funding Policy

Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and 7.5 percent for state government elected officers. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan, and member contributions finance the defined contribution portion. The Employee Retirement Benefits Board sets Plan 3 employee contribution rates. Six rate options are available ranging from 5 to 15 percent; two of the options are graduated rates dependent on the employee's age. The methods used to determine the contribution requirements are established under state statute in accordance with chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payrolls, as of December 31, 2006^{1/}, were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	3.69%**	3.69%	3.69%*****
Employee	6.00%***	3.5%	*****

* The employer rates include the employer administrative expense fee currently set at 0.18%.

** The employer rate for state elected officials is 5.44%.

*** The employee rate for state elected officials is 7.50%.

**** Plan 3 defined benefit portion only.

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

1. Please contact the Department of Retirement for participating employer and current rate information.

Both the authority and the employees made the required contributions. The authority's required contributions for the years ended December 31 were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2006	\$ 332	\$ 17,179	\$ 4,655
2005	\$ 656	\$ 9,371	\$ 1,979
2004	\$ 523	\$ 7,995	\$ 2,091

Note 9 – DEFICIT RETAINED EARNINGS

The Authority is showing a deficit in the retained earnings account. Deficit retained earnings have occurred because of significant amounts of depreciation expense, associated with depreciating buildings, which reduce net income from operations each year. While depreciation is mandated under GAAP, the amount of depreciation does not necessarily reflect the actual economic cost of aging of the Authority's real property. It occurs in the programs that involve ownership of real estate, which include the Local Agency programs, the Rural Development programs. The Retained Earnings balances and the Depreciation expense for fiscal years 2006 and 2005 are as follows:

	2006	2005	2004
Net Equity	\$ (333,032)	\$ (458,823)	\$ (365,527)
Accumulated Depreciation	3,734,512	3,270,411	2,860,285
Net Income	125,792	(93,296)	(185,557)
Depreciation Expense	465,382	417,829	409,301
Income without the effects of Depreciation	\$ 591,174	\$ 324,533	\$ 223,744

Note 10 - CONTINGENCIES AND LITIGATION

The Housing 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 Housing Authority will have to make payment. In the opinion of management, the Authority's insurance policies are adequate to pay all known or pending claims.

The Housing 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 our Authority for expenditures disallowed under the terms of the grants. Housing Authority management believes that losses attributable to such disallowance, if any, will be immaterial.

Note 11 – SUBSEQUENT EVENTS

In response to a request from the Mason County Housing Authority the Longview Housing Authority has taken on the responsibility of administrating the Housing Choice Voucher program in Lewis County. The transfer of the contract was approved by HUD in January 2007.

Note 12 – RISK MANAGEMENT

The Authority is a member of the Housing Authorities Risk Retention Pool (HARRP).

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

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

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

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

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

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

Housing Authority of the City of Longview

Schedule of Expenditures of Federal Awards For the year ended September 30, 2006

Grantor/ Pass-Through Grantor Program Title	CFDA#	Other Identification Number	Direct Federal Expenditures	In-Direct Federal Expenditures	Total Federal Expenditures
Department of Housing & Urban Development:					
Housing Counseling Assistance Program	14.169		\$ -	\$ 2,000	\$ 2,000
Home Investment Partnerships Program	14.239	2004EN	-	146,291	146,291
Housing Opportunities for Persons with AIDS	14.241	03-42803-007	-	15,256	15,256
Lower Income Housing Assistance Program	14.856	WA007MR0001	73,968	-	73,968
Housing Choice Vouchers	14.871	WA007VO	5,620,385	-	5,620,385
Total Department of Housing & Urban Development			5,694,353	163,547	5,857,900
Department of Agriculture:					
Rural Rental Housing Loans	10.415	56-15-911012000-16/56-51-911012000-28	151,637	-	151,637
Rural Rental Assistance Payments	10.427	56-15-911012000-16/56-51-911012000-28	491,690	-	491,690
Total Department of Agriculture			643,327	-	643,327
Total Federal Assistance			\$ 6,337,680	\$ 163,547	\$ 6,501,227

The accompanying notes to the Schedule of Expenditures of Federal Awards are an integral part of this Schedule.

HOUSING AUTHORITY OF THE CITY OF LONGVIEW
Notes to the Schedule of Expenditures of Federal Awards

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 – PROGRAM COSTS

Except as noted in the next paragraph the amounts shown as current year expenditures represent only the federal grant portion of the program costs. Entire program costs, including the Authority's portion, are more than shown.

