

**KITSAP COUNTY CONSOLIDATED HOUSING AUTHORITY**  
**Notes To Financial Statements**  
**June 30, 1997**

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, 1983, 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 statement includes 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 include the financial statements of the Housing Authority's two component units: Golden Tides Associates Limited Partnership; and the 19th Hole Limited Partnership. 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, 1996. Complete financial statements of the individual component units can be obtained from the Housing Authority's administrative offices.

*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.

**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 its 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 four fund types - Governmental, Proprietary, Fiduciary, and HUD - and four generic funds - General, Enterprise, Special Revenue and Non-Expendable Trust.

*Governmental fund types* The Governmental Fund group is the fund through which most governmental functions are typically financed. Included in this category are the General Fund and the Special Revenue Fund.

**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, expendable trusts, or major capital projects that are legally restricted to expenditures for specified purposes.

**Proprietary Fund Type** The Proprietary Fund group accounts for operations that are organized to be self-supporting through user charges. This fund includes the Enterprise Fund.

**Enterprise Fund** The Enterprise Fund was 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.

**Fiduciary Fund Type** The Fiduciary Fund group is used to account for assets held by the Housing Authority as a trustee or agent for individuals, private organizations, and other units of governments. This fund includes the Non-Expendable Trust Fund.

**Non-Expendable Trust Fund** The Non-Expendable Trust Fund is used to account for funds held on behalf of Homeowner's Associations.

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

**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.

**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 general obligations bonds and other long-term debt reported in proprietary funds.

## **Accounting Methods**

**Basis of Accounting** Governmental Funds, Expendable Trust Funds, and Agency Funds 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. Licenses and permits, charges for services, fines and forfeits, 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 incurred, if measurable, except expenditures for debt service, prepaid expenses, and other long-term obligations, which are recognized when paid.

All proprietary funds and nonexpendable trust funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are 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 U.S. Department of Housing and Urban Development (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, proprietary funds, and the same basis of accounting is 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. There are no budget requirements for the Local Fund. Budgetary control is exercised at the departmental level or by projects.

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, so that 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, so that expenditures may not exceed appropriations. Over-expenditures over five percent must be documented and approved by USDA-RD. All appropriations lapse at year end. Budgeting, accounting and reporting are essentially on the same basis.

**Cash and Cash Equivalents** The Housing Authority pools cash resources of its various funds to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The balance in the pooled cash accounts is available to meet current operating requirements. It is the Housing Authority's policy to invest all temporary cash surpluses, which are classified on the balance sheet as cash and cash equivalents in various funds. The interest on these investments is prorated to the various funds. The amounts reported as cash and cash equivalents also include compensating balances maintained with certain banks in lieu of payments for services rendered. The Housing Authority's deposits are generally covered by Federal Depository Insurance. Cash includes certificates of deposit, interest or non-interest bearing demand accounts with banks, or direct obligations of the U.S. Government, pursuant to requirements of Washington State law in Chapter 39.58 RCW.

**Receivables** Customer accounts receivable consist of amounts owed from private individuals or organizations for goods and services, including amounts owed for which billings have not been prepared. Notes and contracts receivable consist of amounts owed on open account from private individuals or organizations for goods and services rendered.

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

**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 funds is capitalized in the respective funds 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.

Depreciation of exhaustible fixed assets used by proprietary funds is charged as an expense against operations, and accumulated depreciation is reported on the proprietary funds' balance sheets. Depreciation has been provided over the estimated useful lives using the straight-line method of depreciation. FmHA requires that depreciation be calculated on assets held by the Self-Help program which is part of the Special Revenue Fund. Depreciation for these assets only are posted in the Fixed Assets Account Group.

The estimated useful lives for each major class of depreciable fixed assets are as follows:

Buildings	30 - 40 years
Equipment	5 - 10 years
Vehicles	5 years

The assets of Public Housing, Section 8 Existing, and Section 8 Vouchers are governed by HUD. In accordance with HUD regulations, these assets are not depreciated.

