

Housing Authority of the City of Sedro-Woolley

**Financial Statements
(With Supplementary Information)
and Independent Auditor's Report**

December 31, 2023

Housing Authority of the City of Sedro-Woolley

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Independent Auditor's Report

To the Board of Commissioners
Housing Authority of the City of Sedro-Woolley

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the business-type activities of the Housing Authority of the City of Sedro-Woolley (the "Authority"), as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the business-type activities of the Authority, as of December 31, 2023, and the changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS") and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

The Authority's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed in the table of contents to be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The financial data schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The financial data schedule and schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the financial data schedule and schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2024, on our consideration of the 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 solely 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 effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.



Charlotte, North Carolina
September 30, 2024

Independent Auditor's Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed In Accordance with *Government Auditing Standards*

To the Board of Commissioners
Housing Authority of the City of Sedro-Woolley

We have audited, 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, the financial statements of the business-type activities of the Housing Authority of the City of Sedro-Woolley (the "Authority") as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated September 30, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances 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 Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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*.

Purpose of this Report

This purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CohnReznick LLP

Charlotte, North Carolina
September 30, 2024

**Housing Authority of the City of Sedro-Woolley
Schedule of Findings, Questioned Costs, and Recommendations
December 31, 2023**

Our audit disclosed no findings that are required to be reported herein.

Housing Authority of the City of Sedro-Woolley

Management's Discussion and Analysis

This first section of the annual financial report presents a discussion and analysis of the Housing Authority of the City of Sedro-Woolley's (SWHA) financial performance during the year ended December 31, 2023. It should be read in conjunction with the Authority's financial statements, which immediately follow this section.

Located in Skagit County, Washington, the city of Sedro-Woolley officially merged the neighboring towns of Sedro and Woolley when it incorporated over 100 years ago. With a local population of approximately 11,690, SWHA currently operates two public housing developments—Hillsview and Cedar Grove. These two developments total 80 units and serve a diversified population including senior, disabled and family households.

The King County Housing Authority (KCHA) has a long-standing contract to manage and assist the Sedro-Woolley Housing Authority. SWHA has its own Board of Commissioners, which is responsible for approving its operating and capital budgets and overseeing programs. SWHA is charged by KCHA for the direct operating expenses of the two public housing developments. In addition, KCHA also charges for administrative services provided. These indirect costs are allocated to SWHA using established allocation methods, generally based upon the number of units.

The financial statements included in this report are in conformance with Generally Accepted Accounting Principles for governments.

2023 Financial Highlights

- Total assets of the Authority exceeded total liabilities at December 31, 2023 by \$1,904,575.
- Total revenues (operating and non-operating) for 2023 were \$808,554. Total expenses (operating and non-operating) were \$998,246. The change in net position was a decrease of \$177,661.

Overview of the Financial Statements

As required under the GASB 34 financial reporting standards, this annual report consist of two parts—the *basic financial statements*, and *required supplementary information*.

The following *basic financial statements* are included in this report:

- *Statement of Net Position*—reports the Authority’s current financial resources (short-term expendable resources) with capital assets and long-term debt obligations.
- *Statement of Revenues, Expenses and Changes in Net Position*—reports the operating and non-operating revenues, by major source along with operating and non-operating expenses and capital contributions.
- *Statement of Cash Flows*—reports the Authority’s cash flows from operating, investing, capital and non-capital activities.
- The statements identified above are followed by a section of required supplementary information that further explains and supports the information found in the financial statements.

Financial Analysis of the Authority

Statement of Net Position:

The *Statement of Net Position* presents the assets, liabilities, and net position of the Authority at the end of the year. The purpose of the statement is to provide a snapshot of the financial condition of the Authority at a certain point in time. Table A-1 presents the Authority’s *Condensed Statement of Net Position* for 2023 and 2022. Supplementary information is provided in the accompanying notes that further explain and support the data presented in table A-1.

Table A-1, Condensed Statement of Net Position

Assets:	2023	2022
Current and other assets	\$ 252,670	\$ 326,341
Capital assets	1,743,955	1,844,837
Total Assets	1,996,625	2,171,178
Liabilities:		
Current and other liabilities	92,050	88,942
Total Liabilities	92,050	88,942
Net Position:		
Net investment in capital assets	1,743,954	1,844,837
Unrestricted	160,621	237,399
Total Net Position	\$ 1,904,575	\$ 2,082,236

Current and other assets, excluding capital assets, for the year ended December 31, 2023 total \$252,670 and are comprised of \$52,865 in cash and cash equivalents and \$169,388 in accounts receivables, and \$30,417 in other assets. Cash and cash equivalents decreased by \$246,550.

Capital assets for the year ended December 31, 2023 are \$1.74 million. Included in this category are land and improvements, buildings and improvements, personal property, and construction-in-progress.

Total liabilities totaled \$92,050 at December 31, 2023, an increase of \$3,108 from 2022 primarily from accounts payable related to year-end accruals.

