

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, 2006 through September 30, 2007

Report No. 74565

Issue Date
May 19, 2008



WASHINGTON
BRIAN SONNTAG
STATE AUDITOR



**Washington State Auditor
Brian Sonntag**

May 19, 2008

Board of Appointed Representatives
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, 2006 through September 30, 2007**

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Federal Summary

Longview Housing Authority Cowlitz County October 1, 2006 through September 30, 2007

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.

FINANCIAL STATEMENTS

An unqualified opinion was issued on the basic financial statements.

Internal Control Over Financial Reporting:

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

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

FEDERAL AWARDS

Internal Control Over Major Programs:

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

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

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

Identification of Major Programs:

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

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

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

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

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

**Longview Housing Authority
Cowlitz County
October 1, 2006 through September 30, 2007**

Board of Appointed Representatives
Longview Housing Authority
Longview, Washington

We have audited the financial statements of the Longview Housing Authority, Cowlitz County, Washington, as of and for the year ended September 30, 2007, and have issued our report thereon dated January 8, 2008.

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Housing Authority's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Housing Authority's financial statements that is more than inconsequential will not be prevented or detected by the Housing Authority's internal control.

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

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

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

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Housing Authority's financial statements are free of material misstatement, we performed tests of the Housing Authority's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

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

BRIAN SONNTAG, CGFM
STATE AUDITOR

January 8, 2008

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

**Longview Housing Authority
Cowlitz County
October 1, 2006 through September 30, 2007**

Board of Appointed Representatives
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, 2007. The Housing Authority's major federal program is identified in the Federal Summary. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Housing Authority's management. Our responsibility is to express an opinion on the Housing Authority's compliance based on our audit.

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

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

INTERNAL CONTROL OVER COMPLIANCE

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

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

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is a more than remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

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

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



BRIAN SONNTAG, CGFM
STATE AUDITOR

January 8, 2008

Independent Auditor's Report on Financial Statements

Longview Housing Authority Cowlitz County October 1, 2006 through September 30, 2007

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, 2007, as listed on page 8. These financial statements are the responsibility of the Housing Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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


In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Longview Housing Authority, as of September 30, 2007, and the changes in financial position 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 12 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.

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

January 8, 2008

Financial Section

**Longview Housing Authority
Cowlitz County
October 1, 2006 through September 30, 2007**

REQUIRED SUPPLEMENTAL INFORMATION

Management's Discussion and Analysis – 2007

BASIC FINANCIAL STATEMENTS

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

SUPPLEMENTAL INFORMATION

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

HOUSING AUTHORITY OF THE CITY OF LONGVIEW
Management's Discussion and Analysis
September 30, 2007

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 decreased by \$333 thousand (53%) during FY2007. The year end unrestricted cash and equivalents were \$295 thousand.
- The Authority's net assets increased by \$234 thousand (74%) during FY2007. The Authority's mission is to provide 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 \$4.0 million. The Authority maintains a positive cash flow and a positive equity basis when accumulated depreciation has been taken into account. Net Assets were (\$81) thousand and (\$316) thousand for FY2007 and FY2006, respectively.
- The Authority maintained average occupancy rate of 99% across all projects.
- The Authority revenues increased by \$1.4 million (16%) during FY2007. Revenues were \$9.9 million and \$8.5 million for FY2007 and FY2006, respectively.
- The total expenses of all Authority programs increased by \$1.3 million (or 16%). Total expenses were \$9.7 million and \$8.4 million for FY2007 and FY2006, 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 financial 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 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.

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 financial statement 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	9/30/2007	9/30/2006
Current and Other Assets	\$ 3,341,314	\$ 3,347,621
Capital Assets	14,439,121	13,961,557
Total Assets	\$ 17,780,435	\$ 17,309,178
Current Liabilities	\$ 1,384,742	\$ 878,704
Long-Term Liabilities	16,477,047	16,746,079
Total Liabilities	17,861,789	17,624,783
Net Assets:		
Invested in Capital Assets,		
Net of Related Debt	(2,305,001)	(3,072,751)
Restricted for Bond Debt Service	2,142,828	1,620,636
Unrestricted	80,819	1,136,510
Total Net Assets	\$ (81,354)	\$ (315,605)

The Authority's unrestricted current assets exceed current liabilities (payable from unrestricted assets) by \$350 thousand, for a current ratio of 1.34. The current ratio is a measure of the ability to pay debts as they become due.