The assets of the Viking's Crest and Fjord Gardens projects, which are included in the Enterprise Fund, were bought for resale and are not being depreciated.

**Long-Term Debt** Long-Term liabilities for certain revenue bonds and mortgages are reported in the appropriate Enterprise Funds.

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

**Revenues and Expenditures or Expenses** Revenues for governmental funds are recorded when they are determined to be both measurable and available. Generally revenues are recognized when received. Grants from other governments are recognized when qualifying expenditures are incurred. Expenditures from governmental funds are recorded when the related liability is incurred.

Revenues and expenses of proprietary funds are recognized in essentially the same manner as in commercial accounting.

**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.

**NOTE 3 - DEPOSITS AND INVESTMENTS**

Investments made by the Housing Authority are summarized below. The investments that are represented by specific identifiable investment securities are classified as to credit risk within the following three categories:

- Category 1 Insured or registered, or securities held by the Housing Authority or its agent in the Housing Authority's name
- Category 2 Uninsured and unregistered, this securities held by the counterparty's trust department or agent in the Housing Authority's name
- Category 3 Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the Housing Authority's name

	Category			Carrying value	Market value
	1	2	3		
U.S. government securities	\$0			\$0	\$0
Banker's acceptances	<u>\$ 1,477,980</u>			<u>1,477.98</u>	<u>1,477,980</u>
	<u>\$1,477,980</u>			1,477,980	1,477,980
Banking Institutions				109,040	109,040
Investment in county investment pool				<u>4,011,129</u>	<u>4,011,129</u>
<b>Total Investments</b>				<u>\$5,598,149</u>	<u>\$5,598,149</u>

Washington State law permits housing authorities to invest in the following:

- A. The Kitsap County Investment pool, maintained by the Kitsap County Treasurer
- B. The Local Government Investment Pool, maintained by the State Treasurer
- C. U. S. Government Obligations, or those guaranteed by the U. S. Government
- D. Direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, any State of the United States of America, the District of Columbia or the Commonwealth of Puerto Rico, or any political subdivision of any of the foregoing, which are rated in one of the three highest rating categories by a nationally recognized rating agency;
- E. Certificates of deposit or time deposits, bankers acceptances or repurchase agreements with, or money market funds of, national or state banks (including the Trustee) or international banks with domestic United States operations, with capital, surplus and undivided profits of \$50,000,000 or more, repurchase agreements with broker dealers with retail customers, which broker dealers are under the jurisdiction of the Securities Investors Protection Corporation, under which the Trustee (or a third party acting as agent for the Trustee) has possession of the securities or other collateral backing such repurchase agreements; and certificates of deposit of federal savings and loan associations;
- F. Investment contracts or repurchase agreements with or guaranteed by banks or insurance companies having capital, surplus and divided profits or reserves of \$50,000,000 or more, which contracts or agreements are fully collateralized by Government Obligations;
- G. Taxable government money market portfolios restricted to obligations with maturities of one year or less issued or guaranteed as to payment of principal and interest by the full faith and credit of the United States of America; or
- H. Repurchase agreements with banks or insurance companies whose claims paying ability is rated not less than AA by Moody's Investors Service, Inc., or AA by Standard and Poor's Corporation, which repurchase agreements are fully collateralized by Government Obligations.

#### **NOTE 4 - INTERGOVERNMENTAL GRANTS AND ENTITLEMENTS**

The accompanying Schedule of Financial Assistance provides a listing of all federal and state and interlocal assistance programs in which the Housing Authority participates and summarizes the Housing Authority's grant transactions for fiscal year 1997.

#### **NOTE 5 - PROPERTY, PLANT AND EQUIPMENT**

**General Policies** Major expenditures for fixed assets, including capital leases and major repairs that increase useful lives, are capitalized. Maintenance, repairs, and minor renewals are accounted for as expenditures or expenses when incurred.

