



Financial Statements
December 31, 2017

Longmont Housing Authority

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June 14, 2018

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Independent Auditor's Report

The Board of Commissioners
Longmont Housing Authority
Longmont, Colorado

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the discretely presented component units of the Longmont Housing Authority (the Authority) as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements 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.

Auditor's 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of Aspen Meadows Neighborhood, LLLP and Suites Apartments LLLP were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 entity's 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 entity's 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 the discretely presented component units, of Longmont Housing Authority as of December 31, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedule of employer's share of net pension liability and employer's contributions as listed in the table of contents be presented to supplement the basic financial statements. Such 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. 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Longmont Housing Authority's basic financial statements. The accompanying supplementary schedules on pages 46 - 48 are presented for purposes of additional analysis and are 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 (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and is not a required part of the financial statements.

The supplementary schedules on pages 46 - 48 and the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated April 30, 2018 on our consideration of Longmont Housing Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 Longmont Housing Authority's 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 Longmont Housing Authority's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Bismarck, North Dakota
April 30, 2018

Longmont Housing Authority
MANAGEMENT DISCUSSION AND ANALYSIS
DECEMBER 31, 2017

As management of the Longmont Housing Authority (the Authority), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended December 31, 2017. The Management Discussion and Analysis is designed to assist the reader in focusing on significant financial issues, to provide an overview of the Authority's financial activity and position, and to identify financial trends and concerns. We encourage readers to consider the information presented here in conjunction with the Authority's financial statements and the additional information that we have furnished in our notes to the financial statements to obtain a full understanding of its financial position.

Using the Financial Statements

The Basic Financial Statements consist of Management's Discussion and Analysis (this section) and a series of financial statements and notes to those statements. These statements are organized so that the reader can understand the Authority as an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The Statement of Net Position presents information on all the Authority's assets and liabilities. Under GASB 34, the difference between a Public Housing Authority's assets and liabilities is Net Position. Over time, increases and decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Net Position show the reader operating revenues and expenses by funds and by the Authority as a total. This is reported on a full accrual basis where income is reported when earned and expenses are reported as incurred. This report shows the reader net operating income/loss. Operating income is made up of tenant rents, management fees, HUD operating subsidies, and other income. Operating expenses are Housing Assistance Payments, salaries and benefits, office expenses, insurance, utilities, maintenance and depreciation. The next section shows non-operating revenues and expenses to arrive at the Change in Net Position (profit/loss) for the year just ended. Non-operating revenues/expenses are capital grants, interest income, gain/loss on sale of property, and mortgage interest expense.

The Statement of Cash Flows provides our third statement which converts our accrual accounting to cash. This lets the reader know if the Authority increased or decreased our cash position this year and what were the sources or uses of the cash.

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements and can be found immediately after them in the audit report.

Longmont Housing Authority
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2017

Programs and Services

The following is a brief description of the programs and services that the Authority provides for the residents within Longmont and the surrounding communities.

General Fund / Development - The Authority oversees the management of the Longmont Housing Development Corporation day-to-day operations and their real estate portfolio which provides 292 units of low income and moderate income housing in the Longmont area. This program is also responsible for developing new units of housing in Longmont.

Housing Choice Vouchers - Through Annual Contribution Contracts with HUD, the Authority receives funding to subsidize the rent of low income families in the private market and earns an administrative fee to cover the program's operating costs. In 2017, the Authority received funding for an average of 407 vouchers per month.

Sunset Land – Parcel of land, 1.477 acres, located at 2000 Sunset Way. There is a shared use agreement with Suites Apartments LLLP, to obtain reimbursement for shared costs associated with the land.

RISE Program at Aspen Meadows Neighborhood - The purpose and goal of the Road to Independence, Security and Empowerment program ("RISE") is to enable families to achieve long-term, sustainable self-sufficiency without government benefits and rise out of poverty by the end of the 5th year of the program. The program is administered to assist the residents of Aspen Meadows Neighborhood and is funded by the City of Longmont. This program ended at the end of 2017.

Briarwood – Briarwood office houses the corporate offices of the Authority. The ten attached studio apartments are master-leased to a local community agency to provide housing to otherwise homeless and underserved populations in Longmont. The additional three units are project based vouchers administered by the Housing Choice Voucher program.

Moderate Rehab - The HUD Moderate Rehab Program provides eight vouchers for single room occupancy units at the Inn Between, a local nonprofit agency that provides intensive case management to the program participants.

615 Main Street - This commercial property is leased to a community agency and provides additional rental income to the Authority.

Longmont Housing Authority
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2017

Suites Apartments LLLP - This property has 82 fully furnished one and two bedroom apartments providing housing and related supportive services to low and moderate income families, elderly and disabled households.

Aspen Meadows Neighborhood LLLP - This property has 28 two, three, and four bedroom apartments providing housing for low and moderate income families, elderly and disabled households.

Financial Highlights

- The Authority finished the year with Net Position of \$10,984,809
- The Authority earned \$4,723,072 in grant income in 2017 from a variety of sources.
- Cash and investments totaled \$2,088,904 at year end.
- The current ratio (which shows liquidity) was 14.94 and months expendable funds balance (showing ability to pay monthly expenses) was 4.98, both of which are a little higher than the prior year ratios.
- In the prior year, the Authority also implemented GASB Statements No. 68 and No. 71 regarding accounting for and reporting pensions. The impact of the implementation is discussed below.

Longmont Housing Authority
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2017

Financial Analysis

Condensed Statement of Net Position

| | 2017 | 2016 |
|--|----------------------|----------------------|
| ASSETS AND DEFERRED OUTFLOWS | | |
| Current Assets | \$ 2,442,334 | \$ 2,793,027 |
| Non-Current Assets | 10,298,813 | 8,097,363 |
| Net Capital Assets | 1,627,051 | 1,683,887 |
| Total Assets | 14,368,198 | 12,574,277 |
| Deferred Outflow of Resources | 667,927 | 524,546 |
| Total Assets and Deferred Outflows | <u>\$ 15,036,125</u> | <u>\$ 13,098,823</u> |
| LIABILITIES AND DEFERRED INFLOWS | | |
| Current Liabilities | \$ 163,468 | \$ 606,867 |
| Long-Term Liabilities | 3,881,789 | 3,309,662 |
| Total Liabilities | 4,045,257 | 3,916,529 |
| Deferred Inflow of Resources | 6,059 | 27,927 |
| NET POSITION | | |
| Net Investment in Capital Assets | 1,088,469 | 1,125,920 |
| Restricted | 28,931 | - |
| Unrestricted | 9,867,409 | 8,028,447 |
| Total Net Position | 10,984,809 | 9,154,367 |
| Total Liabilities, Deferred Inflows and Net Position | <u>\$ 15,036,125</u> | <u>\$ 13,098,823</u> |

Longmont Housing Authority
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2017

Financial Analysis (Continued)

- Current assets decreased as compared to the prior year balance by \$350,693. This was due to a decrease in the amount of restricted cash. At the end of 2016, Housing Choice Voucher funds were received for January 2017 thus increasing the restricted cash in the prior year.
- Non-current assets increased as compared to the prior year by \$2,201,450 mainly due to the increase in accounts receivable - developer fees. The increase was due to the additional developer fees earned from the development of Suites Apartments LLLP
- Net capital assets decreased by \$56,836 as compared to the prior year due to current year depreciation.
- Long-term notes and current liabilities increased by \$128,728 due to the increase in the net pension liability
- As per GASB Statements No. 68 and No. 71, which refer to the accounting and reporting of pensions, deferred inflow and outflow amounts varied compared to the prior year. There was an increase in deferred outflow of resources of \$143,381. This was due to the current year pension contributions. There was a increase of \$572,127 from the net pension liability (long-term liability). There was an decrease of \$21,868 for deferred inflow of resources due to a change in assumptions or other inputs.