The Authority had \$1.8 million in cash, investments and inventory that were restricted in use by various bond trust indentures, loan commitments and grant requirements. These assets may only be used for bond debt service, capital replacements, property improvements or housing assistance payments. This amount increased by \$310 thousand (13%) from a balance of \$1.6 million at the beginning of the fiscal year. A significant part of this increase results from Housing Assistance Payments (HAP) funds that were received from HUD but remain unspent at yearend.

The Authority's net assets increased in FY2007 by \$235 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 \$(81,354) 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.

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

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	9/30/2007	9/30/2006
Revenues		
Operating		
Tenant Revenue	\$ 1,859,931	\$ 1,642,423
Other	318,641	24,817
Non-Operating		
Government Operating Subsidies and Grants	7,620,200	6,797,306
Investment Income	61,564	56,225
Total Revenue	9,860,336	8,520,771
Expenses		
Operating		
	8,886,856	7,595,156
Non-Operating		
Interest	799,554	782,396
Total Expenses	9,686,410	8,377,552
Excess (Deficiency) of Revenues over Expenses	173,926	143,219
Capital contributions		
Change in net assets	51,028	-
Prior Period Adjustment	234,251	143,219
Net Assets, Beginning of Year	9,297	-
Net Assets, End of year	(315,605)	(458,824)
	\$ (81,354)	\$ (315,605)

The Housing Authority's total operating revenue increased approximately 31%. Rental income increased 13% due to additional units, rent increases and better occupancy performance over the fiscal year. Grants revenues in the Non-operating Revenues and (Expenses) increased by 13%. The growth in grant income can be attributed to the first full year of operations for two rental complexes which include rental assistance and an interest rate subsidy along with increased funding from the Housing Choice Voucher program, and Grants for the Phoenix House which is under development.

Operating expenses increased 22% from the prior year. The increase of \$1.5 million can be attributed to the first full year of operations for two rental complexes (16 and 35 units respectively) and their operating costs. Depreciation and amortization expense increased 3% over the previous year for the same reason.

Capital Asset and Long-Term Debt Administration

As of the year end, the Authority had \$14.4 million invested in a variety of capital assets as reflected in the following schedule, which represents a net increase of \$478 thousand from the end of last year. The following table also summarizes the changes in capital assets between fiscal years 2007 and 2006:

	FY2007	FY2006	Net Change
Land	\$ 1,288,847	\$ 1,288,847	\$ -
Buildings, improvements & fixtures	14,173,928	13,475,557	698,371
Leasehold improvements	2,727,053	2,727,052	1
Machinery, vehicles, & equipment	230,575	188,023	42,552
Less accumulated depreciation	(3,981,282)	(3,717,922)	(263,360)
Total capital assets (net)	\$ 14,439,121	\$ 13,961,557	\$ 477,564

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

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, 2007, the total liabilities reported by the Authority are \$17.9 million of which \$16.5 million are classified as long-term and \$1.4 million are current liabilities. Of the long term liabilities \$1.3 million in restricted assets have been set aside for debt service payments.

Payments of \$290 thousand were made on outstanding bonds and loans during the year.

Other Potentially Significant Matters

The Authority has a purchase and sales agreement for a parcel on which to build the Phoenix House. The Authority closed this sale following the year end in October 2007. 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.

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 at September 30, 2007

ASSETS

Current assets:

Cash and cash equivalents	\$	294,516
Investments		308,199
Receivables, net		325,776
Prepaid expenses		205,232
Inventories		1,103
Assets held for resale		251,623

Restricted assets:

Tenant security deposits		101,962
Other		1,731,236
TOTAL CURRENT ASSETS		<u>3,219,647</u>

Non-current assets:

Notes and mortgages		-
Capital assets:		

Land		1,288,847
Buildings and equipment		17,131,556
Accumulated depreciation		(3,981,282)
Total Capital assets, net		<u>14,439,121</u>

Other assets		121,667
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TOTAL NON CURRENT ASSETS		<u>14,560,788</u>
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TOTAL ASSETS	\$	<u><u>17,780,435</u></u>
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LIABILITIES

Current Liabilities:

Accounts payable	\$	112,590
Accrued liabilities		116,246
Intergovernmental payables		65,827
Current portion of Long Term Debt		300,065
Deferred revenue		175,794
Other current liabilities		266,334

