

**HUDSON HOUSING AUTHORITY**

**FINANCIAL STATEMENTS**

**March 31, 2017**



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*By the Office of the State Auditor at 7:55 am, Jun 27, 2017*

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Board of Commissioners  
Hudson Housing Authority  
Hudson, Colorado

## INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the business-type activities and each major fund of the Hudson Housing Authority as of and for the year ended March 31, 2017, and the related notes to the financial statements, which collectively comprise the basic financial statements of the Hudson Housing Authority, as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

### **Auditors' Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation and fair presentation of the financial statements 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 internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of the Hudson Housing Authority as of March 31, 2017, and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters (Required Supplementary Information)**

The Hudson Housing Authority has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, 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. Our opinion on the basic financial statements is not affected by this missing information.

*Ernst & Young LLP*

June 23, 2017

## **BASIC FINANCIAL STATEMENTS**

HUDSON HOUSING AUTHORITY

STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
 March 31, 2017

	<u>GENERAL</u>	<u>PRAIRIE VIEW</u>	<u>TOTAL</u>
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash	\$ 42,399	\$ 83,602	\$ 126,001
Interfund Receivables	12,972	-	12,972
Utility Deposit	-	90	90
<b>TOTAL CURRENT ASSETS</b>	<u>55,371</u>	<u>83,692</u>	<u>139,063</u>
<b>NONCURRENT ASSETS</b>			
Restricted Cash	-	72,547	72,547
Capital Assets, Not Being Depreciated	-	11,500	11,500
Capital Assets, Net of Accumulated Depreciation	-	108,323	108,323
<b>TOTAL NONCURRENT ASSETS</b>	<u>-</u>	<u>192,370</u>	<u>192,370</u>
<b>TOTAL ASSETS</b>	<u>\$ 55,371</u>	<u>\$ 276,062</u>	<u>\$ 331,433</u>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Accounts Payable	\$ -	\$ 6,064	\$ 6,064
Interfund Payables	-	12,972	12,972
Tenant Security Deposits	-	4,619	4,619
Accrued Interest Payable, Current Portion	-	7,615	7,615
Loans Payable, Current Portion	-	54,808	54,808
<b>TOTAL CURRENT LIABILITIES</b>	<u>-</u>	<u>86,078</u>	<u>86,078</u>
<b>LONG-TERM LIABILITIES</b>			
Accrued Interest Payable	-	18,768	18,768
Loans Payable	-	561,272	561,272
<b>TOTAL LONG-TERM LIABILITIES</b>	<u>-</u>	<u>580,040</u>	<u>580,040</u>
<b>TOTAL LIABILITIES</b>	<u>-</u>	<u>666,118</u>	<u>666,118</u>
<b>NET POSITION</b>			
Net Investment in Capital Assets	-	(496,257)	(496,257)
Restricted for Repair and Replacement	-	72,547	72,547
Unrestricted	55,371	33,654	89,025
<b>TOTAL NET POSITION</b>	<u>55,371</u>	<u>(390,056)</u>	<u>(334,685)</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u>\$ 55,371</u>	<u>\$ 276,062</u>	<u>\$ 331,433</u>

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

HUDSON HOUSING AUTHORITY

STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET POSITION  
PROPRIETARY FUNDS  
Year Ended March 31, 2017

	GENERAL	PRAIRIE VIEW	TOTAL
OPERATING REVENUES			
Rental	\$ -	\$ 66,152	\$ 66,152
Operating Grants	-	131,137	131,137
Management Fees	14,646	-	14,646
Other	387	1,922	2,309
 TOTAL OPERATING REVENUES	 15,033	 199,211	 214,244
OPERATING EXPENSES			
General and Administrative	6,312	60,433	66,745
Utilities	-	34,325	34,325
Maintenance and Operations	-	55,417	55,417
Insurance and Benefits	-	3,368	3,368
Depreciation	-	17,249	17,249
 TOTAL OPERATING EXPENSES	 6,312	 170,792	 177,104
 NET OPERATING INCOME	 8,721	 28,419	 37,140
NONOPERATING REVENUES (EXPENSES)			
Interest Income	40	139	179
Interest Expense	-	(10,108)	(10,108)
 TOTAL NONOPERATING REVENUES (EXPENSES)	 40	 (9,969)	 (9,929)
 CHANGE IN NET POSITION	 8,761	 18,450	 27,211
NET POSITION, Beginning	46,610	(408,506)	(361,896)
NET POSITION, Ending	\$ 55,371	\$ (390,056)	\$ (334,685)