The Authority's current ratio reflects the relationship between current assets and current liabilities and is a measure of the Authority's ability to pay short-term obligations. At December 31, 2023, the Authority's current ratio was 2.74:1, a decrease from the previous year's current ratio of 3.67:1. This means that for every dollar in current liabilities there is \$2.74 in current assets.

Total net position decreased by \$177,661 during 2023. Net investment in capital assets decreased by \$100,883, primarily due to depreciation, while unrestricted net position decreased by \$76,778. Unrestricted net position decreased by 32% primarily due to decreases in capital assets.

Statement of Revenues, Expenses and Changes in Net Position:

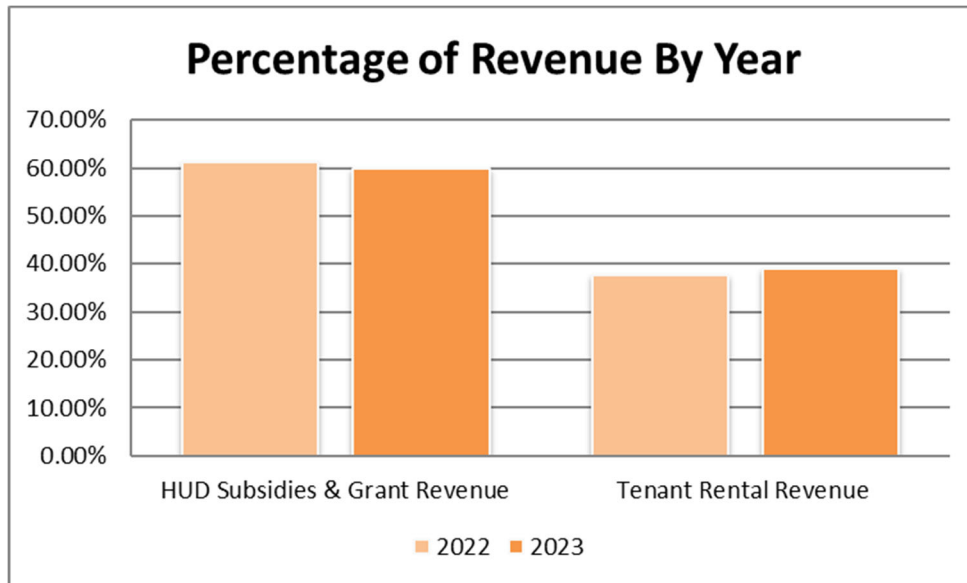
The purpose of the Statement of Revenues, Expenses and Changes in Net Position is to present the revenues earned by the Authority (both operating and non-operating) and the expenses incurred (operating and non-operating), and any other revenues, expenses, gains and losses received or spent by SWHA. Table A-2 represents the Authority's *Condensed Statement of Revenues, Expenses, and Changes in Net Position* for 2023 and 2022.

Table A-2, Condensed Statement of Revenues, Expenses and Changes in Net Position

	<u>2023</u>	<u>2022</u>
Operating Revenues	\$ 317,293	\$ 263,638
Net nonoperating revenues	491,261	429,804
Total Revenues	<u>808,554</u>	<u>693,442</u>
Operating expenses	998,246	815,894
Total Expenses	<u>998,246</u>	<u>815,894</u>
Excess or deficiency before contributions	(189,692)	(122,452)
Capital grant contributions	12,031	38,705
Change in Net Position	<u>(177,661)</u>	<u>(83,747)</u>
Beginning Net Position	<u>2,082,236</u>	<u>2,165,983</u>
Ending Net Position	<u>\$ 1,904,575</u>	<u>\$ 2,082,236</u>

Revenues are classified as operating or non-operating. Table A-3 shows the sources of operating revenues for 2022 and 2023.