Payables from restricted assets		
Accrued Bond Interest		245,924

Tenant security deposits		101,962
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TOTAL CURRENT LIABILITIES		<u>1,384,742</u>
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Non-current Liabilities:

Accrued compensated absences		32,990
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Long Term Debt		16,444,057
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TOTAL NON-CURRENT LIABILITIES		<u>16,477,047</u>
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TOTAL LIABILITIES		<u><u>17,861,789</u></u>
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NET ASSETS

Invested in capital assets, net of related debt		(2,305,001)
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Restricted		2,142,828
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Unrestricted		80,819
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TOTAL NET ASSETS	\$	<u><u>(81,354)</u></u>
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The notes to the financial statements are an intergral 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, 2007

OPERATING REVENUES	
Net tenant rental revenue	\$ 1,728,543
Tenant revenue - other	131,388
Other revenue	318,641
Total Operating Revenue	<u>2,178,572</u>
OPERATING EXPENSES	
Administration	1,195,018
Tenant services	5,944,498
Utilities	338,508
Ordinary maintenance and operations	843,871
Depreciation expense	462,640
Other general expenses	102,321
Total Operating Expenses	<u>8,886,856</u>
OPERATING INCOME (LOSS)	<u>\$ (6,708,284)</u>
NON-OPERATING REVENUES (EXPENSES)	
Government operating subsidies	6,509,694
Other government grants	1,110,506
Investment income	61,564
Interest expense	(799,554)
Total Non-operating Revenues (Expenses)	<u>6,882,210</u>
Income (loss) before contributions, transfers, extraordinary and special items	173,926
Capital Contributions	51,028
CHANGE IN NET ASSETS	224,954
TOTAL NET ASSETS 9/30/2006	\$ (315,605)
Prior Period Adjustment	9,297
TOTAL NET ASSETS 9/30/2006 RESTATED	<u>(306,308)</u>
TOTAL NET ASSETS 9/30/2007	<u>\$ (81,354)</u>

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

Housing Authority of the City of Longview

Statement of Cash Flows For the Year Ended September 30, 2007

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from tenants	\$ 1,961,430
Payments to suppliers	(1,377,664)
Payments for tenant services	(5,673,115)
Payments to employees	(1,193,453)
Other receipts (payments)	(204,484)
Net cash used by operating activities	<u>(6,487,286)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Grant receipts	8,111,139
Other receipts (payments)	192,821
Net cash provided by non-capital financing activities	<u>8,303,960</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from capital debt	
Capital contributions	51,028
(Purchases of capital assets)	(940,204)
(Principal paid on capital debt)	(290,186)
(Interest paid on capital debt)	(579,529)
Net cash used in capital and related financing activities	<u>(1,758,891)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sale (purchase) of investments	(239,525)
Interest and dividends	61,564
Net cash used in investing activities	<u>(177,961)</u>
Net increase (decrease) in cash and cash equivalents	(120,178)
Balances - beginning of the year	2,247,892
Balances - end of the year	<u>\$ 2,127,714</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
Operating income (loss)	\$ (6,708,284)
Adjustments:	
Depreciation expense	462,640
Changes in assets and liabilities:	
Receivables, net	(50,269)
Inventories	(244,921)
Accounts and other payables	193,798
Accrued expenses	(140,250)
Net cash used by operating activities	<u>\$ (6,487,286)</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, 2007

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 four-county area which includes Cowlitz County, Lewis 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 and is valued using the "first in first out" (FIFO) method 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 \$101,962 at 9/30/2007 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 \$1,260,703 for debt service reserves, \$340,378 for excess Housing Assistance Payment reserves, and \$127,155 for replacement reserves, \$3,000 in escrow/deposit accounts at 9/30/2007. 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.