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

HUDSON HOUSING AUTHORITY

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

Increase (Decrease) in Cash  
Year Ended March 31, 2017

	<u>GENERAL</u>	<u>PRAIRIE VIEW</u>	<u>TOTAL</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash Received from Tenants	\$ -	\$ 67,562	\$ 67,562
Cash Received from Grants	-	131,137	131,137
Cash Received from Other Funds	12,085	-	12,085
Cash Payments to Employees and Commissioners	(4,425)	(46,004)	(50,429)
Cash Payments to Suppliers	(1,500)	(98,753)	(100,253)
Cash Paid to Other Funds	-	(12,085)	(12,085)
	<u>6,160</u>	<u>41,857</u>	<u>48,017</u>
<b>Net Cash Provided (Used) by Operating Activities</b>			
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Capital Assets Purchased	-	(6,512)	(6,512)
Principal Payments on Loans	-	(16,022)	(16,022)
Interest Payments on Loans	-	(8,976)	(8,976)
	<u>-</u>	<u>(31,510)</u>	<u>(31,510)</u>
<b>Net Cash Provided (Used) by Capital and Related Financing Activities</b>			
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest Received	40	139	179
	<u>40</u>	<u>139</u>	<u>179</u>
<b>NET INCREASE IN CASH</b>			
	6,200	10,486	16,686
<b>CASH, Beginning</b>			
	<u>36,199</u>	<u>145,663</u>	<u>181,862</u>
<b>CASH, Ending</b>			
	<u>\$ 42,399</u>	<u>\$ 156,149</u>	<u>\$ 198,548</u>
<b>RECONCILIATION OF NET OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>			
Net Operating Income	\$ 8,721	\$ 28,419	\$ 37,140
Adjustments to Reconcile Net Operating Income to Net Cash Provided (Used) by Operating Activities			
Depreciation	-	17,249	17,249
Changes in Assets and Liabilities			
Interfund Receivables	(2,561)	-	(2,561)
Accounts Payable	-	(5,860)	(5,860)
Interfund Payables	-	2,561	2,561
Tenant Security Deposits	-	(512)	(512)
	<u>-</u>	<u>(512)</u>	<u>(512)</u>
<b>Net Cash Provided (Used) by Operating Activities</b>			
	<u>\$ 6,160</u>	<u>\$ 41,857</u>	<u>\$ 48,017</u>

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

HUDSON HOUSING AUTHORITY

NOTES TO FINANCIAL STATEMENTS

March 31, 2017

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

The Hudson Housing Authority (the “Authority”) was formed in 1979 to acquire, construct, and operate a 20-unit apartment complex for low-income seniors located in the Town of Hudson, Colorado.

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

**Reporting Entity**

The financial reporting entity consists of the Authority, organizations for which the Authority is financially accountable, and organizations that raise and hold economic resources for the direct benefit of the Authority. All funds, organizations, institutions, agencies, departments and offices that are not legally separate are part of the Authority. Legally separate organizations for which the Authority is financially accountable are considered part of the reporting entity. Financial accountability exists if the Authority appoints a voting majority of the organization’s governing board and is able to impose its will on the organization, or if there is a potential for the organization to provide benefits to, or impose financial burdens on, the Authority.

Based on the application of this criteria, the Authority does not include additional organizations within its reporting entity.

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The Authority uses funds to report its financial position and activities. Fund accounting is designed to segregate transactions related to certain functions or activities. All of the Authority’s funds are classified as enterprise funds. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where fees are charged to external users for goods and services.

The financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Enterprise funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a fund’s principal ongoing operations. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

HUDSON HOUSING AUTHORITY

NOTES TO FINANCIAL STATEMENTS

March 31, 2017

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

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation** (Continued)

When both restricted and unrestricted resources are available for a specific use, it is the Authority's practice to use restricted resources first, and the unrestricted resources as they are needed.

Major individual funds are reported as separate columns in the financial statements. The Authority reports the following major proprietary funds:

The *General Fund* accounts for the general administration and operations of the Authority.

The *Prairie View Apartments Fund* is used to account for the activities of Prairie View Apartments, a 20-unit senior housing apartment complex.

