

**KITSAP COUNTY CONSOLIDATED HOUSING AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 1998**

The accounting methods and procedures adopted by the Kitsap County Consolidated Housing Authority conform to generally accepted accounting principals as applied to governmental entities. The following notes to the financial statements are an integral part of the Housing Authority's financial statements.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Financial Reporting Entity**

The Kitsap County Consolidated Housing Authority (Housing Authority) was organized October 1, 1982, pursuant to the laws of the State of Washington. The Housing Authority's significant accounting policies are described in the following notes. Kitsap County Consolidated Housing Authority is a municipal corporation and provides affordable housing opportunities for low and moderate income families. The Housing Authority's financial statements include the financial position and results of operations of all funds that are controlled by or dependent on the Housing Authority. The financial statements include, as well, the assets and liabilities of all funds for which the Housing Authority has a custodial or trust responsibility.

**Component Units** The Component Units column in the combined financial statements includes the financial statements of the Housing Authority's five component units. These are reported in a separate column to emphasize that they are legally separate from the Housing Authority. These financial statements are presented for the year ending December 31, 1997. Complete financial statements of the individual component units can be obtained from the Housing Authority's administrative offices. The Component Units are:

*Golden Tides II Limited Partnership* The Housing Authority is a 1% general partner in the Golden Tides Associates Limited Partnership. This is a tax credit partnership formed to acquire financing, build, and manage a 45 unit low-income senior apartment complex located in Silverdale, Washington. At the end of the tax credit financing requirement, the Housing Authority will become the sole owner of the property.

*19th Hole Limited Partnership* The Housing Authority is a 1% general partner in the 19th Hole Limited Partnership. This is a tax credit partnership formed to acquire financing, build, and manage a 40 unit low-income senior apartment complex located in Port Orchard, Washington. At the end of the tax credit financing requirement, the Housing Authority will be the sole owner of the property.

*Dyes Inlet Limited Partnership* Dye's Inlet will be an 18 unit complex attached to Golden Tides II in Silverdale. Construction started in the third quarter of 1998. This complex is also designed to house very low and extremely low income senior citizens. This project is organized as a limited partnership, in which the Authority is Managing General Partner.

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Red Barn Limited Partnership* When completed, Red Barn will be a 40-unit complex sited in Port Orchard. The complex is designed to house very low income senior citizens. This project is organized as a limited partnership, in which the Authority is the Managing General Partner.

*Liberty Bay Limited Partnership* When completed, Liberty Bay will consist of three scattered sites with eight units each, located through out Kitsap County. The complex is designed to house persons with chronic mental illness. Services to these individuals will be provided by Kitsap Mental Health. This project is organized as a limited partnership, in which the Authority is the Managing General Partner.

**Accounting Policies**

**Basis of Presentation - Fund Accounting** The accounts of the Housing Authority are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The Housing Authority has created several types of funds and a number of discrete funds within each fund type. Each fund is accounted for with a separate set of self-balancing accounts that comprise it's assets, liabilities, fund balance, revenues and expenditures/expenses. The individual funds account for the governmental resources allocated to them for the purpose of carrying on specific activities in accordance with laws, regulations, or other restrictions.

The funds are grouped into three fund types - Governmental, Proprietary, and HUD (United States Department of Housing and Urban Development).

*Governmental Fund Type* The governmental types include the Special Revenue Funds and General Fund. This fund group is the fund through which most governmental functions are typically administrated.

*General Fund* The General Fund was established to account for resources devoted to financing the general services that the Housing Authority performs for its citizens. General revenues and other sources of revenue used to finance the fundamental operations of the Housing Authority are included in this fund. The fund is charged with all costs of operating the government for which a separate fund has not been established.

*Special Revenue Fund* The Special Revenue Fund was established to account for the proceeds of specific revenue sources other than special assessments, restricted donations, or major capital projects that are legally restricted to expenditures for specified purposes.

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Proprietary Fund Type* The proprietary fund types include the Enterprise Fund with its Restricted and Unrestricted Funds. The separate legal entities are grouped under Component Units. The proprietary fund types account for operations in a market driven self-supporting way. A description of the proprietary fund types follows:

*Enterprise Funds* The Enterprise Funds were established to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent is that costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

*Component Units* The Component Units were established as separate legal entities to account for operations that are financed and operated in a manner similar to private business enterprises. The intent is that costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through entrepreneurial revenue producing methods.

*HUD Fund Type* The United States Department of Housing and Urban Development (HUD) funds are presented using HUD prescribed formats. HUD reporting requirements contain material departures from Generally Accepted Accounting Principles.

*Account Groups* In addition to the two broad types of governmental funds, the Housing Authority also maintains a General Fixed Asset and a General Long-Term Debt Account Group.

*General Fixed Assets Accounts Group* The General Fixed Assets Accounts Group is not a fund but rather an account group that is used to account for fixed assets acquired for general purposes, and excludes fixed assets in the Enterprise Funds and Component Units.