All fixed assets are valued at historical cost (or estimated costs, where historical cost is not known/or estimated market value for donated assets/or the lower of cost or fair market value when transferred between proprietary funds and the general fixed assets account group).

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 entity interest in these assets. However, the Housing Authority has sufficient legal interest to accomplish the purposes for which the assets were acquired, and has included such assets within the applicable account group or fund.

**General Fixed Assets** General fixed assets are long-lived assets of the Housing Authority as a whole. When purchased, leased, or constructed, such assets are recorded as expenditures in the governmental funds and capitalized in the general fixed assets account group. Depreciation has been provided on general fixed assets.

Activity for general fixed assets capitalized by the Housing Authority is summarized below:

	Balance July 1, 1996	<u>Additions</u>	<u>Retirements</u>	Balance June 30, 1997
Land	\$ 354,162		\$ 265,776	\$ 88,386
Buildings	445,569		95,706	349,863
Equipment	<u>173,407</u>	<u>43,166</u>	<u>          </u>	<u>216,573</u>
<b>Total</b>	<b><u>\$ 973,138</u></b>	<b><u>\$ 43,166</u></b>	<b><u>\$ 361,482</u></b>	<b><u>\$654,822</u></b>

Property, plant, and equipment in the proprietary funds is summarized below:

<u>Project</u>	<u>Land</u>	<u>Buildings</u>	<u>Equipment</u>	<u>Under Construction</u>	<u>Subtotal</u>	<u>Less Accumulated Depreciation</u>	<u>Net Property, Plant and Equipment</u>
Port Orchard Valley	360,200	2,752,695	47,163	0	3,160,058	476,021	2,684,037
Park Place	258,000	3,575,195	52,325	0	3,885,570	541,065	3,344,505
Tree Tops 1	960,000	6,776,779	76,537	0	7,813,316	816,255	6,997,061
Tree Tops 2	550,000	4,694,484	20,092	0	5,267,576	444,625	4,822,951
Kingston Ridge	215,000	1,624,734	13,681	0	1,853,415	198,601	1,654,814
Rhododendron	464,400	1,482,881	3,225	0	1,950,506	39,770	1,910,736
Fjord Manor	193,947	1,133,346	41,167	0	1,368,460	275,824	1,092,637
Recreation Center	265,592	1,499,532	2,055	0	1,767,179	306,806	1,460,373
Orchard Bluff	3,605,767	724,569	465,968	0	4,796,304	0	4,796,304
FHOP	0	0	0	976,437	976,437	0	976,437

Financial Accounting Standard Board (FASB) Statement No. 34 (Capitalization of Interest Costs) requires that interest expenditures incurred during construction of assets be capitalized. FAS-62 (Capitalization of Interest Cost in Situations Involving Certain Tax-Exempt Borrowings and Certain Gifts and Grants) concludes that constructed assets financed with the proceeds of tax-exempt debt (if those funds are externally restricted to finance the acquisitions of the assets or used to service the related debt) should include capitalized interest only to the extent that interest cost exceeds interest earned on related interest-bearing investments acquired with proceeds of the related tax-exempt borrowing.

The following properties are secured by a deed of trust:

<u>Property</u>	<u>Balance of Liability Secured at June 30, 1997</u>
Poulsbo Community Center	\$ 955,427
Fjord Gardens Apartments	863,900
Port Orchard Valley Apartments	3,109,562
Park Place Apartments	3,914,461
Kingston Ridge Apartments	1,996,679
Tree Tops Apartments	13,855,122
North Office Building	11,889
Rhododendron Apartments	1,213,284
Lippert Fourplexes	78,082
Viking's Crest Apartments	<u>4,714,177</u>
	<u>\$30,712,583</u>

#### NOTE 6 - PENSION PLAN

Substantially all Housing Authority full-time and qualifying part-time employees participate in one of the following statewide local government retirement systems administered by the Department of Retirement Systems, under cost-sharing multiple-employer public employee retirement systems.