Condensed Statement of Revenues, Expenses and Changes in Net Position

| | 2017 | 2016 |
|--------------------------------------|--------------|--------------|
| Operating Revenues | \$ 6,999,278 | \$ 6,597,596 |
| Operating Expenses | (5,485,927) | (5,861,891) |
| Net Operating Income (Loss) | 1,513,351 | 735,705 |
| Net Nonoperating Revenues (Expenses) | 317,091 | 2,672,278 |
| Change in Net Position | \$ 1,830,442 | \$ 3,407,983 |

Longmont Housing Authority
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2017

Financial Analysis (Continued)

- Operating revenues increased by \$401,682 as compared to 2016 mainly due to developer fee income.
- Operating expenses decreased by \$375,964 as compared to 2016. The decrease was due to an decrease in administrative and maintenance salaries; regular and extraordinary maintenance; and Housing Assistance Payments as compared to the prior year.
- Net nonoperating revenue (expense) decreased by \$2,355,187 as compared to the prior year due to gain on sale of property from the sale of the Suites recored in the prior year.

Capital Assets

As of December 31, 2017, the Authority had \$1,627,051 in capital assets, including land, buildings and improvements and equipment, net of accumulated depreciation expense. A summary of capital assets is as follows:

| | 2017 | 2016 |
|---------------------------------|--------------|--------------|
| Non Depreciable Assets: | | |
| Land | \$ 673,909 | \$ 673,909 |
| Construction in Progress | - | - |
| | 673,909 | 673,909 |
| Depreciable Assets: | | |
| Buildings | 1,404,360 | 1,404,360 |
| Equipment | 73,586 | 73,586 |
| | 1,477,946 | 1,477,946 |
| Less: Accumulated Depreciation: | | |
| Buildings | (463,893) | (413,702) |
| Equipment | (60,911) | (54,266) |
| | (524,804) | (467,968) |
| Total Capital Assets (Net) | \$ 1,627,051 | \$ 1,683,887 |

Longmont Housing Authority
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2017

Financial Analysis (Continued)

The net balance of capital assets experienced a small change from 2016 of \$56,836 due to annual depreciation.

See Note 4 of the financial statements for additional information related to capital assets.

Long Term Debt

As of December 31, 2017, the Authority had \$1,837,767 of outstanding notes and mortgages payable. A summary of long term debt is below:

| | 2017 | 2016 | Change |
|-------------------------------|------------------|------------------|-----------------|
| Notes and Mortgages Payable - | | | |
| Current Portion | \$ 47,063 | \$ 49,487 | \$ (2,424) |
| Notes and Mortgages Payable | 1,743,641 | 1,787,809 | (44,168) |
| Total Long Term Debt | \$ 1,790,704 | \$ 1,837,296 | \$ (46,592) |

The total balance of long term debt experienced a small change from 2016. This change was due to the following:

- Regular principal payments made on the Briarwood mortgage of \$19,525.
- Regular principal payments made on the Village Place mortgage of \$26,674.

See Note 6 of the financial statements for additional information related to long term debt.

Longmont Housing Authority
MANAGEMENT DISCUSSION AND ANALYSIS
DECEMBER 31, 2017

Authority Fund Analysis and Highlights

General Fund Development

The General Fund Development had an increase in net position of \$2,043,016 for the current year. The fund had a net position of \$9,526,217 at year end with the majority of the balance unrestricted. The balance net position increased during the year due to the increase of end of year collections of administrative and management fees from the applicable properties which reduced the account due from other agencies.

Housing Choice Vouchers

The Housing Choice Vouchers program administered an average of 407 rental vouchers per month to low-income residents in Longmont and surrounding communities. The Longmont Housing Authority receives administrative funding in addition to the Housing Assistance Payment funding from HUD as part of this program. During the year ended December 31, 2017, the program had a decrease in net position of \$202,559.

For 2017, the cost of administering the program increased by \$20,175 (7%); however, the funding received was sufficient to cover the increase in costs.

Moderate Rehab

The HUD Moderate Rehab program had an increase in net position of \$9,590 for the year and ended the year with a net position of \$21,148. The program is expected to be fully funded for 2018.

Briarwood

For the year ended December 31, 2017, the Briarwood Apartments and Office Building had a decrease in net position of \$15,924 and ended the year with a net position of \$347,097. Operations will continue in 2018 with improvements as needed.

RISE Program

The RISE Program had an increase in net position of \$254 for the year and ended the year with a net position of \$69,870. The program received funding from the City of Longmont through June 2017 to provide services to the families living in the Aspen Meadows Neighborhood townhomes.

Longmont Housing Authority
MANAGEMENT DISCUSSION AND ANALYSIS
DECEMBER 31, 2017

Authority Fund Analysis and Highlights (Continued)

615 Main Street

This commercial office building is managed by the Longmont Housing Authority. The building had a decrease in net position of \$1,521 and ended the year with a net position of \$364,185, the majority of which is invested in the building.

Requests for Information

This financial report is designed to provide a general overview of the Longmont Housing Authority's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

Longmont Housing Authority
1228 Main Street
Longmont, Colorado 80501

Longmont Housing Authority
Statement of Net Position
December 31, 2017

| | <u>Primary Government</u> | <u>Discretely Presented Component Units</u> |
|--|-------------------------------|---|
| Assets and Deferred Outflows of Resources | | |
| Current Assets | | |
| Cash | \$ 2,039,857 | \$ 310,146 |
| Restricted cash | 49,047 | 628,257 |
| Accounts receivable | | |
| Tenants | 1,045 | 23,291 |
| Due from other agencies | 155,875 | - |
| Developer fees | 191,629 | - |
| Notes receivable, current portion | - | - |
| Prepaid expenses | 4,881 | 30,273 |
| | <u>2,442,334</u> | <u>991,967</u> |
| Capital Assets | | |
| Non-depreciable | 673,909 | 1,117,000 |
| Depreciable, net | 953,142 | 16,951,966 |
| | <u>1,627,051</u> | <u>18,068,966</u> |
| Other Assets | | |
| Accounts receivable - developer fees | 1,325,091 | - |
| Related notes receivable and accrued interest | 8,973,722 | - |
| Other assets | - | 329,297 |
| | <u>10,298,813</u> | <u>329,297</u> |
| Deferred Outflows of Resources - Pension | | |
| | <u>667,927</u> | <u>-</u> |
| Total Assets and Deferred Outflows of Resources | <u><u>\$ 15,036,125</u></u> | <u><u>\$ 19,390,230</u></u> |