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

h. Investments

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

i. 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.

j. 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

“Current portion of Long Term Debt” 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, 2007 investments consisted of the following:

<u>Investment</u>	<u>Value</u>
Market Rate Demand Deposit	\$ 156,397
Certificate of Deposit	\$ 44,015
U.S. Treasuries	1,212,098
Total	<u>\$ 1,412,510</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 \$1,412,510 in 2007, \$1,212,098 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, 2007 was as follows:

	Beginning Balance 10/01/06	Increase	Decrease	Ending Balance 9/30/07
Capital assets not being depreciated:				
Land	\$ 1,288,847	\$ -	\$ -	\$ 1,288,847
Total capital assets not being depreciated	1,288,847	-	-	1,288,847
Capital assets being depreciated:				
Buildings/improvements	13,475,557	722,728	24,355	14,173,930
Furniture, Equipment & Machinery - Dwellings	14,301	-	-	14,301
Furniture, Equipment & Machinery - Administration	173,722	42,551	-	216,273
Leasehold Improvements	2,727,052	-	-	2,727,052
Total capital assets being depreciated	16,390,632	765,279	24,355	17,131,556
Less total accumulated depreciation	(3,717,922)	(462,640)	199,280	(3,981,282)
Total capital assets being depreciated, net	12,672,710	302,639	223,635	13,150,274
Total capital assets, net	\$ 13,961,557	\$ 302,639	\$ 223,635	\$ 14,439,121

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 2007

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, 2007 amounted to \$3,578.

Future minimum rental commitments for these leases are as follows:

Fiscal Year Ended	Minimum Lease Commitment
2008	3,528
2009	3,258
2010	2,988
2011	2,988
Total	<u>\$ 12,762</u>

b. Capital Lease(s)

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

Note 7 - 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.

“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 8 - 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 9/30/07 were as follows

Project	Balance 9/30/07 of Bond Discount	FY2007 Amortizatio
OID- Stratford 1996 Issue	\$ 12,941	\$ 696
OID- Pooled 1998 Issue	\$ 108,725	\$ 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%	\$ 765,000
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%	440,000
Acquire Mint Place Apartments, advance refund 1992 bond issue, fund improvements and a debt service reserve.	9,090,000	October 1, 1998	5.13%	7,770,000
Total	<u>\$ 10,560,000</u>			<u>\$ 8,975,000</u>

Revenue bond debt service requirements to maturity are as follows:

Year Ending 9/30/xxxx	Principal	Interest	Required Debt Service
2008	\$ 225,000	\$ 495,338	\$ 720,338
2009	245,000	483,693	728,693
2010	255,000	470,828	725,828
2011	265,000	457,033	722,033
2016	280,000	442,718	722,718
2021	1,665,000	1,962,085	3,627,085
2026	2,170,000	1,440,754	3,610,754
2031	2,735,000	761,316	3,496,316
2036	1,135,000	94,600	1,229,600
	<u>\$ 8,975,000</u>	<u>\$ 6,608,362</u>	<u>\$ 15,583,362</u>

There is \$1,212,097 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%	\$ 239,260
Purchase Hemlock (4 plex)	85,500	4/6/2001	8.25%	79,990
Refinance Harmony House	35,000	8/21/1998	8.00%	17,427
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%	118,888
Acquire land and construct 17 units of elderly housing	199,500	3/4/1998	6.50%	175,408
Purchase 61 units of senior housing	1,438,736	10/12/1995	1.00%	1,329,743
Purchase 39 units of elderly/disabled housing	1,238,636	8/1/1995	1.00%	1,066,383
Finance leasehold improvements for Sylvester Arms apartments	1,503,567	1/9/1994	1.00%	1,503,576
Purchase 16 units of family housing	493,046	10/25/2005	0.00%	493,046
	99,743	1/19/2006	1.00%	98,566
	242,569	1/19/2006	1.00%	239,705
Purchase 35 units of family housing	555,032	10/25/2005	0.00%	555,035
	360,748	1/19/2006	1.00%	356,488
	571,735	1/19/2006	1.00%	564,983
	<u>\$ 8,209,312</u>			<u>\$ 7,688,998</u>

* The table does not reflect \$80,127 of accrued interest at the end of 9/30/2007.