*General Long-Term Debt Account Group* The General Long-Term Debt Account Group is also not a fund, but rather an account group that is used to account for the outstanding principal balances of long term debt, and excludes long-term debt in the Enterprise Funds and Component Units.

### **Accounting Methods**

**Basis of Accounting** Governmental fund types utilize the modified accrual basis of accounting. Under this method, revenues are recognized in the accounting period in which they become both available and measurable. The Housing Authority considers revenues to become available when they are anticipated to be received within a reasonable collection period. Licenses and permits, charges for services, fines and forfeitures, and miscellaneous revenues are recorded as revenues when received in cash. Investment earnings are recorded when earned (when measurable and available). Expenditures are recognized in the accounting period in which the fund liability is

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

incurred, if measurable, except expenditures for debt service, prepaid expenses, and other long-term obligations, which are recognized when paid.

All proprietary fund types are accounted for using the accrual basis of accounting; revenues are recognized when earned, and expenses are recognized when incurred. Interest on revenue bonds, proceeds of which are used in financing the construction of certain assets, is capitalized during the construction period net of interest on the investment of unexpended bond proceeds.

The Housing Authority maintains its accounting records for HUD funds in accordance with methods prescribed by the HUD Low Rent Housing Guide 7510.1 for the Conventional Program and the Housing Assistance Payments Program Accounting Handbook 7420.6 for the Section 8 Existing Program.

**Budgets and the Budgetary Process** Formal budgetary accounting is employed as a management control for all funds of the Housing Authority. Annual operating budgets are adopted each fiscal year through passage of an annual budget resolution and amended as required for the General Fund, Special Revenue Fund, Enterprise Fund and Component Units. The same basis of accounting is generally used to reflect actual revenues and expenditures or expenses recognized on a generally accepted accounting principals basis. Budgets for certain Special Revenue Funds are made on a project basis, spanning more than one fiscal year. Budgetary control is exercised at the departmental or project level.

Budget procedures for low rent conventional housing program are mandated by HUD in the performance funding handbook 7475.13. The budget, as adopted by the Housing Authority and approved by the board of commissioners and HUD, constitutes the authority for expenditures. The budget is adopted at the program level; generally, expenditures may not exceed appropriations. Over-expenditures of ten percent are allowed, but additional expenditures must be approved by HUD. All appropriations lapse at year end. Budgeting, accounting and reporting are essentially on the same basis.

Budget procedures for Section 515 housing program are mandated by the United States Department of Agriculture - Rural Development (USDA-RD) in the Multiple Housing Management Handbook 1930-C. The budget, as adopted by the Housing Authority and approved by the board of commissioners and USDA-RD, constitutes the authority for expenditures. The budget is adopted at the program level; generally, expenditures may not exceed appropriations. Expenditures exceeding 105% of the budget must be documented and approved by USDA-RD. All appropriations lapse at year end. Budgeting, accounting and reporting are essentially on the same basis.

**Due To And Due From Other Funds** Interfund receivables and payables arise from transactions between funds and are recorded by all funds affected in the period in which transactions are executed.

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Amounts Due To And From Other Governmental Units** These accounts include amounts due to or from other governments for grants, entitlements, temporary loans, and charges for services.

**Other Assets** Other assets held are recorded and accounted for at cost.

**Restricted Assets and Liabilities** These accounts contain resources required to be set aside by the authority governing the accounting of the particular fund.

**Property, Plant, and Equipment** Fixed assets used in governmental fund type operations are accounted for in the General Fixed Assets Account Group. Property, plant, and equipment acquired or constructed for general governmental operations are recorded as expenditures in the fund making the expenditure and capitalized at cost in the General Fixed Assets Account Group. Property, plant, and equipment acquired for proprietary fund types is capitalized in the respective fund to which it applies. Property, plant, and equipment is stated at cost. Where cost could not be determined from the available records, estimated historical cost was used to record the estimated value of the assets. Assets acquired by gift or bequest are recorded at their fair market value at the date of transfer.

**Fund Equity** The unreserved fund balances for Governmental Fund types represent the amount available for future expenditures. The reserved fund balanced for governmental funds represents the amount that has been legally identified for specific purposes. Unreserved retained earnings for the Proprietary Fund types represent the net assets available for future operations or distribution. Reserved retained earnings represent the net assets that have been legally identified for specific purposes.

**Total Columns** The Combined Financial Statements include total columns that are described as memoranda only. Data in these columns do not present financial position, results of operations, or cash flows in conformity with generally accepted accounting principals. Interfund transactions have not been eliminated from the total column of each financial statement.

**NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**Compliance With Bond and Loan Covenants** State laws and certain bond covenants require that the Housing Authority maintain occupancy in the Enterprise Fund projects at specified numbers of low income families. The Housing Authority must also generate net operating income from each project at a level that meets the debt service requirements established by its respective bond covenant. During the fiscal year all these covenants were met.

Bond covenants were also required to be met in the General Fund, and accordingly the Housing Authority was in compliance.