Longmont Housing Authority
Statement of Net Position
December 31, 2017

| | <u>Primary Government</u> | <u>Discretely Presented Component Units</u> |
|--|-------------------------------|---|
| Liabilities, Deferred Inflows of Resources and Net Position | | |
| Current Liabilities | | |
| Accounts payable | \$ 11,956 | \$ 76,817 |
| Accounts payable - HUD | 13,716 | - |
| Accrued payroll | 24,841 | - |
| Accrued compensated absences | 22,718 | - |
| Accrued partnership fees | - | 6,075 |
| Accrued interest, current portion | 6,568 | 48,282 |
| Unearned revenue | 30,206 | - |
| Tenant security deposits payable | 6,400 | 93,254 |
| Developer fee payable, current portion | - | 191,629 |
| Notes and mortgages payable, current portion | 47,063 | 6,561,455 |
| | <u>163,468</u> | <u>6,977,512</u> |
| Long-Term Liabilities | | |
| Developer fee payable | - | 1,325,091 |
| Net pension liability | 2,094,807 | - |
| Notes and mortgages payable, net of current portion | 1,743,641 | 5,749,319 |
| Accrued interest, net of current portion | 43,341 | 333,390 |
| | <u>3,881,789</u> | <u>7,407,800</u> |
| Total Current Liabilities | <u>163,468</u> | <u>6,977,512</u> |
| Total Long-Term Liabilities | <u>3,881,789</u> | <u>7,407,800</u> |
| Total Liabilities | <u>4,045,257</u> | <u>14,385,312</u> |
| Deferred Inflows of Resources - Pension | <u>6,059</u> | <u>-</u> |
| Net Position | | |
| Net investment in capital assets | 1,088,469 | 5,424,802 |
| Restricted | 28,931 | - |
| Unrestricted | 9,867,409 | (419,884) |
| | <u>10,984,809</u> | <u>5,004,918</u> |
| Total Net Position | <u>10,984,809</u> | <u>5,004,918</u> |
| Total Liabilities, Deferred Inflows of Resources and Net Position | <u><u>\$ 15,036,125</u></u> | <u><u>\$ 19,390,230</u></u> |

Longmont Housing Authority
Statement of Revenues, Expenses and Changes in Net Position
Year Ended December 31, 2017

| | Primary Government | Discretely Presented Component Units |
|---|-----------------------|---|
| Operating Revenues | | |
| HUD PHA grants | \$ 4,672,690 | \$ - |
| Other grants | 50,382 | - |
| Rental income | 156,450 | 1,244,851 |
| Administrative | 404,948 | - |
| Developer fee income | 1,697,697 | - |
| Other revenue | 17,111 | 27,885 |
| Total Operating Revenues | <u>6,999,278</u> | <u>1,272,736</u> |
| Operating Expenses | | |
| Housing assistance payments | 4,305,295 | - |
| Tenant services | 25,314 | - |
| Administrative salaries and benefits | 760,369 | 187,216 |
| Other administrative | 211,594 | 230,436 |
| Maintenance salaries | 14,451 | 57,495 |
| Regular and extraordinary maintenance | 53,597 | 148,290 |
| Depreciation and amortization | 56,836 | 494,073 |
| Utilities | 11,850 | 111,147 |
| Insurance | 46,621 | 49,945 |
| Total Operating Expenses | <u>5,485,927</u> | <u>1,278,602</u> |
| Operating Income (Loss) | <u>1,513,351</u> | <u>(5,866)</u> |
| Non-Operating Revenues (Expenses) | | |
| Interest income | 344,953 | 138 |
| Interest expense | (27,862) | (422,325) |
| Total Non-Operating Revenues (Expenses) | <u>317,091</u> | <u>(422,187)</u> |
| Capital Contributions | <u>-</u> | <u>1,868,130</u> |
| Change in Net Position | 1,830,442 | 1,440,077 |
| Net Position, Beginning of Year | <u>9,154,367</u> | <u>3,564,841</u> |
| Net Position, End of Year | <u>\$ 10,984,809</u> | <u>\$ 5,004,918</u> |

Longmont Housing Authority
Statement of Cash Flows
Year Ended December 31, 2017

| | Primary Government |
|--|-----------------------|
| Operating Activities | |
| HUD PHA grants | \$ 4,396,876 |
| Other grants | 50,382 |
| Receipts from tenants | 149,855 |
| Management fee receipts | 404,948 |
| Developer fees received | 246,473 |
| Other income | 17,111 |
| Housing assistance payments | (4,333,325) |
| Cash paid to vendors | (320,089) |
| Cash paid to employees | (369,546) |
| | 242,685 |
| Net Cash from Operating Activities | |
| Capital and Related Financing Activities | |
| Principal payments on notes and mortgages | (46,592) |
| Interest payments on notes and mortgages | (30,808) |
| | (77,400) |
| Net Cash used for Capital and Related Financing Activities | |
| Investing Activities | |
| Interest on notes and fees receivable | 155 |
| Issuance of notes receivable | (630,000) |
| Payments received on notes receivable | 32,943 |
| | (596,902) |
| Net Cash used for Investing Activities | |
| Net Change in Cash | (431,617) |
| Cash, Beginning of Year | 2,520,521 |
| Cash, End of Year | \$ 2,088,904 |
| Reconciliation of Cash | |
| Cash | \$ 2,039,857 |
| Restricted cash | 49,047 |
| | \$ 2,088,904 |

Longmont Housing Authority
Statement of Cash Flows
Year Ended December 31, 2017

| | <u>Primary Government</u> |
|---|-------------------------------|
| Reconciliation of Change in Net Position to Net | |
| Cash from Operating Activities | |
| Operating income | \$ 1,513,351 |
| Adjustments to reconcile operating income to net cash from operating activities | |
| Depreciation | 56,836 |
| Pension expense | 143,381 |
| Changes in assets and liabilities | |
| Accounts receivable | (1,350,234) |
| Prepaid expenses | 9,715 |
| Accounts payable | 258,182 |
| Accounts payable - HUD | (2,716) |
| Accrued payroll | 3,020 |
| Accrued compensated absences | (5,451) |
| Tenant security deposits payable | 700 |
| Unearned revenue | (384,099) |
| | (1,270,666) |
| Total adjustments | (1,270,666) |
| Net Cash from Operating Activities | \$ 242,685 |

