

Independent Auditor's Report on Financial Statements of HUD Supported Programs and Supplemental Information Required by HUD

Kitsap County Consolidated Housing Authority July 1, 1998 through June 30, 1999

Chair of the Board of Commissioners
Kitsap County Consolidated Housing Authority
Silverdale, Washington

We have audited the accompanying financial statements of the programs supported by the U.S. Department of Housing and Urban Development (HUD) of the Kitsap County Consolidated Housing Authority, Kitsap County, Washington, as of and for the year ended June 30, 1999. 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 generally accepted auditing standards 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 misstatements. 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.

As discussed in Note 1 to the financial statements, the financial statements referred to above present only the HUD supported programs of the Housing Authority and are not intended to present fairly the financial position and results of operations of the Kitsap County Consolidated Housing Authority, taken as a whole, in conformity with generally accepted accounting principles.

The Housing Authority's policy is to prepare its financial statements referred to above on the basis of accounting practices prescribed or permitted by HUD, which is a basis of accounting other than generally accepted accounting principles. The accounting practices prescribed by HUD differ from generally accepted accounting principles. The effects of these departures from generally accepted accounting principles are not reasonably determinable.

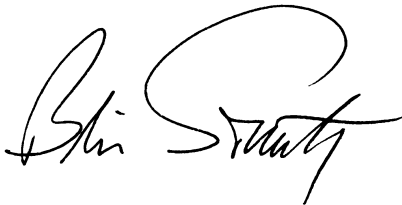
In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with generally accepted accounting principles, the financial positions of the HUD supported programs of the Kitsap County Consolidated Housing Authority as of June 30, 1999, or the results of its operations for the year then ended.

However, in our opinion, such financial statements present fairly, in all material respects, the financial positions of the HUD supported programs of the Kitsap County Consolidated Housing Authority as of June 30, 1999, and the results of its operations for the year then ended, in conformity with the prescribed basis of accounting.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 5, 2000, on our consideration of the Housing Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. 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 Schedule of Expenditures of State and Local Awards and the Actual Modernization/Development Cost Certificates for Projects WA19P036905-94, WA010EP3601-96, WA19PO36036906, WA010EP03601-97, WA19PO36-011 and the Combined Statement of Revenues, Expenditures and Changes in Fund Balance – All Governmental Fund Types – Budget and Actual are supplemental information required by HUD. These schedules are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements of the respective HUD supported programs and, in our opinion, is fairly presented, in all material respects, in relation to the financial statements of such programs taken as a whole, on the basis of accounting practices prescribed or permitted by HUD.

In addition, compiled financial statements for the Fjord Manor and Rhododendron Apartments projects are presented. This information has not been subjected to the auditing procedures applied in the audit of the financial statements and therefore we express no opinion on them.

A handwritten signature in black ink, appearing to read "Brian Sonntag", with a large, stylized flourish above the name.

BRIAN SONNTAG, CGFM
STATE AUDITOR

May 5, 2000