Summary Of PERS Systems Actuarial Data  
(In Millions Of Dollars)  
December 31, 1995

Total Pension Benefit Obligations	\$12,936
Less Net Assets Available For Benefits	<u>12,349</u>
Unfunded (Surplus) Actuarial Present Value Of Accumulated Plan Benefits	<u>\$ 587</u>

The amount shown as total pension benefit obligation is the actuarial present value of credited projected benefits, adjusted for the effects of projected salary increases estimated to be payable in the future as a result of employee service to date. Use of the standardized measure enable readers of Washington's financial statements to: (a) assess on an ongoing basis the funding status of each system; (b) assess progress made in accumulating sufficient assets to pay benefits when dues; and (c) make comparisons among other states of other retirement systems. The standardized disclosure method is independent of the actuarial funding method used to determine contributions to the retirement systems.

Historical trend information showing each system's progress in accumulating sufficient assets to pay benefits when due is presented in the State of Washington's June 30, 1996 comprehensive annual financial report. Please refer to said report for detailed trend information.

**Public Employees' Retirement System (PERS)** The state legislature established PERS in 1947 under Chapter 41.40 RCW. PERS is a cost-sharing multiple-employer system. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts (other than judges); employees of legislative committees; college and university employees not in national higher education retirement programs; judges of district and municipal courts; noncertificated employees of school districts; and employees of local government. Approximately 47 percent of PERS members are state employees.

PERS contains 2 "plans". (As used in this context, the term "plans" refers to tiers within PERS. The actual plan is PERS.) Participants who joined the system by September 30, 1977, are Plan I members. Those joining thereafter are enrolled in Plan II. Retirement benefits are financed from employee and employer contributions and investment earnings. Retirement benefits in both Plan I and Plan II are vested after completion of 5 years of eligible service.

Plan I members are eligible for retirement after 30 years of service, or at the age of 60 with 5 years of service, or at the age of 55 with 25 years of service. The annual pension is 2 percent of the final average salary per year of service, capped at 60 percent.

Plan II members may retire at the age of 65 with 5 years of service, or at 55 with 20 years of service, with an allowance of 2 percent per year of service of the final average salary. Plan II retirements prior to 65 are actuarially reduced. There is no cap on years of service credit and a cost-of-living allowance is granted, capped at 3 percent annually.

During the 1996 Washington State Legislative Session, the Washington State Legislature did approve a change in retirement law that will not become effective until after the close of fiscal year 1996. The material changes made during the 1995 Legislative Session that became effective during the 1996 fiscal year were disclosed in last year's annual report.

None of the other bills that passed affected contribution rates.

The Housing Authority's covered payroll for the twelve months ending December 31, 1996 was \$760,193. The Housing Authority's total payroll for all employees was \$862,767.

Each biennium the legislature established Plan I employer contribution rates and Plan II employer and employee contribution rates. Employee contribution rates for Plan I are established by legislative statute and do not vary from year to year. Employer rates for Plan I are not necessarily adequate to fully fund the system. The employer and employee contribution rates for Plan II are developed by the Office of State Actuary to fully fund the system. All employers are required to contribute at the level established by the legislature. The methods used to determine the contribution requirements were established under state statute.

The Housing Authority's contribution rates expressed as a percentage of covered payroll, as of December 31, 1995 were:

	<u>PERS Plan I</u>		<u>PERS Plan II</u>	
	<u>Required</u>	<u>Actual</u>	<u>Required</u>	<u>Actual</u>
Employer	7.32%	7.42%	7.32%	7.42%
Employee	6.00%	6.00%	4.65%	5.08%
Total	<u>13.32%</u>	<u>13.42%</u>	<u>11.97%</u>	<u>12.50%</u>

The Housing Authority's actuarially determined contribution requirement and actual contribution for the year ending December 31, 1996 were:

	<u>PERS Plan I</u>		<u>PERS Plan II</u>	
	<u>Required</u>	<u>Actual</u>	<u>Required</u>	<u>Actual</u>
Employer	\$ 5,442	\$ 5,516	\$ 50,204	\$ 50,890
Employee	<u>4,461</u>	<u>4,461</u>	<u>31,892</u>	<u>34,841</u>
Total	<u>\$ 9,903</u>	<u>\$ 9,977</u>	<u>\$ 82,096</u>	<u>\$ 85,731</u>

**Change of Assumptions** During fiscal year 1995, there was a change of assumptions. The change of demographic assumptions did not have as large an impact on contributin rates as did the economic. The economic assumptions are listed below:

	<u>Economic Assumptions</u>	
	<u>Old Assumptions</u>	<u>New Assumptions</u>
Investment Return	7.50%	7.50%
Salary Increases	5.50%	5.00%
Consumer Price Index	5.00%	4.25%

The effect of thses changes is displayed below:

	<u>Employer Contribution Rates</u>		
	<u>1994 Old Assumptions</u>	<u>1994 New Assumptions</u>	<u>1995 New Assumptions</u>
PERS	7.32%	7.60%	7.32%

#### NOTE 7 - LONG TERM OBLIGATIONS

The annual requirement to amortize all debt outstanding at June 30, 1997, including interest are as follows:

<u>Year ending June 30.</u>	<u>Revenue Bonds</u>	<u>Notes</u>	<u>Other</u>	<u>Total</u>
1997	\$ 3,334,593	\$ 428,796	\$ 3,691	\$ 3,767,080
1998	3,325,334	427,441	3,691	3,756,466
1999	2,981,964	3,735,267	3,691	6,720,922
2000	2,979,572	199,815	3,691	3,183,078
2001	3,943,494	192,246	3,691	4,139,431
Thereafter	<u>58,931,608</u>	<u>5,151,339</u>	<u>8,308</u>	<u>64,091,255</u>
Total	<u>\$75,496,585</u>	<u>\$10,134,904</u>	<u>\$26,763</u>	<u>\$85,658,232</u>

Changes in revenue bonds, notes, and other debt:

	<u>Revenue Bonds</u>	<u>Notes</u>	<u>Other</u>	<u>Total</u>
Balance, June 30, 1996	\$ 33,145,000	\$ 5,928,521	\$ 30,456	\$ 39,103,977
Debt Issued	1,455,000	2,844,297		4,299,297
Debt Matured	<u>1,825,000</u>	<u>104,965</u>	<u>3,692</u>	<u>1,933,657</u>
Balance, June 30, 1997	<u>\$ 32,775,000</u>	<u>\$ 8,667,853</u>	<u>\$ 26,764</u>	<u>\$ 41,469,617</u>

Long term debt at June 30, 1997 consisted of the following:

<u>Revenue Bonds</u>	<u>Original Amount</u>	<u>Date Issued</u>	<u>Final Maturity</u>	<u>Interest Rate</u>	<u>Balance</u>
Port Orchard Valley, Series 1990 A & B	3,575,000	5/1/90	5/1/2015	6.700% to 8.500%	3,170,000
Park Place, Series 1990 C & D	4,415,000	12/1/90	12/1/2015	6.300% to 8.000%	4,005,000
Tree Tops I, Series 1992 A & B	8,705,000	2/1/92	2/1/2002	5.000% to 7.000%	8,250,000
Kingston Ridge, Series 1992 A & B	2,160,000	6/1/92	6/1/2002	5.100% to 6.750%	2,050,000
Tree Tops I, Series 1992 C	200,000	12/1/92	2/1/2022	7.375%	200,000
Tree Tops II, Series 1992 A & B	6,025,000	11/1/92	11/1/2022	4.400% to 7.400%	5,755,000
Viking's Crest	6,800,000	5/15/94	5/15/2024	3.800% to 6.000%	4,775,000
Fjord Gardens Refunding	1,665,000	10/27/95	11/1/2000	4.250% to 5.000%	875,000
Poulsbo Community Center, Refunding	1,020,000	4/18/96	4/1/2016	4.000% to 6.500% 4.300%	990,000
Orchard Bluff	1,455,000	8/1/96	8/1/2006	to 4.200% 6.600%	1,455,000
Rhododendron	\$ 1,265,000	5/24/96	6/1/2026	to 5.900%	<u>1,250,000</u>
Total					<u>\$32,775,000</u>