**Assets, Liabilities and Net Position**

*Interfund Receivables and Payables* - During the course of operations, certain transactions occur between the individual funds. The resulting receivables and payables are classified on the statement of net position as *interfund receivables* and *interfund payables*.

*Capital Assets* - Capital assets, which include land, buildings and equipment, are recorded at cost. The Authority capitalizes all assets with an initial, individual cost of \$5,000 or more, and a useful life in excess of one year. Depreciation of capital assets is computed using the straight-line method over the following estimated useful lives of the assets.

Land Improvements	40 years
Buildings	40 years
Building Improvements	15 - 25 years
Equipment and Vehicles	7 - 15 years

*Net Position* - Net position is restricted when constraints placed on the use of resources are externally imposed.

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

**Budgetary Information**

Budgets are adopted for all funds as a management control device, but are not legally required. Therefore, budgetary information is not presented in the financial statements.

**Accountability**

At March 31, 2017, the Prairie View Apartments Fund had a deficit net position of \$390,056. Revenues of the property have not historically been sufficient to cover operating costs, in addition to depreciation and interest accrued on the HUD loans.

HUDSON HOUSING AUTHORITY

NOTES TO FINANCIAL STATEMENTS

March 31, 2017

**NOTE 3: CASH AND INVESTMENTS**

Cash at March 31, 2017, consisted of the following:

Bank Deposits	\$ 126,001
Cash Held by Third Party	<u>72,547</u>
Total	<u><b>\$ 198,548</b></u>

**Deposits**

The Colorado Public Deposit Protection Act (PDPA) requires all local government entities to deposit cash in eligible public depositories. Eligibility is determined by State regulations. Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by the PDPA. The PDPA allows the financial institution to create a single collateral pool for all public funds held. The pool is to be maintained by another institution, or held in trust for all uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits.

The Authority is required to comply with State statutes which specify investment instruments meeting defined rating, maturity, concentration and custodial risk criteria in which local governments may invest, which include the following. State statutes generally limit investments to an original maturity of five years unless the governing board authorizes the investment for a period in excess of five years.

- Obligations of the United States and certain U.S. Agency securities
- Certain international agency securities
- General obligation and revenue bonds of U.S. local government entities
- Bankers' acceptances of certain banks
- Commercial paper
- Written repurchase agreements collateralized by certain authorized securities
- Certain money market funds
- Guaranteed investment contracts
- Local government investment pools

The Authority had no investments at March 31, 2017.

**Restricted Cash**

At March 31, 2017, the Colorado Housing and Finance Authority held cash of \$72,547 on behalf of the Authority, representing the reserve for replacements required by the HUD loan agreements (See Note 6).

HUDSON HOUSING AUTHORITY

NOTES TO FINANCIAL STATEMENTS

March 31, 2017

**NOTE 4: INTERFUND BALANCES**

At March 31, 2017, the Prairie View Apartments Fund owed the General Fund \$12,972, representing earned management fees.

**NOTE 5: CAPITAL ASSETS**

Capital asset activity for the year ended March 31, 2017, is summarized below.

	Balance 3/31/16	Additions	Deletions	Balance 3/31/17
<b>Prairie View Apartments Fund</b>				
Capital Assets, Not Being Depreciated				
Land	\$ 11,500	\$ -	\$ -	\$ 11,500
Capital Assets, Being Depreciated				
Land Improvements	70,661	-	-	70,661
Buildings	608,396	6,512	-	614,908
Building Improvements	14,435	-	-	14,435
Equipment and Vehicles	72,146	-	-	72,146
Total Capital Assets, Being Depreciated	<u>765,638</u>	<u>6,512</u>	<u>-</u>	<u>772,150</u>
Less Accumulated Depreciation				
Land Improvements	(58,067)	(1,768)	-	(59,835)
Buildings	(501,930)	(15,481)	-	(517,411)
Building Improvements	(14,435)	-	-	(14,435)
Equipment and Vehicles	(72,146)	-	-	(72,146)
Total Accumulated Depreciation	<u>(646,578)</u>	<u>(17,249)</u>	<u>-</u>	<u>(663,827)</u>
Capital Assets, Being Depreciated, Net	<u>119,060</u>	<u>(10,737)</u>	<u>-</u>	<u>108,323</u>
Total Capital Assets, Net	<u>\$ 130,560</u>	<u>\$ (10,737)</u>	<u>\$ -</u>	<u>\$ 119,823</u>