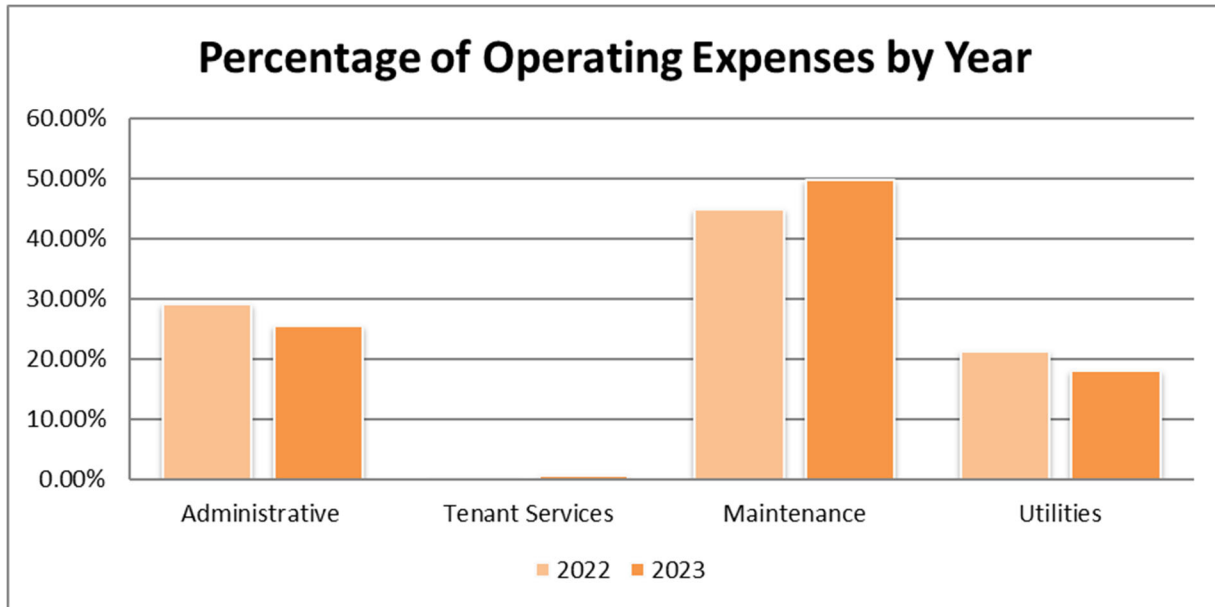
Table A-3, Sources of Revenues for 2022 and 2023



Operating expenses are amounts paid for providing housing to the Authority's tenants and administering the various programs. Total operating expenses (excluding depreciation), for 2023 were \$894,468. Costs included in operating expenses include: administrative, tenant services, maintenance, utilities, and other.

Table A-4 illustrates the operating expense break down by category. Increase in operating expense was mainly due to unit upgrades. None were completed in 2022 as unit upgrades depend on availability, but two was performed in 2023.

Table A-4, Operating Expenses for 2022 and 2023



Capital Assets

The Housing Authority of the City of Sedro-Woolley is committed to the ongoing rehabilitation and modernization of its housing inventory. Hillsview and Cedar Grove were both built in 1971.

Table A-5, Capital Assets for 2023 and 2022

	<u>2023</u>	<u>2022</u>
Land	\$ 59,287	\$ 59,287
Buildings and Improvements	4,306,856	4,306,856
Construction-in-progress	318,396	315,500
	<u>4,684,539</u>	<u>4,681,643</u>
Total accumulated depreciation	<u>(2,940,585)</u>	<u>(2,836,806)</u>
Net Capital Assets	<u>\$ 1,743,954</u>	<u>\$ 1,844,837</u>

Information about the Authority's capital assets is further presented in the financial statements Note 4 – Capital Assets.

Economic Factors Affecting the Authority's Future

The Authority receives the bulk of its operational funding from the United States Department of Housing and Urban Development (HUD) which, like all federal agencies, depends upon congressional appropriations. The current administration advocates severe funding cuts to programs administered by HUD; including completely defunding the Capital Fund Program. Much like the prior year, it is uncertain how much congress will appropriate.

Contacting the Authority's Financial Management

This financial report is designed to provide our stakeholders with a general overview of the Housing Authority's finances and to demonstrate SWHA's accountability for its resources. Any questions about this report, or requests for additional information, should be directed to the Director of Finance of the King County Housing Authority.

Housing Authority of The City of Sedro-Woolley
Statement Of Net Position
As of December 31, 2023

ASSETS:

Current Assets

Cash and cash equivalents	\$ 43,790
Restricted cash and cash equivalents	9,075
Receivables, net	169,388
Other current assets	30,417
	<hr/>
Total Current Assets	252,670
	<hr/>

Noncurrent Assets

Land, Buildings, and Equipment, net	
Nondepreciable	377,683
Depreciable	1,366,272
	<hr/>
Total Noncurrent Assets	1,743,955
	<hr/>
Total Assets	1,996,625
	<hr/>

LIABILITIES:

Current Liabilities

Accounts payable	42,110
Accrued compensated absences	23,695
Tenant security deposits	9,075
Prepaid tenant rent	8,889
Other Current Liabilities	8,281
	<hr/>
Total Current Liabilities	92,050
	<hr/>

Total Liabilities	92,050
	<hr/>

NET POSITION:

Net investment in capital assets	1,743,954
Unrestricted	160,621
	<hr/>
Total Net Position	\$ 1,904,575
	<hr/>

The accompanying notes are an integral part of these financial statements.