<u>Notes (Continued)</u>	<u>Original Amount</u>	<u>Date Issued</u>	<u>Final Maturity</u>	<u>Interest Rate</u>	<u>Balance</u>
Seafirst Bank Mortgage Office Building	\$ 67,339	9/12/89	9/15/99	5.500%	\$ 11,899
First National Bank of Port Orchard Mortgage Lippert Property	82,900	8/10/94	1/10/2015	One Year Treasury Bill Rate at November 10th	78,082
Key Bank Line of Credit	4,500,000	11/22/96	6/1/98	4.640% 7.380%	3,525,000
Seafirst Bank Installment Note Telephone	14,800	2/1/94	2/1/99	6.000%	5,418
Seafirst Bank Installment Note Automobile	14,999	1/1/94	2/1/2000	6.625%	10,965
Seafirst Bank Installment Note Automobile	21,500	2/1/94	2/1/99	5.500%	3,125
Seafirst Bank Installment Note Computer	12,342	2/1/94	2/1/99	6.000%	4,518
Seafirst Bank Installment Note Automobile	16,500	2/1/94	2/1/99	5.500%	2,398
Seafirst Bank Installment Note Appliances	43,086	2/1/94	2/1/99	6.000%	15,773
Seafirst Bank Installment Note Appliances	36,072	2/1/94	2/1/99	6.000%	13,208
Seafirst Bank Installment Note Automobile	13,993	2/1/97	1/1/2002	6.750%	12,919
Edward Baker Mortgage Skylark Property	12,900	7/3/71	7/3/2042	5.996%	8,445

<u>Notes (Continued)</u>	<u>Original Amount</u>	<u>Date Issued</u>	<u>Final Maturity</u>	<u>Interest Rate</u>	<u>Balance</u>
U.S.D.A., Farm Home Administration Mortgage Fjord Manor	1,348,604	8/19/88	8/19/2038	8.500%	1,326,685
Administration Mortgage Fjord Manor	30,840	8/19/88	8/19/2038	9.500%	30,583
U.S.D.A., Farm Home Administration Mortgage Rhododendron	571,558	5/30/96	5/30/2058	6.750%	566,686
Seafirst Bank Golden Tides II	225,000	7/26/95	7/1/2065	8.500%	223,135
State of Washington Installment Note Mobile Home Park	1,800,000	9/4/96	12/31/2046	1.000%	1,800,000
HUD Federal Financing Bank Notes Public Housing Units	721,951	3/11/82	11/1/2014	6.600%	551,725
Kitsap County Consolidated Housing Authority Interfund Loan	318,713	6/30/96	11/1/2023	varies	294,713
Kitsap County Consolidated Housing Authority Interfund Loan	64,982	6/30/96	11/1/2018	varies	58,982
Kitsap County Consolidated Housing Authority Interfund Loan	45,546	6/30/96	12/1/2019	varies	41,546
Kitsap County Consolidated Housing Authority Interfund Loan	71,050	6/30/96	2/1/2020	varies	65,050
Kitsap County Consolidated Housing Authority Interfund Loan	21,000	6/30/96	12/1/2007	varies	<u>17,000</u>
Total					<u>\$8,665,455</u>

<u>Other</u>	<u>Original Amount</u>	<u>Date Issued</u>	<u>Final Maturity</u>	<u>Interest Rate</u>	<u>Balance</u>
Department of Retirement Systems Account #5671	\$ <u>96,028</u>	9/01/89	8/30/2004	0.000%	\$ <u>26,764</u>

The Prime rate was 8.25% at June 30, 1996. The one year Treasury Bill rate at November 10, 1995 was 5.0%. The rate charged for Interfund loans is the rate earned on the Housing Authority's investments in the Kitsap County Investment Pool, which was 5.085% for June, 1996.