Mortgage debt service requirements to maturity are as follows:

Year Ending 9/30/xxxx	Principal*	Interest**	Required Debt Service
2008	\$ 132,176	\$ 232,448	\$ 364,624
2009	120,100	225,906	346,005
2010	194,108	235,218	429,326
2011	200,917	228,409	429,326
2012	208,165	221,161	429,326
2017	1,169,346	1,040,590	2,209,936
2022	1,297,086	809,137	2,106,223
2027	1,300,770	480,364	1,781,134
2032	1,083,633	285,339	1,368,972
2037	686,057	69,058	755,114
2042	187,276	17,524	204,800
2047	1,244,909	7,972	1,252,881
2052	40,550	410	40,960
	<u>\$ 7,865,092</u>	<u>\$ 3,853,536</u>	<u>\$ 11,718,628</u>

* Principal includes \$176,094 of accrued 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, 2007, the following changes occurred in long-term liabilities:

	Beginning Balance 10/1/2006	Additions	Reductions	Ending Balance 9/30/2007	Due Within One Year
Revenue Bonds Payable	\$ 9,190,000	\$ -	\$ 215,000	\$ 8,975,000	\$ 225,000
Less Deferred amounts for OID	(127,539)	5,873		(121,666)	
Total Bonds Payable	9,062,461	5,873	215,000	8,853,334	225,000
Mortgages Payable	7,591,036		61,253	7,529,783	117,317
Unsecured Notes Payable	253,187		13,927	239,260	14,859
Total Long Term Liabilities	\$ 16,906,684	\$ 5,873	\$ 290,180	\$ 16,622,377	\$ 357,176

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, 2007 the Authority estimates that no arbitrage rebate exists and that no liability exists.

Note 9 - 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, 2005¹:

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, 2007^{1/}, were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	6.13%**	6.13%	6.13%****
Employee	6.00%***	4.15%	*****

- * 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	\$ 174	\$ 17,804	\$ 5,250
2005	\$ 656	\$ 9,371	\$ 1,979
2004	\$ 523	\$ 7,995	\$ 2,091

Note 10 – DEFICIT NET ASSETS

The Authority is showing a deficit Net Assets account balance at year end. Deficit net assets have occurred because of significant amounts of depreciation expense, associated with depreciating buildings, which reduce 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. The Net Assets balances and the Depreciation expense for fiscal years 2007 through 2004 are as follows:

	2007	2006	2005	2004
Net Assets	\$ (81,354)	\$ (315,605)	\$ (458,823)	\$ (365,527)
Accumulated Depreciation	3,981,282	3,717,922	3,270,411	2,860,285
Change in Net Assets (Income)	234,251	143,219	(93,296)	(185,557)
Depreciation Expense	462,640	448,793	417,829	409,301
Income without the effects of Depreciation	<u>\$ 696,891</u>	<u>\$ 592,012</u>	<u>\$ 324,533</u>	<u>\$ 223,744</u>

Note 11 - PRIOR PERIOD ADJUSTMENTS

The prior period adjustment of \$9,297 is the result of recognizing tenant fraud recoveries on an accrual basis. Previously revenues were not recognized until recovery occurred. The adjustment restated net assets at September 30, 2006 from (\$315,605) to (\$306,308).

Note 12 - CONTINGENCIES AND LITIGATION

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 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 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 13 – SUBSEQUENT EVENTS

The Authority executed a sales and purchase agreement for land on October 22, 2007. The offered sales price of \$960,000, subject to a due diligence review and other contingencies, is scheduled to close July 30, 2008.

Note 14 – 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 (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 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-two members in the states of Washington, Oregon, Nevada and California. Thirty-six of the ninety two members are Washington public housing entities.

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

General and Automobile Liability coverage are written on an occurrence basis, without member deductibles. Errors and 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 Property.

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

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

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

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

Housing Authority of the City of Longview

Schedule of Expenditures of Federal Awards For the year ended September 30, 2007

Grantor/ Pass-Through Grantor Program Title	CFDA#	Other Identification Number	Direct Federal Expenditures	In-Direct Federal Expenditures	Total Federal Expenditures
Department of Agriculture:					
Rural Rental Housing Loans	10.415	56-15-911012000-16/56-51-911012000-28	172,284	-	172,284
Rural Rental Assistance Payments	10.427	56-15-911012000-16/56-51-911012000-28	457,711	-	457,711
Total Department of Agriculture			629,995	-	629,995
Department of Housing & Urban Development:					
Home Investment Partnerships Program	14.239	2004EN	-	191,774	191,774
Housing Opportunities for Persons with AIDS	14.241	03-42803-007	-	112,331	112,331
Lower Income Housing Assistance Program	14.856	WA007MR0001	74,507	-	74,507
Housing Choice Vouchers	14.871	WA007VO	6,189,863	-	6,189,863
Total Department of Housing & Urban Development			6,264,370	304,105	6,568,475
Total Federal Assistance			<u>\$ 6,894,365</u>	<u>\$ 304,105</u>	<u>\$ 7,198,470</u>

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.