As required by the granting agency, the amounts shown on the schedule for the Housing Choice Voucher program (CFDA 14.871) represent amounts awarded to the Authority. Actual expenditures of the grant during the period were \$5,388,655.

Note 3 – FEDERAL LOANS

The Authority was approved by the U. S. Department of Agriculture to receive loans totaling \$3,952,167 to acquire and renovate low income housing:

Purpose	Original Amount	Outstanding Amount
Purchase 61 units of senior housing	1,438,736	1,343,115
Purchase 39 units of elderly/disabled housing	1,238,636	1,089,940
	99,743	99,321
Purchase 16 units of family housing	242,569	241,542
	360,748	359,220
Purchase 35 units of family housing	571,735	569,314

Note 4 – AMOUNTS AWARDED TO SUBRECIPIENTS

Included in the total amount expended for this program (CFDA 14.241) is \$14,915 that was passed through to a sub recipient that administered its own project.

HOUSING AUTHORITY OF THE CITY OF LONGVIEW
Financial Data Schedule
for the period ended on 9/30/2006

Line Item No.	Account Description	Business Activities	Rural Rental Housing Loans	Rural Rental Assistance Payments	Housing Counseling Assistance Program	HOME Investment Partnerships Program	Housing Opportunities for Persons with AIDS	Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitat WA007MR0001	Housing Choice Vouchers	Total
111	Cash - Unrestricted	251,650	-	157,734	-	-	-	5,830	212,042	627,256
112	Cash - Restricted - Modernization and Development	-	-	430,771	-	-	-	-	-	430,771
113	Cash - Other Restricted	1,087,917	-	-	-	4,500	-	-	-	1,092,417
114	Cash - Tenant Security Deposits	62,970	-	34,478	-	-	-	-	-	97,448
100	Total Cash	1,402,537	-	622,983	-	4,500	-	5,830	212,042	2,247,892
124	Accounts Receivable - Other Government	4,129	-	695,828	-	10,282	15,256	-	-	725,495
125	Accounts Receivable - Miscellaneous	2,850	-	-	-	-	-	-	5,437	8,287
126	Accounts Receivable - Tenants - Dwelling Rents	9,846	-	150	-	-	-	-	-	9,996
126.1	Allowance for Doubtful Accounts - Dwelling Rents	(5,141)	-	-	-	-	-	-	-	(5,141)
126.2	Allowance for Doubtful Accounts - Other	-	-	-	-	-	-	-	-	-
120	Total Receivables, net of allowances for doubtful accounts	11,684	-	695,978	-	10,282	15,256	-	5,437	738,637
131	Investments - Unrestricted	-	-	-	-	-	-	-	68,674	68,674
142	Prepaid Expenses and Other Assets	150,406	-	3,811	-	-	-	78	8,651	162,946
143	Inventories	1,632	-	-	-	-	-	-	-	1,632
143.1	Allowance for Obsolete Inventories	-	-	-	-	-	-	-	-	-
144	Interprogram Due From	15,710	-	-	-	-	-	-	1,360	17,070
145	Assets Held for Sale	-	-	-	-	300	-	-	-	300
150	Total Current Assets	1,581,969	-	1,322,772	-	15,082	15,256	5,908	296,164	3,237,151
161	Land	716,110	-	572,737	-	-	-	-	-	1,288,847
162	Buildings	8,683,991	-	4,791,566	-	-	-	-	-	13,475,557
164	Furniture, Equipment & Machinery - Administration	136,512	-	-	-	-	-	-	51,511	188,023
165	Leasehold Improvements	2,716,655	-	-	-	-	-	-	10,397	2,727,052
166	Accumulated Depreciation	(2,776,484)	-	(911,750)	-	-	-	-	(29,688)	(3,717,922)
160	Total Fixed Assets, Net of Accumulated Depreciation	9,476,784	-	4,452,553	-	-	-	-	32,220	13,961,557
174	Other Assets	127,540	-	-	-	-	-	-	-	127,540
180	Total Non-Current Assets	9,604,324	-	4,452,553	-	-	-	-	32,220	14,089,097
190	Total Assets	11,186,293	-	5,775,325	-	15,082	15,256	5,908	328,384	17,326,248
312	Accounts Payable <= 90 Days	31,608	-	33,054	-	-	-	-	6,463	71,170
321	Accrued Wage/Payroll Taxes Payable	30,612	-	-	-	-	-	-	-	30,612
322	Accrued Compensated Absences - Current Portion	-	-	4,399	-	-	-	153	17,001	21,553
325	Accrued Interest Payable	-	-	25,899	-	-	-	-	-	25,899
331	Accounts Payable - HUD PHA Programs	-	-	-	-	-	-	1,430	-	1,430
341	Tenant Security Deposits	62,820	-	34,478	-	-	-	-	-	97,298
342	Deferred Revenues	24,938	-	2,155	-	-	-	-	-	27,093