**NOTE 6: LONG-TERM DEBT**

A summary of long-term debt activity for the year ended March 31, 2017, is presented below:

	Balance 3/31/16	Additions	Payments	Balance 3/31/17	Due Within One Year
<b>Prairie View Apartments Fund</b>					
CHFA Loan	\$ 22,671	\$ -	\$ 1,003	\$ 21,668	\$ 1,032
HUD Restructuring Loan	517,537	-	15,019	502,518	53,776
HUD Restructuring Loan	91,894	-	-	91,894	-
Total	<u>\$ 632,102</u>	<u>\$ -</u>	<u>\$ 16,022</u>	<u>\$ 616,080</u>	<u>\$ 54,808</u>

HUDSON HOUSING AUTHORITY

NOTES TO FINANCIAL STATEMENTS

March 31, 2017

**NOTE 6: LONG-TERM DEBT (Continued)**

During 2003, the Authority obtained a loan from the Colorado Housing and Finance Authority (CHFA) in the amount of \$33,000. Proceeds of the loan were used to rehabilitate the Prairie View Apartments. Monthly principal and interest payments of \$139 are due on the loan through September 1, 2033. Interest accrues at the rate of 3% per annum. Following is a summary of the debt service requirements to maturity:

<u>Year Ended March 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 1,032	\$ 638	\$ 1,670
2019	1,064	606	1,670
2020	1,096	574	1,670
2021	1,128	542	1,670
2022	1,165	505	1,670
2023 - 2027	6,370	1,980	8,350
2028 - 2032	7,398	952	8,350
2033 - 2034	<u>2,415</u>	<u>85</u>	<u>2,500</u>
Total	<u>\$ 21,668</u>	<u>\$ 5,882</u>	<u>\$ 27,550</u>

On August 20, 2003, the Authority entered into two mortgage restructuring loan agreements with the U. S. Department of Housing and Urban Development (HUD) for \$649,763 and \$91,894. The loans accrue interest at 1.5% per annum. Principal and interest payments on the first loan are due annually on July 10 if the property generates surplus cash. All principal and accrued interest on the second loan and any remaining principal and accrued interest on the first loan are due on September 1, 2033.

**NOTE 7: RISK MANAGEMENT**

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For these risks of loss, the Authority, through the Town of Hudson, participates in the Colorado Intergovernmental Risk Sharing Agency (CIRSA), a separate and independent governmental and legal entity formed by intergovernmental agreement by member municipalities pursuant to the provision of 24-10-115.5, Colorado Revised Statutes (1982 Replacement Volume) and Colorado Constitution, Article XIV, Section 18(2).

The purposes of CIRSA are to provide members defined liability, property, and workers compensation coverages and to assist members in preventing and reducing losses and injuries to municipal property and to persons or property which might result in claims being made against members of CIRSA, their employees and officers.

HUDSON HOUSING AUTHORITY

NOTES TO FINANCIAL STATEMENTS

March 31, 2017

**NOTE 7: RISK MANAGEMENT (Continued)**

It is the intent of the members of CIRSA to create an entity in perpetuity which will administer and use funds contributed by the members to defend and indemnify, in accordance with the bylaws, any member of CIRSA against stated liability of loss, to the limit of the financial resources of CIRSA. It is also the intent of the members to have CIRSA provide continuing stability and availability of needed coverages at reasonable costs. All income and assets of CIRSA shall be at all times dedicated to the exclusive benefit of its members. CIRSA is a separate legal entity and the Authority does not approve budgets nor does it have the ability to significantly affect the operations of CIRSA.

**NOTE 8: COMMITMENTS AND CONTINGENCIES**

**Claims and Judgements**

The Authority participates in a number of federal, state, and local programs that are fully or partially funded by grants received from other governmental entities. Expenses financed by grants are subject to audit by the appropriate grantor government. If expenses are disallowed due to noncompliance with grant program regulations, the Authority may be required to reimburse the grantor government. At March 31, 2017, significant amounts of grant expenses have not been audited, but the Authority believes that subsequent audits will not have a material effect on the overall financial position of the Authority.

**Tabor Amendment**

Colorado voters passed an amendment to the State Constitution, Article X, Section 20, which has several limitations, including revenue raising, spending abilities, and other specific requirements of state and local government. The Amendment is complex and subject to judicial interpretation. However, management believes the Authority is exempt from the provisions of the Amendment.