Longmont Housing Authority
Statement of Net Position – Discretely Presented Component Units
December 31, 2017

| | Discretely Presented Component Unit-AMN | Discretely Presented Component Unit-SA | Total |
|------------------------------------|--|---|----------------------|
| Assets | | | |
| Current Assets | | | |
| Cash | \$ 73,702 | \$ 236,444 | \$ 310,146 |
| Restricted cash | 114,139 | 514,118 | 628,257 |
| Accounts receivable | | | |
| Tenants | 4,158 | 19,133 | 23,291 |
| Prepaid expenses | 979 | 29,294 | 30,273 |
| Total Current Assets | <u>192,978</u> | <u>798,989</u> | <u>991,967</u> |
| Capital Assets | | | |
| Non-depreciable | 317,000 | 800,000 | 1,117,000 |
| Depreciable, net | 4,822,555 | 12,129,411 | 16,951,966 |
| Total Capital Assets | <u>5,139,555</u> | <u>12,929,411</u> | <u>18,068,966</u> |
| Other Assets | | | |
| Other assets | 32,720 | 296,577 | 329,297 |
| Total Other Assets | <u>32,720</u> | <u>296,577</u> | <u>329,297</u> |
| Total Assets and Deferred Outflows | <u>\$ 5,365,253</u> | <u>\$ 14,024,977</u> | <u>\$ 19,390,230</u> |

Longmont Housing Authority
Statement of Net Position – Discretely Presented Component Units
December 31, 2017

| | Discretely Presented Component Unit-AMN | Discretely Presented Component Unit-SA | Total |
|---|--|---|----------------------|
| Liabilities and Net Position | | | |
| Current Liabilities | | | |
| Accounts payable | \$ 5,693 | \$ 71,124 | \$ 76,817 |
| Accrued partnership fees | - | 6,075 | 6,075 |
| Accrued interest, current portion | 6,267 | 42,015 | 48,282 |
| Tenant security deposits payable | 17,502 | 75,752 | 93,254 |
| Developer fee payable, current portion | - | 191,629 | 191,629 |
| Notes and mortgages payable, current portion | 6,370 | 6,555,085 | 6,561,455 |
| Total Current Liabilities | 35,832 | 6,941,680 | 6,977,512 |
| Long-Term Liabilities | | | |
| Developer fee payable | 40,977 | 1,284,114 | 1,325,091 |
| Notes and mortgages payable, net of current portion | 2,703,932 | 3,045,387 | 5,749,319 |
| Accrued interest, net of current portion | 167,699 | 165,691 | 333,390 |
| Total Long-Term Liabilities | 2,912,608 | 4,495,192 | 7,407,800 |
| Total Liabilities | 2,948,440 | 11,436,872 | 14,385,312 |
| Net Position | | | |
| Net investment in capital assets | 2,261,554 | 3,163,248 | 5,424,802 |
| Restricted | - | - | - |
| Unrestricted | 155,259 | (575,143) | (419,884) |
| Total Net Position | 2,416,813 | 2,588,105 | 5,004,918 |
| Total Liabilities, Deferred Inflows and Net Position | \$ 5,365,253 | \$ 14,024,977 | \$ 19,390,230 |

Longmont Housing Authority

Statement of Revenues, Expenses and Changes in Net Position – Discretely Presented Component Units
Year Ended December 31, 2017

| | Discretely Presented Component Unit-AMN | Discretely Presented Component Unit-SA | Total |
|---|--|---|---------------------|
| Operating Revenues | | | |
| Rental income, net | \$ 269,660 | \$ 975,191 | \$ 1,244,851 |
| Other revenue | 3,190 | 24,695 | 27,885 |
| Total Operating Revenues | <u>272,850</u> | <u>999,886</u> | <u>1,272,736</u> |
| Operating Expenses | | | |
| Administrative salaries and benefits | 35,265 | 151,951 | 187,216 |
| Other administrative | 31,905 | 198,531 | 230,436 |
| Maintenance salaries | 9,947 | 47,548 | 57,495 |
| Regular and extraordinary maintenance | 43,427 | 104,863 | 148,290 |
| Depreciation and amortization | 211,741 | 282,332 | 494,073 |
| Utilities | 28,508 | 82,639 | 111,147 |
| Insurance | 19,822 | 30,123 | 49,945 |
| Total Operating Expenses | <u>380,615</u> | <u>897,987</u> | <u>1,278,602</u> |
| Operating Income (Loss) | <u>(107,765)</u> | <u>101,899</u> | <u>(5,866)</u> |
| Non-Operating Revenues (Expenses) | | | |
| Interest income | 52 | 86 | 138 |
| Interest expense | (97,784) | (324,541) | (422,325) |
| Total Non-Operating Revenues (Expenses) | <u>(97,732)</u> | <u>(324,455)</u> | <u>(422,187)</u> |
| Capital Contributions | <u>-</u> | <u>1,868,130</u> | <u>1,868,130</u> |
| Change in Net Position | (205,497) | 1,645,574 | 1,440,077 |
| Net Position, Beginning of Year | <u>2,622,310</u> | <u>942,531</u> | <u>3,564,841</u> |
| Net Position, End of Year | <u>\$ 2,416,813</u> | <u>\$ 2,588,105</u> | <u>\$ 5,004,918</u> |

Note 1 - Nature of Organization and Summary of Significant Accounting Policies

Nature of Organization

The Longmont Housing Authority (the Authority) commenced operations in 1975 to provide affordable housing in the City of Longmont, Colorado (the City). The Authority's mission is to provide housing and related services to low and moderate income families, elderly and disabled households, and to relieve the community of substandard housing. The Authority owns and operates 10 units, has ownership in and operates 82 affordable apartments and 28 family townhomes, and is a third-party property management agent for 282 affordable units. The Authority also administers approximately 400 Section 8 Housing Choice Vouchers, and 8 Moderate Rehabilitation Section 8 units.

Reporting Entity

The Authority's financial statements include the accounts of all Authority operations. The criteria for including organizations as component units within the Authority reporting entity, as set forth in Section 2100 of the Governmental Accounting Standards Board's (GASB) Codification of Government Accounting and Financial Reporting Standards, include whether:

- The organization is legally separated (can sue and be sued in their own name) from the Authority.
- The Authority holds the corporate powers of the organization.
- The Authority appoints a voting majority of the organization's board.
- The Authority is able to impose its will on the organization.
- The organization has the potential to impose a financial benefit/burden on the Authority.
- There is fiscal dependency by the organization on the Authority.

Based on the aforementioned criteria, the Authority is not a component unit within another reporting entity.

Blended Component Units

Included within the financial reporting entity of the Authority as blended component units are LHA AMN LLC and 2000 Sunset Development LLC. LHA AMN LLC is wholly owned by the Authority and is the managing general partner of Aspen Meadows Neighborhood, LLLP, a discretely presented component unit. 2000 Sunset Development LLC is wholly owned by the Authority and is the managing general partner of Suites Apartments LLLP, a discretely presented component unit. Separate set of financial statements for LHA AMN LLC and 2000 Sunset Development LLC are not issued.