Housing Authority of The City of Sedro-Woolley
Statement of Revenues, Expenses and Changes in Net Position
For the 12 Month Period Ending December 31, 2023

Operating Revenues	
Tenant revenue	\$ 315,397
Other revenue	1,896
Total Operating Revenues	<u>317,293</u>
Operating Expenses	
Administrative	220,345
Tenant services	5,565
Maintenance	446,897
Utilities	162,073
Depreciation	103,778
Other expenses	59,588
Total Operating Expenses	<u>998,246</u>
Operating Income (Loss)	(680,953)
Nonoperating Revenues (Expenses)	
HUD subsidies and grant revenue	483,214
Investment income	8,047
Total Nonoperating Revenues (Expenses)	<u>491,261</u>
INCOME (LOSS) before contributions	(189,692)
Capital grant contributions	<u>12,031</u>
CHANGE IN NET POSITION	(177,661)
Beginning Net Position	2,082,236
Ending Net Position	<u><u>\$ 1,904,575</u></u>

The accompanying notes are an integral part of these financial statements.

Housing Authority of The City of Sedro-Woolley
Statement of Cash Flows
For the 12 Month Period Ending December 31, 2023

Cash Flows from Operating Activities:	
Receipts from tenants	\$ 290,331
Payments to employees	(152,062)
Payments to suppliers of goods and services	(735,420)
Other receipts	(2,677)
Net cash used in operating activities	<u>(599,828)</u>
Cash Flows from Noncapital Financing Activities:	
Receipts from HUD	<u>345,233</u>
Net cash provided by noncapital financing activities	<u>345,233</u>
Cash Flows from Capital and Related Financing Activities:	
Capital grant contributions	12,031
Purchases of capital assets	(2,895)
Net cash provided by capital and related financing activities	<u>9,136</u>
Cash Flows from Investing Activities:	
Investment income	8,047
Other receipts (payments)	(9,136)
Net cash used in investing activities	<u>(1,089)</u>
Net decrease in cash, restricted cash and cash equivalents	(246,550)
Cash, restricted cash and cash equivalents - beginning of the year	<u>299,415</u>
Cash, restricted cash and cash equivalents -- end of the year	<u>\$ 52,865</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	\$ (680,953)
Adjustments to reconcile operating income (loss) to net cash used in operating activities:	
Depreciation expense	103,778
Change in assets and liabilities:	
Receivables	(21,628)
Inventories and other	(13,269)
Accounts payable	13,397
Other current liabilities	(1,153)
Net cash provided by (used in) operating activities	<u>\$ (599,828)</u>

The accompanying notes are an integral part of these financial statements.

Note 1 – Reporting Entity and Summary of Significant Accounting Policies

Reporting Entity

Primary Government

The Housing Authority of the City of Sedro-Woolley (the “Authority”) was created as a municipal corporation under the provisions of the State Housing Authorities Law (RCW 35.82) and the Housing Cooperation Law (RCW 35.83) in response to the Federal Housing Act of 1937. The Act created the United States Housing Authority, empowering it to make loans and annual contributions to local public housing agencies to assist in the development, acquisition and administration of low rent projects. The programs authorized under the Act, as amended, are now administered by the Department of Housing and Urban Development (HUD).

The King County Housing Authority (KCHA) has a long-standing contract to manage and assist the Authority. The Authority has its own Board of Commissioners, which is responsible for approving its operating and capital budgets and overseeing programs. The Authority is charged by KCHA for the direct operating expenses of the two public housing developments. In addition, KCHA also charges a fee for administrative services provided.

The Authority has been granted a broad range of powers to provide housing assistance to low-income households. The nationally recognized definition of a low-income family is a household earning less than 80 percent of the area’s median income, adjusted for family size. The Authority administers programs that serve housing needs.

Summary of Significant Accounting Policies

The financial statements of the Authority have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described below.

Basis of Accounting

Accounting records are maintained according to the proprietary fund model that is similar to private business enterprises. The Authority applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

Revenues and Expenses

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority are tenant revenues. Operating expenses for proprietary funds include the cost of maintenance and repairs, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The basis for recognition of revenues and expenses is the accrual basis of accounting. Revenues are recorded when earned. Expenses are recorded when incurred. Revenue from operating subsidies and grants is classified as non-operating revenue. Revenue from capital grants is classified as capital grant contributions.

Cash, Cash Equivalents and Investments

Cash consists of Federal Depository Insurance Corporation (FDIC) insurable deposits with original maturities of less than three months. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash. Investments include deposits with original maturities exceeding three months, securities and other assets that are held primarily for the purpose of obtaining income or profit. Restricted cash and cash equivalents as of December 31, 2023 include \$9,075 of tenant security deposits.

Receivables and Bad Debts

Receivables consist primarily of rents due from tenants. Annually, tenant receivables are analyzed and the allowance for doubtful accounts is appropriately adjusted. No allowances existed at December 31, 2023 other than the allowance for tenant accounts receivable of \$9,118.

Capital Assets

Capital assets are recorded at historical cost in the land, structures, and equipment accounts. Donated assets are recorded at acquisition cost. The Authority defines capital assets as tangible items with an initial individual cost of at least \$5,000 if the item is equipment and \$50,000 if the item is real property or a capital improvement. Capital assets are depreciated using the straight-line method with depreciation commencing in the acquisition year and ceasing in the disposal year. Capital project costs clearly associated with the acquisition, development, and construction of a real estate project, including indirect costs and interest, are capitalized as a cost of that project.