HOUSING AUTHORITY OF THE CITY OF LONGVIEW
Financial Data Schedule
for the period ended on 9/30/2006

Line Item No.	Account Description	Business Activities	Rural Rental Housing Loans	Rural Rental Assistance Payments	Housing Counseling Assistance Program	HOME Investment Partnerships Program	Housing Opportunities for Persons with AIDS	Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitat WA007MR0001	Housing Choice Vouchers	Total
343	Current Portion of Long-term Debt - Capital Projects/Mortgage Revenue Bonds	233,176	-	66,584	-	-	-	-	-	299,760
345	Other Current Liabilities	1,675	-	-	-	2,500	-	-	73,924	78,099
346	Accrued Liabilities - Other	225,790	-	-	-	-	-	-	-	225,790
347	Interprogram Due To	1,360	-	-	-	-	15,710	-	-	17,070
310	Total Current Liabilities	611,979	-	166,569	-	2,500	15,710	1,628	97,388	895,774
351	Long-term Debt, Net of Current - Capital Projects/Mortgage Revenue Bonds	11,265,629	-	5,468,919	-	-	-	-	-	16,734,548
354	Accrued Compensated Absences - Non Current	11,531	-	-	-	-	-	-	-	11,531
350	Total Noncurrent Liabilities	11,277,160	-	5,468,919	-	-	-	-	-	16,746,079
300	Total Liabilities	11,889,139	-	5,635,488	-	2,500	15,710	1,628	97,388	17,641,853
508	Total Contributed Capital	-	-	-	-	-	-	-	-	-
508.1	Invested in Capital Assets, Net of Related Debt	(2,022,021)	-	(1,082,950)	-	-	-	-	32,220	(3,072,751)
511	Total Reserved Fund Balance	-	-	-	-	-	-	-	-	-
511.1	Restricted Net Assets	1,150,887	-	465,249	-	4,500	-	-	-	1,620,636
512.1	Unrestricted Net Assets	168,288	-	757,538	-	8,082	(454)	4,280	198,776	1,136,510
513	Total Equity/Net Assets	(702,846)	-	139,837	-	12,582	(454)	4,280	230,996	(315,605)
600	Total Liabilities and Equity/Net Assets	11,186,293	-	5,775,325	-	15,082	15,256	5,908	328,384	17,326,248
703	Net Tenant Rental Revenue	1,239,022	-	297,786	-	-	-	-	-	1,536,808
704	Tenant Revenue - Other	68,649	-	36,966	-	-	-	-	-	105,615
705	Total Tenant Revenue	1,307,671	-	334,752	-	-	-	-	-	1,642,423
706	HUD PHA Operating Grants	-	-	-	-	-	-	73,968	5,553,990	5,627,958
708	Other Government Grants	296,079	151,637	491,690	2,000	146,291	15,256	-	66,395	1,169,348
711	Investment Income - Unrestricted	-	-	4,527	-	-	-	17	69	4,613
713	Proceeds from Disposition of Assets Held for Sale	-	-	-	-	320,473	-	-	-	320,473
713.1	Cost of Sale of Assets	-	-	-	-	(421,082)	-	-	-	(421,082)
714	Fraud Recovery	-	-	-	-	-	-	-	6,660	6,660
715	Other Revenue	102,967	-	4,311	-	69	-	-	11,419	118,766
720	Investment Income - Restricted	40,185	-	10,869	-	-	-	-	588	51,612
700	Total Revenue	1,746,902	151,637	846,149	2,000	45,751	15,256	73,985	5,639,091	8,520,771
911	Administrative Salaries	107,971	-	-	-	21,135	661	3,587	334,138	467,502
912	Auditing Fees	-	-	4,475	-	-	-	503	14,906	19,884
913	Outside Management Fees	-	-	71,804	-	-	-	-	26,688	98,492

HOUSING AUTHORITY OF THE CITY OF LONGVIEW
Financial Data Schedule
for the period ended on 9/30/2006