Discretely Presented Component Units

The component unit columns in the combined financial statements include the financial data of the Authority's discretely presented component units as of December 31, 2017. These units are reported in a separate column to emphasize that they are legally separate from the Authority.

Aspen Meadows Neighborhood, LLLP (AMN, LLLP) was formed for the purpose of owning and operating a 28-unit low-income housing project in Longmont, Colorado. As mentioned above, LHA AMN LLC is the managing general partner of AMN, LLLP. LHA AMN LLC has an ownership percentage of 0.01% in AMN, LLLP.

Suites Apartments LLLP (SA, LLLP) was formed for the purpose of rehabilitating, owning, and operating a 81-unit low income housing project in Longmont, Colorado. As mentioned above, 2000 Sunset Development LLC is the managing general partner of SA, LLLP. 2000 Sunset Development LLC has an ownership percentage of 0.005% in SA, LLLP.

The financial statements of the discretely presented component units are presented in the Authority's basic financial statements. Complete financial statements of individual component units can be obtained from the Executive Director, Longmont Housing Authority, 1228 Main Street, Longmont, CO 80501.

Program Accounting

The accounts of the Authority are organized on the basis of programs, each of which is considered a separate accounting entity. The operations of each program are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, deferred inflows/outflows, net position, revenues, and expenses. The Authority classifies its programs as proprietary.

Basis of Accounting and Measurement Focus

The Department of Housing and Urban Development Real Estate Assessment Center (REAC) assesses the financial condition of Public Housing Authorities (PHA's). To uniformly and consistently assess the PHA's, REAC requires that PHA's financial statements conform to Generally Accepted Accounting Principles (GAAP).

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All proprietary funds are accounted for using the economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the statement of net position. Net position is segregated into invested in capital assets, restricted and unrestricted components. The statement of revenues, expenses and changes in net position presents increases (e.g., revenues) and decreases (e.g., expenses) in total net position. When both restricted and unrestricted net position is available for use, generally it is the Authority's policy to use restricted net position first, and then unrestricted net position as they are needed. The statement of cash flow presents the cash flows for operating activities, investing activities, capital and related financing activities and non-capital financing activities.

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Revenues are recognized when earned, and expenses are recorded when the liability is incurred.

Cash

The Authority's cash deposits can only be invested in HUD approved investments: direct obligations of the Federal Government backed by the full faith and credit of the United States, obligations of government agencies, securities of government sponsored agencies, demand and savings deposits, time deposits, repurchase agreements, and other securities approved by HUD.

For the purpose of the statement of cash flows, the Authority considers cash deposits and highly liquid investments with a maturity of three months or less when purchased to be cash.

Capital Assets

Land, buildings and improvements, and equipment are recorded at cost. The Authority uses a capitalization threshold of \$5,000. Donated fixed assets are valued at their estimated acquisition value on the date donated. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend lives are expensed.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

| | |
|----------------------------|-------------|
| Buildings and improvements | 10-30 years |
| Furniture and equipment | 3-10 years |
| Land improvements | 30 years |

Business and Credit Risk

The Authority provides housing on account to tenants which are located primarily in Longmont, Colorado.

Receivables and Credit Policy

Accounts receivable from tenants represent rents and charges currently due from tenants. Payments on accounts receivable are applied to specific months. Management reviews accounts receivable and charges operations with those considered uncollectable. All remaining accounts receivable from tenants are considered collectable.

Accounts receivable from other agencies represents charges due from other entities for costs incurred on their behalf for managing the project. All remaining accounts receivable from other agencies are considered collectable.

Notes Receivables

Notes and other receivables are carried at amounts advanced, net of a reserve for uncollectible accounts, if any. As of December 31, 2017, the Authority considered all notes and other receivables to be fully collectible.

Deferred Outflows and Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period and so will *not* be recognized as an outflow of resources (expenses/ expenditure) until then. The Authority has two items that qualify for reporting in this category. They are the contributions made to pension plans after the measurement date and prior to the fiscal year-end, and changes in the net pension liability (asset) not included in pension expense (revenue) reported in the statement of net position.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period and so will *not* be recognized as an inflow of resources (revenue) until that time. The Authority has one item that qualifies for reporting in this category. The Authority reports changes in the net pension liability (asset) not included in pension expense (revenue) reported in the statement of net position.

Unearned Revenue

As of December 31, 2017, unearned revenue totaled \$30,206, which consists of prepaid rent.

Compensated Absences

The Authority accrues unused vacation and sick leave in the period incurred. Employees earn vacation leave and sick leave at defined, monthly amounts, depending on length of service.

Basis of Presentation

The statement of net position displays the Authority's assets, deferred outflows, liabilities, and deferred inflows, with the difference reported as net position. Net position is reported in the following categories/components:

- *Net Investment in Capital Assets* – Consists of capital assets, net of accumulated depreciation and reduced by outstanding balances of debt issued to finance the acquisition, improvement, or construction of those assets.
- *Restricted Net Position* – Consists of assets and deferred outflows less related liabilities and deferred inflows reported in the basic statement of net position that are subject to restraints on their use by HUD.
- *Unrestricted Net Position* – Consists of assets and deferred outflows less related liabilities and deferred inflows reported in the basic statement of net position that are not subject to restraints on their use.

Use of Estimates

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

Fraud Recovery

HUD requires the Authority to account for monies recovered from tenants who committed fraud or misrepresentation in the application process for rent calculations and now owe additional rent for prior periods or retroactive rent as fraud recovery. The monies recovered are shared by HUD and the local authority.

Operating Revenues and Expenses

The Authority considers all revenues and expenses (including HUD intergovernmental revenues and expenses) as operating items with the exception of interest expense, interest revenue, and gain/loss on disposal of capital assets which are considered non-operating for financial reporting purposes.

Restricted and Unrestricted Resources

The Authority applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted Net Position is available.

Budgetary

The Authority's annual budgets are the annual contracts, which are with, and approved by, HUD. No budget to actual statements are presented in this report, as housing authorities are not legally required to adopt a budget under the Local Government Budget Law of Colorado.

Pensions

Longmont Housing Authority participates in the Local Government Division Trust Fund (LGDTF), a cost-sharing multiple-employer defined benefit pension fund administered by the Public Employees' Retirement Association of Colorado (PERA). The net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, information about the fiduciary net position and additions to/deductions from the fiduciary net position of LGDTF have been determined using the economic resources measurement focus and the accrual basis of accounting. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Note 2 - Deposits and Credit Risk

Primary Government

Deposits

The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government 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 institution is allowed 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 the uninsured public deposits as a group. The market value of the collateral must be at equal to 102% of the uninsured deposits. The general depository agreement required by annual contract with HUD has additional collateral requirements, which the Authority met in 2017.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the Authority's deposits may not be returned to it. As of December 31, 2017, the Authority's deposits were not exposed to custodial credit risk, as all deposits were insured by the Federal Deposit Insurance Commission (FDIC) and collateralized with securities held by a pledging financial institution in accordance with PDPA.