The amounts shown on the schedule for the Housing Choice Voucher program (CFDA 14.871) represent amounts expended by the Authority. Actual receipts of the grant funds during the period were \$5,647,729.

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	1,329,743
Purchase 39 units of elderly/disabled housing	1,238,636	1,066,383
	99,743	98,566
Purchase 16 units of family housing	242,569	239,705
	360,748	356,488
Purchase 35 units of family housing	571,735	564,983

Note 4 – AMOUNTS AWARDED TO SUBRECIPIENTS

Included in the total amount expended for this program (CFDA 14.241) is \$107,320 that was passed through to a sub recipient that administered its own project.

Line Item No.	Account Description	Business Activities	Rural Rental Housing Loans	Rural Rental Assistance Payments	HOME Investment Partnerships Program	Housing Opportunities for Persons with AIDS	Lower Income Housing Assistance Program_Section 8 Moderate Rehabilitation WA007/MR0001	Housing Choice Vouchers	Total
111	Cash - Unrestricted	3,006	-	199,557	-	-	3,901	88,052	294,516
113	Cash - Other Restricted	1,267,647	-	120,591	2,620	-	-	340,378	1,731,236
114	Cash - Tenant Security Deposits	65,814	-	36,148	-	-	-	-	101,962
100	Total Cash	1,336,467	-	356,296	2,620	-	3,901	428,430	2,127,714
124	Accounts Receivable - Other Government	92,451	-	117,656	11,403	8,878	-	68,565	298,953
125	Accounts Receivable - Miscellaneous	2	-	-	-	-	-	-	2
126	Accounts Receivable - Tenants - Dwelling Rents	9,357	-	2,529	-	-	-	-	11,886
126.1	Allowance for Doubtful Accounts - Dwelling Rents	(6,467)	-	(761)	-	-	-	-	(7,228)
126.2	Allowance for Doubtful Accounts - Other	-	-	-	-	-	-	-	-
128	Fraud Recovery	-	-	-	-	-	-	9,398	9,398
128.1	Allowance for Doubtful Accounts - Fraud	-	-	-	-	-	-	(1,218)	(1,218)
120	Total Receivables, net of allowances for doubtful accounts	95,343	-	119,424	11,403	8,878	-	76,745	311,793
132	Investments Restricted	-	-	219,604	-	-	-	88,595	308,199
142	Prepaid Expenses and Other Assets	168,274	-	30,327	799	-	65	5,767	205,232
143	Inventories	1,103	-	-	-	-	-	-	1,103
143.1	Allowance for Obsolete Inventories	-	-	-	-	-	-	-	-
144	Interprogram Due From	-	-	13,904	-	-	79	-	13,983
145	Assets Held for Sale	-	-	-	251,623	-	-	-	251,623
150	Total Current Assets	1,601,187	-	739,555	266,445	8,878	4,045	599,537	3,219,647
161	Land	716,110	-	572,737	-	-	-	-	1,288,847
162	Buildings	8,668,571	-	4,735,175	-	-	-	-	13,403,746
163	Furniture, Equipment & Machinery - Dwellings	14,301	-	-	-	-	-	-	14,301
164	Furniture, Equipment & Machinery - Administration	114,306	-	13,806	-	-	-	88,162	216,274
165	Leasehold Improvements	2,716,656	-	-	-	-	-	10,397	2,727,053
166	Accumulated Depreciation	(3,059,136)	-	(882,380)	-	-	-	(39,766)	(3,981,282)
167	Construction In Progress	149,910	-	620,272	-	-	-	-	770,182
160	Total Fixed Assets, Net of Accumulated Depreciation	9,320,718	-	5,059,610	-	-	-	58,793	14,439,121
174	Other Assets	121,667	-	-	-	-	-	-	121,667