Depreciable lives for the capital asset categories follow:

Land	No depreciation
Buildings	20 – 40 years
Improvements	15 years
Equipment	3 – 10 years
Construction-in-process	No depreciation

Maintenance and repairs are charged to expense when incurred. Management reviews land, structures, and equipment for possible impairment whenever events or circumstances indicate the carrying amount of an asset may not be recoverable. If there is an indication of impairment, management prepares an estimate of future cash flows expected to result from the use of the asset and its eventual disposition. If these cash flows are less than the carrying amount of the asset, an impairment loss is recognized to write down the asset to its estimated fair value.

Preparation of estimated expected future cash flows is inherently subjective and is based on management's best estimate of assumptions concerning expected future conditions.

Tax Liability

The Authority is by law exempt from all federal, state, and local taxes and assessments.

Compensated Absences

It is the Authority's policy to pay 100% of accumulated annual leave when an employee terminates employment from the Authority. As such, the value of annual leave earned but not used at year-end is accrued. Sick leave does not vest and is only paid to those separating from the Authority as retirees as defined by the state pension system. Because the amount of such payments is difficult to estimate, an accrual is made only when the actual payment amount is known.

Note 2 – Adoption of New Accounting Standards

During 2023, the Authority adopted GASB Statement No.96, Subscription Based Information Technology Arrangements provides guidance on the accounting and financial reporting for subscription based information technology arrangements for government end users. This Statement is effective for fiscal years beginning after June 15, 2022. The adoption of GASB Statement No. 96 had no material impact on the financial statements.

Note 3 - Cash Deposits and Investments

The Authority is restricted in its cash deposits and investments to those allowed by RCW 35.82.070(6). In general, deposits must be made with qualified financial institutions whose deposits are insured by the Federal Deposit Insurance Corporation (FDIC).

Insurance and Collateralization

Deposits that are in excess of the \$250,000 insured amount must be continuously and fully (100%) secured. Collateral, comprised of identifiable U.S. Government securities as prescribed by HUD, are pledged or set aside to secure these deposits. The Public Deposit Protection Act in effect in the State of Washington set up a multiple financial institution collateral pool to insure public deposits. This protection is in the form of securities pledged as collateral to the Public Deposit Protection Commission (PDPC) by all qualified depositories. In 1994, the Authority received a waiver from HUD that enabled it to make deposits in excess of \$100,000 in a qualified public depository because HUD determined that there were "adequate safeguards against the loss of Public Housing Authority funds."

Interest Rate Risk

As a means of limiting its exposure to fair value losses arising from rising interest rates, the Authority's investment policy limits the maximum maturity of an investment to not greater than three years. Exceptions may be made for collateralization of repurchase agreements using investments not exceeding 30 years, for the investment of reserve funds, which can be invested up to 30 years if matched to an anticipated future cash flow, and for "step-investments" that increase interest payments at pre-defined times.

Credit Risk

The Department of Housing and Urban Development (HUD), Washington State law, and the Authority's investment policy all limit the instruments in which the Authority may invest. Not all

Authority funds have the same restrictions. Following are some of the instruments in which any Authority funds, including Federal funds, may be invested:

- 1) Direct obligations of the Federal government backed by the full faith and credit of the United States
 - a) U.S. Treasury Bills.
 - b) U.S. Treasury Notes and Bonds.
- 2) Obligations of Federal government agencies, such as:
 - a) Government National Mortgage Association (GNMA) mortgage-backed securities.
 - b) GNMA participation securities.
 - c) Maritime Administration Bonds.
 - d) Small Business Administration Bonds.
- 3) Securities of Government Sponsored Agencies, such as:
 - a) Federal Home Loan Mortgage Corporation (FHLMC) notes and bonds.
 - b) Federal National Mortgage Association (FNMA) notes and bonds.
 - c) Federal Home Loan Bank (FHLB) notes and bonds.
 - d) Federal Farm Credit Bank (FFCB) notes and bonds.
 - e) Student Loan Marketing Association (SLMA) notes and bonds.
- 4) Demand and savings accounts.
- 5) Money Market Deposit accounts.
- 6) Certain mutual funds.

Concentration of Credit Risk

The Authority diversifies its investments by security type and institution. SWHA follows the investment policy of KCHA which states: "With the exception of U.S. Treasury securities, investment agreements for trustee held funds, and authorized pools, no more than 15% of the Authority's total investment portfolio will be invested in a single security type or with a single financial institution.

Valuation and Classification

Cash equivalents include deposits and investments that are readily convertible to cash. Instruments with an original maturity date of over 3 months are classified as investments. Cash and investments held for the future payment of long-term liabilities are classified as non-current assets. Cash and investments legally or contractually restricted as to use are classified as restricted.