At December 31, 2017, the Authority's carrying amount of deposits was \$2,088,904 and the bank balance was \$2,091,768. Of the bank balances, \$250,000 was covered by Federal Depository Insurance. Of the remaining balances for 2017, \$1,841,768 was collateralized with securities held by a pledging financial institution's agent in the government's name.

Investments

The Authority's investment policy allows for investments to be solely in securities approved by HUD. Authorized investment instruments are as follows:

- Obligations of the United States and certain U.S. government agency securities
- Insured Money Market Deposit Accounts
- Municipal Depository Fund
- Super NOW Accounts
- Certificates of Deposit
- Repurchase Agreements
- Sweep Accounts
- Separate Trading of Registered Interest and Principal of Securities (STRIPS)
- Mutual Funds that meet HUD criteria

Discretely Presented Component Units

Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the Authority's deposits may not be returned to it.

As of December 31, 2017, AMN, LLLP's deposits were not exposed to custodial credit risk, as all deposits were insured by the Federal Deposit Insurance Commission (FDIC) and collateralized in accordance with PDPA.

As of December 31, 2017, SA LLLP's had carrying amounts and bank balances in excess of the federally insured limits of \$250,000. Partnership management monitors the financial ratings of such financial institutions and does not believe that the deposits are exposed to a significant level of risk.

Note 3 - Restricted Cash

Primary Government

Restricted cash consists of \$6,400 in tenant security deposits, \$28,931 in housing choice vouchers received but unspent, \$2,313 for cash in the housing choice voucher program owed back to HUD, and \$11,403 for cash in the Mod Rehab program owed back to HUD. Total restricted cash as of December 31, 2017, was \$49,047.

Discretely Presented Component Units

Restricted cash consists of tenant security deposits and various reserves as required by the partnership agreements. Total restricted cash as of December 31, 2017, was \$628,257.

Note 4 - Capital Assets

Primary Government

The following is a summary of property, structures, and equipment for the year ended December 31, 2017:

| | Balance 12/31/16 | Additions | Transfers | Deletions | Balance 12/31/17 |
|--|---------------------|--------------------|-------------|-------------|---------------------|
| Non-Depreciable | | | | | |
| Land | \$ 673,909 | \$ - | \$ - | \$ - | \$ 673,909 |
| Total non-depreciable capital assets | <u>673,909</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>673,909</u> |
| Depreciable | | | | | |
| Buildings and improvements | 1,404,360 | - | - | - | 1,404,360 |
| Furniture and equipment | 73,586 | - | - | - | 73,586 |
| Total depreciable capital assets | <u>1,477,946</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>1,477,946</u> |
| Less: Accumulated Depreciation for: | | | | | |
| Buildings and improvements | (413,702) | (50,191) | - | - | (463,893) |
| Furniture and equipment | (54,266) | (6,645) | - | - | (60,911) |
| Total accumulated depreciation | <u>(467,968)</u> | <u>(56,836)</u> | <u>-</u> | <u>-</u> | <u>(524,804)</u> |
| Net Depreciable Capital Assets | <u>1,009,978</u> | <u>(56,836)</u> | <u>-</u> | <u>-</u> | <u>953,142</u> |
| Net capital assets | <u>\$ 1,683,887</u> | <u>\$ (56,836)</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 1,627,051</u> |

Discretely Presented Component Units

The following is a summary of property, structures, and equipment for the year ended December 31, 2017.

AMN, LLLP

| | Balance 12/31/16 | Additions | Transfers | Deletions | Balance 12/31/17 |
|--|---------------------|---------------------|-------------|-------------|---------------------|
| Non-Depreciable | | | | | |
| Land | \$ 317,000 | \$ - | \$ - | \$ - | \$ 317,000 |
| Depreciable | | | | | |
| Land improvements | 699,460 | - | - | - | 699,460 |
| Buildings and improvements | 5,557,662 | - | - | - | 5,557,662 |
| Furniture and equipment | 82,838 | - | - | - | 82,838 |
| Total depreciable capital assets | <u>6,339,960</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>6,339,960</u> |
| Less: Accumulated Depreciation for: | | | | | |
| Land improvements | (134,065) | (23,315) | - | - | (157,380) |
| Buildings and improvements | (1,091,931) | (185,256) | - | - | (1,277,187) |
| Furniture and equipment | (82,838) | - | - | - | (82,838) |
| Total accumulated depreciation | <u>(1,308,834)</u> | <u>(208,571)</u> | <u>-</u> | <u>-</u> | <u>(1,517,405)</u> |
| Net Depreciable Capital Assets | <u>5,031,126</u> | <u>(208,571)</u> | <u>-</u> | <u>-</u> | <u>4,822,555</u> |
| Net capital assets | <u>\$ 5,348,126</u> | <u>\$ (208,571)</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 5,139,555</u> |

SA, LLLP

| | Balance 12/31/16 | Additions | Transfers | Deletions | Balance 12/31/17 |
|--|---------------------|---------------------|-------------|-----------------------|----------------------|
| Non-Depreciable | | | | | |
| Land | \$ 800,000 | \$ - | \$ - | \$ - | \$ 800,000 |
| Construction in progress | 1,377,062 | - | - | (1,377,062) | - |
| Total non-depreciable capital assets | <u>2,177,062</u> | <u>-</u> | <u>-</u> | <u>(1,377,062)</u> | <u>800,000</u> |
| Depreciable | | | | | |
| Land improvements | - | 157,100 | - | - | 157,100 |
| Buildings and improvements | 7,400,000 | 4,399,758 | - | - | 11,799,758 |
| Furniture and equipment | - | 483,048 | - | - | 483,048 |
| Total depreciable capital assets | <u>7,400,000</u> | <u>5,039,906</u> | <u>-</u> | <u>-</u> | <u>12,439,906</u> |
| Less: Accumulated Depreciation for: | | | | | |
| Land Improvements | - | (5,236) | - | - | (5,236) |
| Buildings and improvements | (30,833) | (239,922) | - | - | (270,755) |
| Furniture and equipment | - | (34,504) | - | - | (34,504) |
| Total accumulated depreciation | <u>(30,833)</u> | <u>(279,662)</u> | <u>-</u> | <u>-</u> | <u>(310,495)</u> |
| Net Depreciable Capital Assets | <u>7,369,167</u> | <u>4,760,244</u> | <u>-</u> | <u>-</u> | <u>12,129,411</u> |
| Net capital assets | <u>\$ 9,546,229</u> | <u>\$ 4,760,244</u> | <u>\$ -</u> | <u>\$ (1,377,062)</u> | <u>\$ 12,929,411</u> |

Note 5 - Notes Receivable

The following is a summary of the notes receivable for the year ended December 31, 2017.