Line Item No.	Account Description	Business Activities	Rural Rental Housing Loans	Rural Rental Assistance Payments	HOME Investment Partnerships Program	Housing Opportunities for Persons with AIDS	Lower Income Housing Assistance Program_Section 8 Moderate Rehabilitation WA007MR0001	Housing Choice Vouchers	Total
180	Total Non-Current Assets	9,442,385	-	5,059,610	-	-	-	58,793	14,560,788
190	Total Assets	11,043,572	-	5,799,165	266,445	8,878	4,045	658,330	17,780,435
312	Accounts Payable <= 90 Days	41,128	-	49,018	2,109	270	80	6,002	98,607
321	Accrued Wage/Payroll Taxes Payable	33,359	-	14,994	3,370	284	610	47,733	100,350
322	Accrued Compensated Absences - Current Portion	6,095	-	1,491	640	-	67	5,182	13,475
325	Accrued Interest Payable	220,675	-	25,249	-	-	-	-	245,924
331	Accounts Payable - HUD PHA Programs	-	-	-	-	-	1,001	-	1,001
333	Accounts Payable - Other Government	34,424	-	-	30,402	-	-	-	64,826
341	Tenant Security Deposits	65,814	-	36,148	-	-	-	-	101,962
342	Deferred Revenues	110,241	-	5,005	60,548	-	-	-	175,794
343	Current Portion of Long-term Debt - Capital Projects/Mortgage Revenue Bonds	245,928	-	54,137	-	-	-	-	300,065
348	Loan Liability - Current	-	-	-	175,239	-	-	-	175,239
345	Other Current Liabilities	-	-	-	2,500	-	-	88,595	91,095
346	Accrued Liabilities - Other	2,421	-	-	-	-	-	-	2,421
347	Interprogram Due To	-	-	-	5,838	8,145	-	-	13,983
310	Total Current Liabilities	760,085	-	186,042	280,646	8,699	1,758	147,512	1,384,742
351	Long-term Debt, Net of Current - Capital Projects/Mortgage Revenue Bonds	11,029,282	-	5,414,775	-	-	-	-	16,444,057
354	Accrued Compensated Absences - Non Current	14,921	-	3,652	1,567	-	163	12,687	32,990
350	Total Noncurrent Liabilities	11,044,203	-	5,418,427	1,567	-	163	12,687	16,477,047
300	Total Liabilities	11,804,288	-	5,604,469	282,213	8,699	1,921	160,199	17,861,789
508	Total Contributed Capital	-	-	-	-	-	-	-	-
508.1	Invested in Capital Assets, Net of Related Debt	(1,954,492)	-	(409,302)	-	-	-	58,793	(2,305,001)
511	Total Reserved Fund Balance	-	-	-	-	-	-	-	-
511.1	Restricted Net Assets	1,333,461	-	376,345	-	-	-	433,022	2,142,828
512.1	Unrestricted Net Assets	(139,685)	-	227,653	(15,768)	179	2,124	6,316	80,819

Line Item No.	Account Description	Business Activities	Rural Rental Housing Loans	Rural Rental Assistance Payments	HOME Investment Partnerships Program	Housing Opportunities for Persons with AIDS	Lower Income Housing Assistance Program_Section 8 Moderate Rehabilitation WA007MR0001	Housing Choice Vouchers	Total
513	Total Equity/Net Assets	(760,716)	-	194,696	(15,768)	179	2,124	498,131	(81,354)
600	Total Liabilities and Equity/Net Assets	11,043,572	-	5,799,165	266,445	8,878	4,045	668,330	17,780,435
703	Net Tenant Rental Revenue	1,368,439	-	360,104	-	-	-	-	1,728,543
704	Tenant Revenue - Other	85,602	-	45,786	-	-	-	-	131,388
705	Total Tenant Revenue	1,454,041	-	405,890	-	-	-	-	1,859,931
706	HUD PHA Operating Grants	-	-	-	-	-	74,507	6,435,187	6,509,694
706.1	Capital Grants	-	-	51,028	-	-	-	-	51,028
708	Other Government Grants	176,406	172,284	457,711	191,774	112,331	-	-	1,110,506
711	Investment Income - Unrestricted	46,130	-	4,989	7	-	14	-	51,140
713	Proceeds from Disposition of Assets Held for Sale	-	-	-	251,300	-	-	-	251,300
713.1	Cost of Sale of Assets	-	-	-	(249,472)	-	-	-	(249,472)
714	Fraud Recovery	-	-	-	-	-	-	8,098	8,098
715	Other Revenue	294,935	-	369	90	-	-	13,321	308,715
720	Investment Income - Restricted	-	-	9,310	-	-	-	1,114	10,424
700	Total Revenue	1,971,512	172,284	929,297	193,699	112,331	74,521	6,457,720	9,911,364
911	Administrative Salaries	149,880	-	-	16,204	2,535	5,551	367,128	541,298
912	Auditing Fees	3,093	-	1,795	752	190	157	11,042	17,029
913	Outside Management Fees	-	-	-	-	-	-	23,129	23,129
914	Compensated Absences	21,016	-	5,143	2,207	-	230	17,869	46,465
915	Employee Benefit Contributions - Administrative	36,554	-	-	4,145	811	1,519	109,008	152,037
916	Other Operating - Administrative	193,744	-	117,186	5,625	107	1,709	96,789	415,060
921	Tenant Services - Salaries	17,133	-	-	11,341	-	-	61,467	89,941
923	Employee Benefit Contributions - Tenant Services	3,722	-	-	2,785	-	-	14,321	20,828
924	Tenant Services - Other	4,286	-	-	47,918	107,713	-	697	160,614
931	Water	32,406	-	27,232	-	-	-	-	59,638
932	Electricity	34,201	-	24,837	69	-	33	1,561	60,701
933	Gas	2,951	-	-	-	-	-	-	2,951
938	Other Utilities Expense	116,677	-	98,541	-	-	-	-	215,218