Line Item No.	Account Description	Business Activities	Rural Rental Housing Loans	Rural Rental Assistance Payments	Housing Counseling Assistance Program	HOME Investment Partnerships Program	Housing Opportunities for Persons with AIDS	Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitat WA007MR0001	Housing Choice Vouchers	Total
914	Compensated Absences	11,531	-	4,399	-	-	-	153	17,001	33,084
915	Employee Benefit Contributions - Administrative	30,346	-	-	-	4,586	120	910	81,209	117,171
916	Other Operating - Administrative	69,010	-	34,869	-	2,639	14	1,404	137,586	245,322
921	Tenant Services - Salaries	-	-	-	-	-	-	-	71,732	71,732
923	Employee Benefit Contributions - Tenant Services	-	-	-	-	-	-	-	17,434	17,434
924	Tenant Services - Other	36,626	-	-	2,000	-	14,915	-	-	53,541
931	Water	31,289	-	22,537	-	-	-	-	-	53,826
932	Electricity	30,283	-	21,227	-	-	-	-	-	51,510
938	Other Utilities Expense	96,751	-	77,764	-	-	-	-	-	174,515
941	Ordinary Maintenance and Operations - Labor	157,292	-	104,300	-	-	-	-	-	261,592
942	Ordinary Maintenance and Operations - Materials and Other	87,136	-	67,435	-	-	-	-	-	154,571
943	Ordinary Maintenance and Operations - Contract Costs	121,487	-	45,515	-	-	-	53	-	167,055
945	Employee Benefit Contributions - Ordinary Maintenance	48,941	-	37,863	-	-	-	-	-	86,804
952	Protective Services - Other Contract Costs	954	-	291	-	-	-	-	-	1,245
961	Insurance Premiums	27,450	-	16,165	-	149	-	115	9,018	52,897
962	Other General Expenses	75,822	-	17,645	-	158	-	152	11,330	105,107
963	Payments in Lieu of Taxes	6,677	-	-	-	-	-	-	-	6,677
964	Bad Debt - Tenant Rents	12,346	-	37	-	-	-	-	-	12,383
967	Interest Expense	502,154	151,637	128,605	-	-	-	-	-	782,396
968	Total Operating Expenses	1,454,066	151,637	654,531	2,000	28,667	15,710	6,887	721,042	3,034,540
970	Excess Operating Revenue over Operating Expenses	292,836	-	191,618	-	17,084	(454)	67,098	4,918,049	5,486,231
972	Casualty Losses - Non-Capitalized	2,781	-	-	-	-	-	-	-	2,781
973	Housing Assistance Payments	-	-	-	-	68,686	-	66,399	4,756,353	4,891,438
974	Depreciation Expense	317,267	-	121,223	-	-	-	-	10,303	448,793
900	Total Expenses	1,774,114	151,637	775,754	2,000	97,353	15,710	73,286	5,487,698	8,377,552
1001	Operating Transfers In	-	-	-	-	34,664	-	-	-	34,664
1002	Operating Transfers Out	(34,664)	-	-	-	-	-	-	-	(34,664)
1010	Total Other Financing Sources (Uses)	(34,664)	-	-	-	34,664	-	-	-	-
1000	Excess (Deficiency) of Operating Revenue Over (Under) Expenses	(61,876)	-	70,395	-	(16,938)	(454)	699	151,393	143,219
1102	Debt Principal Payments - Enterprise Funds	-	-	-	-	-	-	-	-	-
1103	Beginning Equity	(640,970)	-	69,442	-	29,520	-	3,581	79,603	(458,824)
1104	Prior Period Adjustments, Equity Transfers and Correction of Errors	-	-	-	-	-	-	-	-	-
1113	Maximum Annual Contributions Commitment (Per ACC)	-	-	-	-	-	-	82,800	5,551,990	5,634,790
1114	Prorata Maximum Annual Contributions Applicable to a Period of less than Twelve Months	-	-	-	-	-	-	-	-	-
1115	Contingency Reserve, ACC Program Reserve	-	-	-	-	-	-	-	-	-

HOUSING AUTHORITY OF THE CITY OF LONGVIEW
 Financial Data Schedule
 for the period ended on 9/30/2006

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1116	Total Annual Contributions Available	-	-	-	-	-	-	82,800	5,551,990	5,634,790
1120	Unit Months Available	2,784	-	1,608	-	180	-	144	13,320	18,036
1121	Number of Unit Months Leased	2,677	-	1,536	-	175	-	139	13,016	17,543
1117	Administrative Fee Equity	-	-	-	-	-	-	-	87,194	87,194
1118	Housing Assistance Payments Equity	-	-	-	-	-	-	-	157,744	157,744