| | Principal | Interest | Total |
|----------------------------------|---------------------|---------------------|---------------------|
| Aspen Meadows Associates, LLLP | \$ 28,000 | \$ 12,949 | \$ 40,949 |
| Aspen Meadows Associates, LLLP | 100,764 | 56,751 | 157,515 |
| Aspen Meadows Associates, LLLP | 450,000 | 355,262 | 805,262 |
| Village Place Associates, LLLP | 600,000 | 219,269 | 819,269 |
| Village Place Associates, LLLP | 373,111 | 184,330 | 557,441 |
| Village Place Associates, LLLP | 800,000 | 598,237 | 1,398,237 |
| Village Place Associates, LLLP | 400,000 | 164,291 | 564,291 |
| Village Place Associates, LLLP | 150,687 | - | 150,687 |
| Aspen Meadows Neighborhood, LLLP | 1,225,000 | 102,594 | 1,327,594 |
| Aspen Meadows Neighborhood, LLLP | 139,923 | - | 139,923 |
| Suites Apartments LLLP | 395,000 | 23,206 | 418,206 |
| Suites Apartments LLLP | 1,820,387 | 106,948 | 1,927,335 |
| Suites Apartments LLLP | 630,000 | 37,013 | 667,013 |
| | <u>\$ 7,112,872</u> | <u>\$ 1,860,850</u> | <u>8,973,722</u> |
| Less current portion | | | <u>-</u> |
| | | | <u>\$ 8,973,722</u> |

The Authority provided three loans to Aspen Meadows Associates, LLLP, in the amounts of \$28,000, \$100,764 and \$450,000. Interest accrues on the loans at the rate of 5.5% per year and compounds annually. Payments are made solely from available excess cash flow. The loans are due in full in January 2022. The Authority is the administrative limited partner in Aspen Meadows Associates, LLLP, a low income housing unit tax credit project (Note 8).

The Authority provided two loans to Village Place Associates, LLLP, in the amounts of \$600,000 and \$373,111. Interest accrues on the loans at the rate of 3.5% per annum and compounds annually. Payments are made solely from the distribution of net operating income. The loans are due in full in December 2031. The Authority is the administrative limited partner in Village Place Associates, LLLP, a low income housing unit tax credit project (Note 8).

The Authority has loaned \$800,000 to Village Place Associates, LLLP. Interest accrues on the loan at the rate of 4.9% per annum and compounds annually. Payments are made solely from the distribution of net operating income. The loan is due in full in December 2031.

The Authority has loaned \$400,000 to Village Place Associates, LLLP. Interest accrues on the loan at the rate of 3.5% per annum and compounds annually. Payments are made solely from the distribution of net operating income. The loan is due in full in January 2032.

The Authority has loaned \$150,687 to Village Place Associates, LLLP. The loan is non-interest bearing. Payments are made solely from the distribution of net operating income. The loan is due in full in May 2032.

The Authority has loaned \$1,225,000 to Aspen Meadows Neighborhood, LLLP. Interest accrues on the loan at the rate of 1% per annum and compounds annually. Payments are made solely from available excess cash flow. The loan is due in full in November 2039. The Authority is the general partner in Aspen Meadows Neighborhood, LLLP, a low income housing unit tax credit project (Note 8).

The Authority has loaned \$139,923 to Aspen Meadows Neighborhood, LLLP. This loan is non-interest bearing. Payments are made solely from available excess cash flow. The loan is due in full in November 2039.

The Authority provided three loans to Suites Apartments, LLLP, in the amounts of \$395,000, \$1,820,387, and \$630,000. Interest accrues on the loans at the rate of 5% per annum and compounds annually. Payments are made solely from the distribution of net operating income. The loans are due in full in December 2033. The Authority is the general partner in Suites Apartments, LLLP, a low income housing unit tax credit project (Note 8).

Note 6 - Long-Term Debt

Primary Government

For the year ended December 31, 2017, the following changes occurred in long-term debt:

| | Balance 01/01/17 | Increases | Decreases | Balance 12/31/17 | Due Within One Year |
|---------------|---------------------|-----------|-------------|---------------------|------------------------|
| Notes Payable | \$ 1,837,296 | \$ - | \$ (46,592) | \$ 1,790,704 | \$ 47,063 |

Long-term debt as of December 31, 2017, consists of the following:

| | |
|---|--------------|
| 2.00%, \$600,000 mortgage note payable to City of Longmont, due in annual installments of \$40,513, including interest, due in full July 2031, secured by a deed of trust, used for improvements at Village Place | \$ 447,122 |
| 0%, \$175,000 mortgage note payable to the City of Longmont due in full in November 2029, secured by a deed of trust, used for Aspen Meadows Neighborhood | 175,000 |
| 0%, \$630,000 mortgage note payable to the City of Longmont (AHF funds), due in full September 2036, secured by a deed of trust, used for the Suites Apartments LLP | 630,000 |
| 3.05%, \$641,055 mortgage note payable from FirstBank, due in monthly installments of \$3,068 including interest, due in March 2022, secured by a deed of trust, used for Briarwood | 538,582 |
| | 1,790,704 |
| Less current portion | (47,063) |
| | \$ 1,743,641 |

A summary of payments due for the long-term debt is as follows:

| | Principal | Interest | Total |
|-----------|--------------|------------|--------------|
| 2018 | \$ 47,063 | \$ 24,418 | \$ 71,481 |
| 2019 | 49,737 | 23,210 | 72,947 |
| 2020 | 50,965 | 21,970 | 72,935 |
| 2021 | 52,225 | 20,699 | 72,924 |
| 2022 | 480,245 | 17,210 | 497,455 |
| 2023-2027 | 159,784 | 20,490 | 180,274 |
| 2028-2032 | 320,685 | 4,980 | 325,665 |
| 2033-2037 | 630,000 | - | 630,000 |
| | \$ 1,790,704 | \$ 132,977 | \$ 1,923,681 |

Discretely Presented Component Units

For the year ended December 31, 2017, the following changes occurred in long-term debt:

AMN LLLP

| | Balance 01/01/17 | Increases | Decreases | Balance 12/31/17 | Due Within One Year |
|---------------|---------------------|-----------|------------|---------------------|------------------------|
| Notes Payable | \$ 2,716,207 | \$ - | \$ (5,905) | \$ 2,710,302 | \$ 6,370 |

SA LLLP

| | Balance 01/01/17 | Increases | Decreases | Balance 12/31/17 | Due Within One Year |
|---------------|---------------------|--------------|--------------|---------------------|------------------------|
| Notes Payable | \$ 8,329,976 | \$ 1,710,993 | \$ (440,497) | \$ 9,600,472 | \$ 6,555,085 |

Long-term debt as of December 31, 2017, consists of the following:

AMN LLLP

| | |
|---|------------|
| 7.5%, \$1,000,000 mortgage note payable to FirstBank of Longmont, due in monthly payments of \$6,661, including interest, unpaid principal and interest due November 2029, secured by a first mortgage on property and equipment and an assignment of rents and leases | \$ 970,379 |
| 2% \$375,000 mortgage note payable to Longmont Housing Development Corporation (LHDC), due in annual installments, including interest, from net cash flow as permitted, unpaid principal and interest due November 2039, secured by a second mortgage on the property and equipment | 375,000 |
| 1% \$1,225,000 mortgage note payable to the Longmont Housing Authority (LHA), due in annual installments, including interest, from net cash flow as permitted, through November 2039, secured by a third mortgage on the property and equipment | 1,225,000 |
| 0% \$139,923 mortgage note payable to the LHA due in annual installments from net cash flow as permitted, through November 2039, secured by a fourth mortgage on the property and equipment | 139,923 |
| | 2,710,302 |