The Authority is a voluntary participant in the Local Government Investment Pool, an external investment pool operated by the Washington State Treasurer. The pool is not rated and not registered with the SEC. Rather, oversight is provided by the State Finance Committee in accordance with RCW 43.250. Investments in the LGIP are reported at amortized cost, which is the same as the value of the pool per share. The LGIP does not impose any restrictions on participant withdrawals. As of December 31, 2023, the pool had an average days-to-maturity of 19 days and therefore is reported at cost.

A summary of cash and investments at December 31, 2023 follows.

	Unrestricted	Restricted	Total
Cash and Cash Equivalents:			
Depository	\$ 5,000	\$ -	\$ 5,000
Local Government Investment Pool	38,790	9,075	47,865
Washington State Investment Pool	-	-	-
Total Cash And Cash Equivalents	<u>\$ 43,790</u>	<u>\$ 9,075</u>	<u>\$ 52,865</u>

Note 4 – Capital Assets

The components and capital activity of land, structures and equipment follow.

	Beginning Balances	Additions and Transfers-in	Disposals and Transfers-out	Ending Balances
Nondepreciable:				
Land	\$ 59,287	\$ -	\$ -	\$ 59,287
Construction-in-progress	315,501	2,895	-	318,396
Total Nondepreciable	<u>374,788</u>	<u>2,895</u>	<u>-</u>	<u>377,683</u>
Depreciable:				
Buildings and Improvements	4,306,856	-	-	4,306,856
Total Depreciable	<u>4,306,856</u>	<u>-</u>	<u>-</u>	<u>4,306,856</u>
Total Capital Assets:	4,681,644	2,895	-	4,684,539
Less: Accumulated depreciation	(2,836,807)	(103,778)	-	(2,940,584)
	<u>\$ 1,844,837</u>	<u>\$ (100,883)</u>	<u>\$ -</u>	<u>\$ 1,743,955</u>

Note 5 - Risk Management

Sedro-Woolley Housing Authority (SWHA) has the responsibility to systematically and continuously identify potential exposure to losses in terms of frequency and severity probability, and to apply sound risk control and financing techniques to minimize the impact of those potential losses. SWHA Risk Management has implemented programs to protect the Housing Authority against accidental and criminal losses that would significantly affect personnel, property, or budget by using a combination of loss control programs, purchased commercial insurance, voluntary self-insurance, participation in a risk-sharing pool or group, and contractual risk transfer via indemnification agreements.

The Housing Authority has secured fidelity coverage through Travelers Insurance with a \$2,000,000 per occurrence/aggregate for all employees. Management liability coverage is provided by Chubb. Coverage includes public officials, errors & omissions, and employment practices liability coverage appropriate to the agency's scope of work with \$5,000,000 per occurrence/aggregate limit and a \$100,000 deductible on a claims made basis.

Buildings, contents, and rental income are insured through Philadelphia Insurance Company on a replacement-cost basis within a blanket policy. The per-loss deductible varies between \$5,000 for tax credit properties to \$25,000 for public housing and bond properties. Electronics and contents at SWHA office locations are insured on a replacement-cost basis within a blanket policy form. The per-loss deductible is \$1,000.

SWHA maintains cyber liability coverage with a \$5,000,000 per claim policy limit through Resilience. HAI Group provides a shared excess cyber liability policy in the amount of \$250,000.

No active claims are anticipated to exceed the applicable limits of insurance secured from any of the listed providers. Settled claims have not exceeded coverage purchased during the past five years.

Note 6 – Subsequent Event

Events that occur after the date of the statement of net position but before the financial statements were available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the date of the statement of net position are recognized in the accompanying financial statements. Subsequent events, which provide evidence about conditions that existed after the date of the statement of net position, require disclosure in the accompanying notes. Management evaluated the activity of the Authority through September 30, 2024 (the date the financial statements were available to be issued) and concluded that no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements.

**HOUSING AUTHORITY OF THE CITY OF SEDRO-WOOLLEY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the 12 Month Period Ending December 31, 2023**

Federal Agency (Pass-Through Agency)	Federal Program	ALN Number	Other Award Number	Expenditures			Passed through to Subrecipients	Debt Liability Balance	Note
				From Pass- Through Awards	From Direct Awards	Total			
Office Of Public And Indian Housing, Department Of Housing And Urban Development	Public and Indian Housing	14.850	S 004	\$ -	\$ 372,311.60	\$ 372,312	\$ -	\$ -	1,2
Office Of Public And Indian Housing, Department Of Housing And Urban Development	Public Housing Capital Fund	14.872	WA01P030501-21	-	122,933	122,933	-	-	1,2
			Total CFDA 14.872	-	122,933	122,933	-	-	
			Total Federal Expenditures	\$ -	\$ 495,245	\$ 495,245	\$ -	\$ -	

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

NOTE 1 - BASIS OF ACCOUNTING

The Schedule of Financial Assistance is prepared on the same basis of accounting as the King County Housing Authority's financial statements. (See Note 1 in the Notes to the Financial Statements.)