### NOTE 8 - CLAIMS AND JUDGMENTS

The Housing Authority participates in a number of federal, state, and county programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants are subject to audit by the appropriate grantor government. If expenditures are disallowed due to noncompliance with grant program regulations, the Housing Authority may be required to reimburse the grantor government. As of June 30, 1997, significant amounts of grant expenditures have not been audited, but the Housing Authority believes that disallowed expenditures discovered in subsequent audits, if any, will not have a material effect on any of the individual funds or the overall financial position of the Housing Authority.

### NOTE 9 - DUE TO/FROM OTHER FUNDS

As of June 30, 1997, interfund receivables and payables that resulted from various interfund transactions were as follows:

	<u>Due from Other funds</u>	<u>Due to Other funds</u>
General Fund	\$ 1,521,719	
Special Revenue Fund		\$ 178,944
Enterprise Fund		<u>1,342,775</u>
Total	<u>\$ 1,521,719</u>	<u>\$ 1,521,719</u>

### NOTE 10 - FUND EQUITIES

Reservations of fund balances of governmental funds are established to either (1) satisfy legal covenants that require that a portion of the fund balance be segregated or (2) identify the portion of the fund balance that is not appropriated for future expenditures. Specific reservations of the fund balance accounts are summarized below.

The reserve for debt service was created to segregate a portion of the fund balance account for debt service, including both principal payments and interest payments. The reservation was established to satisfy legal restrictions imposed by various bond agreements.

## **NOTE 11 - RISK MANAGEMENT**

The Kitsap County Consolidated Housing Authority is a member of the Housing Authority Risk Retention Pool (HARRP). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The pool was formed on March 1, 1987 when housing authorities in the State of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. Thirty-two Washington PHA's have joined the pool, along with twenty PHA's in Oregon, twenty-eight in California and one in Nevada.

The pool allows members to establish a plan of self insurance, jointly purchase insurance coverage and to provide such related services as risk management and loss control. Coverage for Errors and Omissions liability is on a "claims made basis." All other coverage is on an "occurrence" basis. The pool provides the following forms coverage for its members: General Liability, Property, Errors & Omissions, Fidelity and Automobile Liability. The Pool self-insures the first \$250,000 per occurrence of their General Liability, Errors & Omissions and Property exposures and purchases \$1,750,000 in reinsurance. The Auto Liability program self insures up to \$2,000,000 per claim.

Members make an annual contribution based upon an actuarial study to fund the pool. Members have no individual deductible in the General Liability and Auto Liability programs. In regards to the Errors & Omissions coverage, members carry a deductible of 1/10th of each loss subject to a minimum of \$2,500 and a maximum of \$25,000 for each claim. They may choose a \$1,000, \$5,000 or \$25,000 per occurrence deductible in the Property program. Since the pool is a cooperative effort, any claims falling within HARRP's self-insured retention will be paid from the pooled funds contributed by all the members.

Each new member pays the pool a non-refundable membership fee. This amount covers the member's share of organizational expenses and the cost of analyzing their loss data and risk profile. Members contract to remain in the pool for a minimum of three years, and must give notice 30 days before terminating participation. The Interlocal Governmental Agreement is renewed automatically each year after the initial three year period. The annual premium is calculated to cover all anticipated expenses. Any shortfall will be covered by the pool surplus and reserves, there is no additional assessment feature in the Agreement.

The pool is fully funded by its member participants. Claims are filed by members with HARRP. HARRP maintains a full time staff including an Executive Director, a Risk Manager and employees providing appropriate support.

HARRP is governed by a Board of Directors consisting of representatives from nine member PHA's. Three Directors are elected from among the PHA members of the Association of Washington Housing Authorities; three from PHA members of the Association of Oregon Housing Authorities; and three from PHA members of the Northern California/Nevada Executive Directors Association. The Board meets at least once each quarter to conduct the business affairs of HARRP. The Board also has established an Executive Committee, a Claims/Loss Management Committee, an Insurance/Underwriting Committee and an Audit Committee which are standing committees.