Line Item No.	Account Description	Business Activities	Rural Rental Housing Loans	Rural Rental Assistance Payments	HOME Investment Partnerships Program	Housing Opportunities for Persons with AIDS	Lower Income Housing Assistance Program_Section 8 Moderate Rehabilitation WA007MR0001	Housing Choice Vouchers	Total
941	Ordinary Maintenance and Operations - Labor	181,779	-	116,809	-	-	-	-	298,588
942	Ordinary Maintenance and Operations - Materials and Other	130,766	-	97,825	-	-	-	-	228,591
943	Ordinary Maintenance and Operations - Contract Costs	134,356	-	44,824	466	-	231	10,702	190,579
945	Employee Benefit Contributions - Ordinary Maintenance	75,680	-	50,433	-	-	-	-	126,113
952	Protective Services - Other Contract Costs	704	-	225	8	-	4	174	1,115
961	Insurance Premiums	26,649	-	14,897	348	1	87	9,523	51,505
962	Other General Expenses	17,197	-	2,982	-	-	-	-	20,179
963	Payments in Lieu of Taxes	17,999	-	-	-	-	-	-	17,999
964	Bad Debt - Tenant Rents	6,363	-	3,802	-	-	-	-	10,165
966	Bad Debt - Other	-	-	-	-	-	-	1,358	1,358
967	Interest Expense	494,406	172,284	132,864	-	-	-	-	799,554
969	Total Operating Expenses	1,701,562	172,284	739,395	91,768	111,357	9,521	724,768	3,550,655
970	Excess Operating Revenue over Operating Expenses	269,950	-	189,902	101,931	974	65,000	5,732,952	6,360,709
973	Housing Assistance Payments	10,542	-	-	130,268	-	67,210	5,465,095	5,673,115
974	Depreciation Expense	316,928	-	135,634	-	-	-	10,078	462,640
900	Total Expenses	2,029,032	172,284	875,029	222,036	111,357	76,731	6,199,941	9,686,410
1010	Total Other Financing Sources (Uses)	-	-	-	-	-	-	-	-
1000	Excess (Deficiency) of Total Revenue Over (Under) Total Expenses	(57,520)	-	54,268	(28,337)	974	(2,210)	257,779	224,954
1102	Debt Principal Payments - Enterprise Funds	-	-	-	-	-	-	-	-
1103	Beginning Equity	(702,846)	-	139,837	12,582	(454)	4,280	230,996	(315,605)
1104	Prior Period Adjustments, Equity Transfers and Correction of Errors	(350)	-	591	(13)	(341)	54	9,356	9,297
1120	Unit Months Available	2,820	-	1,812	353	-	144	14,448	19,577
1121	Number of Unit Months Leased	2,713	-	1,739	310	-	138	14,529	19,429
1117	Administrative Fee Equity	-	-	-	-	-	-	157,753	157,753
1118	Housing Assistance Payments Equity	-	-	-	-	-	-	340,378	340,378



ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

Our mission is to work in cooperation with our audit clients and citizens as an advocate for government accountability. As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

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

Our regular audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. We also perform fraud and whistleblower investigations. In addition, we have the authority to conduct performance audits of state agencies and local governments.

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

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

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