NOTE 2 - PROGRAM COSTS

The amounts shown as current year expenditures represent only the federal portion of the program costs. Entire program costs, including The Authority's portion, may be more than shown. Such expenditures are recognized following, as applicable, either the cost principles in the OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3 - INDIRECT COST RATE

The Authority has not elected to use the 10-percent de minimus indirect cost rate allowed under the Uniform Guidance.

Housing Authority of the City of Sedro-Woolley
Financial Data Schedule (FDS)
Statement of Net Position
As of December 31, 2023

Line #	Account Description	Cedar Grove	Hillsview	Total Authority
		WA030000103	WA030000155	
111	Cash - unrestricted	\$ 17,550	\$ 26,240	\$ 43,790
114	Cash - tenant security deposits	3,500	5,575	9,075
100	Total cash	<u>21,050</u>	<u>31,815</u>	<u>52,865</u>
121	AR - PHA projects	2,297	7,132	9,429
122	AR - HUD other projects	77,193	62,494	139,687
124	Accounts receivable - other government	-	-	-
125	Accounts receivable - miscellaneous	-	-	-
126	Accounts receivable- tenants	14,001	15,389	29,390
126.1	Allowance for doubtful accounts - tenants	(3,570)	(5,548)	(9,118)
126.2	Allowance for doubtful accounts - other	-	-	-
127	Notes and mortgages receivable- current	-	-	-
128	Fraud recovery	-	-	-
128.1	Allowance for doubtful accounts - fraud	-	-	-
129	Accrued interest receivable	-	-	-
120	Total receivables, net of allowances	<u>89,921</u>	<u>79,467</u>	<u>169,388</u>
142	Prepaid expenses and other assets	9,774	20,643	30,417
143	Inventories	-	-	-
143.1	Allowance for obsolete inventories	-	-	-
144	Interprogram - due from	-	-	-
150	Total Current Assets	<u>120,745</u>	<u>131,925</u>	<u>252,670</u>
161	Land	-	59,287	59,287
162	Buildings	516,537	3,270,426	3,786,963
166	Accumulated depreciation	(523,715)	(2,416,869)	(2,940,584)
167	Work in progress	316,179	2,217	318,396
168	Infrastructure	383,139	136,753	519,892
160	Total capital assets, net of depreciation	<u>692,140</u>	<u>1,051,814</u>	<u>1,743,955</u>
180	Total Noncurrent Assets	<u>692,140</u>	<u>1,051,814</u>	<u>1,743,955</u>
190	Total Assets	<u>812,885</u>	<u>1,183,739</u>	<u>1,996,625</u>
200	Deferred Outflows of Resources	-	-	-
290	Total Assets and Deferred Outflows of Resources	<u>\$ 812,885</u>	<u>\$ 1,183,740</u>	<u>\$ 1,996,625</u>
312	Accounts payable < 90 days	\$ 24,379	\$ 17,732	\$ 42,111
321	Accrued wage/payroll taxes payable	2,116	6,164	8,280
322	Accrued compensated absences	5,956	17,739	23,695
341	Tenant security deposits	3,500	5,575	9,075
342	Unearned revenue	2,869	6,020	8,889
310	Total Current Liabilities	<u>38,820</u>	<u>53,230</u>	<u>92,050</u>
351	Long-term debt, net of current - capital projects	-	-	-
350	Total Noncurrent Liabilities	-	-	-
300	Total Liabilities	<u>38,820</u>	<u>53,230</u>	<u>92,050</u>
400	Deferred Inflows of Resources	-	-	-
508.4	Net Investment in Capital Assets	692,140	1,051,814	1,743,954
511.4	Restricted Net Position	-	-	-
512.4	Unrestricted Net Position	81,925	78,696	160,621
513	Total Equity - Net Assets/Position	<u>774,065</u>	<u>1,130,510</u>	<u>1,904,575</u>
600	Total Liabilities, Deferred Inflows of Resources, and Equity - Net Assets/Position	<u>\$ 812,885</u>	<u>\$ 1,183,740</u>	<u>\$ 1,996,625</u>

Housing Authority of the City of Sedro-Woolley
Financial Data Schedule (FDS)
Statement of Revenues, Expenses, and Changes in Net Position
For the 12 Month Period Ending December 31, 2023