The portion of the member housing authority balances of the Pool not attributable to unassigned retained earnings has been funded by capital contributions of the participants. Until October 1, 1991, participating authorities were required to provide a capital contribution equal to 25% of the 1986 Insurance Service Organization (ISO) rates for property damage and general liability insurance applicable to the member. At December 31, 1994 these capital contributions totals \$1,004,239. These capital contributions vest over an eight-year period as follows:

<u>YEARS</u>	<u>PERCENTAGE</u>
less than 4	0%
4	20%
5	40%
6	60%
7	80%
8	100%

A member who terminates its membership with the Pool is entitled to receive the vested portion of its capital contribution as outlined above. Total member capital contributions of \$1,004,239 was vested as of December 31, 1994. Due to its positive financial conditions HARRP has fully refunded to the member authorities the capital contributions of \$1,004,239 as of December 31, 1994. The refund of vested capital contributions upon the termination of membership is subject to additional conditions and limitations as set forth in the pool's amended and restated Intergovernmental Cooperation Agreement.

Effective during 1992, the pool amended and restated the Intergovernmental Cooperating Agreement. Under the amended and restated Intergovernmental Cooperation Agreement, members accepted on or after October 1, 1992 have not been required to make a capital contribution to the pool. Members who were credited with a reduction of property insurance premiums aggregating \$81,949 during 1991 and \$121,606 during 1992 are deemed under the amended and restated Intergovernmental Cooperation Agreement to have received a return of a portion of their capital contributions in the amount credited to them. The amended and restated Intergovernmental Cooperation Agreement sets forth the manner in which the Pool may return the capital contributions to the members. An additional credit against premiums, in the amount of \$393,444 for 1993 and \$407,240 for 1994. These, too, were deemed a return of capital contributions and constituted a return of all such capital contributions to the member authorities.

HARRP's Amended & Restated Intergovernmental Cooperation Agreement permits the HARRP Board to declare a dividend to be paid to HARRP's members with respect to any calendar year. The HARRP Board declared such a dividend payable in 1995 for calendar years 1987 & 1988. The combined dividend for 1987 & 1988 was \$990,043. In 1996 the Board declared a dividend for calendare year 1989 totalling \$595,024. Starting January 1997, the Board has declared a dividend for 1990 totally \$967,208.

In determining the "share" of any declared dividend available to HARRP's Member Authorities, a calculation is made to determine each Member's "Net Financial Contribution" for the year in question. The "Net Financial Contribution" is defined as the Member's written premium for the year, reduced by the Member's paid claims for the year. The "Net Financial Contribution" of each Member having a positive balance is divided by the total of all the Member's "Net Financial Contributions" to determine what percent of the available funds will be returned to each such Member.

A record date of January 31, 1997 was established for payment of this dividend. In order to qualify for the payment, membership in HARRP must have continued through that date. Qualified members were given the option of receiving a check from HARRP equal to their dividend(s) or having that amount applied to their renewal premium.

## **NOTE 12 - SUBSEQUENT EVENTS**

On November 7, 1997, the Housing Authority issued a revenue bond in the amount of \$190,000, the proceeds of which will be lent to the 19th Hole Limited Partnership, a Washington limited partnership, for the purposes of providing a portion of the financing for the construction of the Madrona Manor apartment complex. The funds will be loaned on substantially the same terms as they are borrowed. The interest rate on this bond is equal to the Bank's Fixed Rate Index plus 1.75% per annum and shall be reset at the times and to the rates determined in the manner set forth in the Commitment Letter and the Promissory Note. Payment of principal and interest on the Bond shall be payable in equal monthly installments on the first business day of each month, beginning January 1, 1998, to maturity in the amount necessary to amortize the Bond over a 30-year period.