Line Item #	Account Description	Cedar Grove WA030000103		Hillsview WA030000155		Total Authority
		14,850 Public and Indian Housing	14,872 Public Housing Capital Fund	14,850 Public and Indian Housing	14,872 Public Housing Capital Fund	
REVENUE:						
70300	Net tenant rental revenue	\$ 108,552	\$ -	\$ 202,999	\$ -	\$ 311,551
70400	Tenant revenue - other	(2,693)	-	6,539	-	3,847
70500	Total tenant revenue	105,859	-	209,539	-	315,397
70600	HUD PHA Operating Grants	150,933	42,717	221,379	68,186	483,214
70610	Capital Grants	-	9,814	-	2,217	12,031
70700	Total Fee Revenue	-	-	-	-	-
71500	Other Revenue	645	-	1,251	-	1,896
72000	Investment income - restricted	3,113	-	4,934	-	8,047
70000	TOTAL REVENUE	260,549	52,531	437,103	70,403	820,585
EXPENSES:						
<i>Administrative</i>						
91100	Administrative salaries	20,072	-	54,061	-	74,133
91200	Auditing fees	2,874	-	8,623	-	11,498
91300	Management fees	15,495	-	47,074	-	62,569
91310	Book-keeping Fee	-	-	-	-	-
91400	Advertising and Marketing	94	-	283	-	377
91500	Employee benefit contributions - administrative	6,906	-	18,472	-	25,378
91600	Office Expenses	1,083	-	3,688	-	4,771
91700	Legal expense	187	-	6,517	-	6,704
91800	Travel	370	-	1,110	-	1,480
91900	Other	9,226	-	24,209	-	33,436
91000	Total Operating - Administrative	56,308	-	164,037	-	220,345
92000	Asset Management Fee	-	-	-	-	-
<i>Tenant services</i>						
92100	Tenant services - salaries	-	-	-	-	-
92200	Relocation costs	5,338	-	-	-	5,338
92400	Tenant services - other	57	-	171	-	228
92500	Total Tenant Services	5,394	-	171	-	5,565
<i>Utilities</i>						
93100	Water	17,935	-	13,830	-	31,765
93200	Electricity	2,202	-	15,323	-	17,525
93300	Gas	2,293	-	-	-	2,293
93600	Sewer	18,217	-	53,608	-	71,825
93800	Other utilities expense	16,307	-	22,357	-	38,665
93000	Total Utilities	56,954	-	105,119	-	162,073
<i>Ordinary maintenance & operation</i>						
94100	Ordinary maintenance and operations - labor	20,447	-	58,820	-	79,267
94200	Ordinary maintenance and operations - material and other	6,216	42,717	15,477	68,186	132,596
94300	Ordinary maintenance and operations - contracts	94,949	-	112,020	-	206,969
94500	Employee benefit contributions - ordinary maintenance	7,258	-	20,807	-	28,065
94000	Total Maintenance	128,870	42,717	207,125	68,186	446,897
<i>General expenses</i>						
96110	Property Insurance	7,807	-	13,363	-	21,170
96120	Liability Insurance	6,802	-	19,256	-	26,058
96130	Workmen's compensation	1,126	-	3,253	-	4,379
96100	Total Insurance Premiums	15,735	-	35,872	-	51,607
96200	Other General Expenses	1,143	-	3,429	-	4,572
96210	Compensated absences	801	-	2,608	-	3,409
96800	Severance expense	-	-	-	-	-
96000	Total Other General Expenses	1,944	-	6,037	-	7,981
96720	Interest on notes payable (short and long term)	-	-	-	-	-
96700	Total interest expense and amortization cost	-	-	-	-	-
96900	TOTAL OPERATING EXPENSES	265,205	42,717	518,360	68,186	894,468
97000	EXCESS OPERATING REVENUE OVER OPERATING EXPENSES	(4,656)	-	(81,258)	2,217	(73,883)
97100	Extraordinary maintenance	-	-	-	-	-
97200	Casualty losses - non-capitalized	-	-	-	-	-
97300	Housing assistance payments	-	-	-	-	-
97350	HAP Portability-In	-	-	-	-	-
97400	Depreciation expense	31,205	-	72,574	-	103,778
90000	TOTAL EXPENSES	296,410	42,717	590,934	68,186	998,246
OTHER FINANCING SOURCES (USES)						
10010	Operating transfers in	-	-	-	-	-
10020	Operating transfers out	-	-	-	-	-
10100	TOTAL OTHER FINANCING SOURCES	-	-	-	-	-
97000	EXCESS (DEFICIENCY) OF TOTAL REVENUE OVER (UNDER)	\$ (35,860)	\$ 9,814	\$ (153,831)	\$ 2,217	\$ (177,661)
MEMO ACCT INFORMATION						
11020	Required annual debt principal payments	-	-	-	-	-
11030	Beginning of year equity	800,111	-	1,282,125	-	2,082,236
11040	Prior period adjustments and error corrections	-	-	-	-	-
11170	Administrative Fee Equity	-	-	-	-	-
11180	Housing Assistance Fee Equity	-	-	-	-	-
11190	Unit Months Available	240	-	720	-	960
11210	Number of unit months leased	232	-	713	-	945
11270	Excess cash	50,052	-	14,854	-	64,905
11620	Building Purchases	-	9,814	-	2,217	12,031
11630	Furniture and Equipment - dwelling purchases	-	-	-	-	-