SA LLLP

| | |
|--|----------------------------------|
| Variable interest rate construction note payable up to \$7,950,000 issued by CHFA and assigned to Citibank, N.A., interest only payments until construction is completed, which is expected to be December 2018, at which time the construction loan will be paid from equity contributions and convert to a perm loan in the amount of \$3,500,000 at a rate of 4.04%, due in monthly payments beginning around December 2018 of \$15,581, including interest through December 2048, secured by a deed of trust, assignment of rents, security agreement and fixture filing | 6,555,085 |
| 5% \$395,000 mortgage note payable to the Longmont Housing Authority (LHA) from CDBG funds, unpaid principal and interest due the earlier of December 2033, the sale of the property or the date the note is refinanced, secured by a deed of trust | 395,000 |
| 5% \$1,820,387 mortgage note payable to the LHA, unpaid principal and interest due the earlier of December 2033, the sale of the property or the date the note is refinanced, secured by a deed of trust | 1,820,387 |
| 5%, \$630,000 mortgage note payable to the LHA, unpaid principal and interest due at maturity, December 2033, secured by a deed of trust, security agreement, financing statement, and fixture filing | 630,000 |
| 0%, \$200,000 mortgage note payable to the State of Colorado, due in annual installments of \$5,263, payable solely from 50% of cash flow, beginning June 2019, through December 2056, secured by a deed of trust | 200,000 |
| | 9,600,472 |
| Less current portion | 12,310,774 <u>(6,561,455)</u> |
| | \$ 5,749,319 |

A summary of payments due for the long-term debt is as follows:

| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-----------|----------------------|-------------------|----------------------|
| 2018 | \$ 6,561,455 | \$ 94,591 | \$ 6,656,046 |
| 2019 | 12,265 | 94,323 | 106,588 |
| 2020 | 12,886 | 94,016 | 106,902 |
| 2021 | 13,555 | 93,665 | 107,220 |
| 2022 | 14,277 | 93,267 | 107,544 |
| 2023-2027 | 89,323 | 121,755 | 211,078 |
| 2028-2032 | 895,385 | 130,650 | 1,026,035 |
| 2033-2037 | 2,871,702 | 140,278 | 3,011,980 |
| 2038-2042 | 1,766,238 | 58,984 | 1,825,222 |
| 2043-2047 | 26,315 | - | 26,315 |
| 2048-2052 | 26,315 | - | 26,315 |
| 2053-2057 | 21,058 | - | 21,058 |
| | <u>\$ 12,310,774</u> | <u>\$ 921,529</u> | <u>\$ 13,232,303</u> |

Note 7 - Annual Contributions Contract

The Authority has an annual contributions contract for Section 8 HAP and adjustments vary based on requirements. The maximum contract was \$4,279,595 for the year ended December 31, 2017.

Note 8 - Related Party Transactions

Notes Receivable

As disclosed in Note 5, the Authority is owed on various notes receivable from four low-income residential housing tax credit projects with various interest rates. During 2017, the Authority earned interest income of \$341,182 on the notes. As of December 31, 2017, the Authority was owed \$1,860,850 for interest.

Developer Fees

The Authority has entered into a development service agreement with AMN, LLLP. Interest is earned on the outstanding balance at a rate of 4.25%. During 2017, the Authority earned \$2,003 of interest. During 2017, the Authority received a payment on the developer fees of \$24,520. As of December 31, 2017, the Authority is owed \$40,977, which includes accrued interest that has been added to the balance. The developer fees are due in full on April 22, 2024.

The Authority has entered into a development service agreement with SA, LLLP to earn a fee of \$1,889,000 in connection with the development and construction of the project. During 2017, the Authority received \$221,954 for developer fees. As of December 31, 2017, the Authority is owed \$1,475,743. The remaining fees are expected to be received when the project receives capital contributions or from available cash.

Management Fees

The Authority has entered into a management agreement with AMN, LLLP, Aspen Meadows Associates, LLLP (AMA, LLLP), Village Place Associates, LLLP, (VPA, LLLP), Spring Creek Apartments, LLLP (SC, LLLP), and SA, LLLP. Terms established under the management agreements call for the payment of management fees to the Authority in exchange for services provided in managing the projects. For the year ended December 31, 2017, the Authority received \$180,968 in management fees from related entities.

Reimbursements

The Authority is reimbursed for various office expenses, payroll, benefits, and other expense associated with the operations of AMN, LLLP, AMA, LLLP, VPA, LLLP, SC, LLC, and SA, LLLP. During 2017, the Authority was reimbursed approximately \$774,900 for these costs. As of December 31, 2017, the Authority was owed \$89,724 for unreimbursed expenses.

Construction Contract

The Authority entered into a construction contract in the amount of \$551,874 with SA, LLLP to provide services for the construction of the project. As of December 31, 2017, \$551,874 had been completed under the contract. The project was completed in June 2017.

Guaranty

2000 Sunset Development LLC and the Authority have entered into a guaranty agreement to guarantee certain obligations in relation to the construction and funding of SA, LLLP. The guaranty shall terminate at the time all general partner obligations have been performed or paid.

Operating Deficit Guaranty

The Authority has certain obligations to fund any operating deficits on behalf of SA, LLLP during the compliance period, as defined in the partnership agreement.

Note 9 - Management Services

The Authority provides property management services for the Longmont Housing Development Corporation. The Hearthstone and Hover Crossing and The Lodge at Hover Crossing. The Authority is paid a percent as determined by the management agreement.

The Authority also provides corporate management services, including managing business affairs and developer services, for the Longmont Housing Development Corporation in exchange for a management fee determined annually based on needs. During 2017, the Authority received \$150,000 in corporate management fees.

Note 10 - Compensated Absences

The Authority accrues unused vacation. Employees earn vacation leave at defined, monthly amounts depending on length of service. Total leave accrued at December 31, 2017, was \$22,718. The Authority has estimated the whole liability will be liquidated in the next fiscal year.

Note 11 - Defined Benefit Pension Plan

Plan Description

Eligible employees of the Authority are provided with pensions through the Local Government Division Trust Fund (LGDTF)—a cost-sharing multiple-employer defined benefit pension plan administered by PERA. Plan benefits are specified in Title 24, Article 51 of the Colorado Revised Statutes (C.R.S.), administrative rules set forth at 8 C.C.R. 1502-1, and applicable provisions of the federal Internal Revenue Code. Colorado State law provisions may be amended from time to time by the Colorado General Assembly. PERA issues a publicly available comprehensive annual financial report that can be obtained at www.copera.org/investments/pera-financial-reports.

Benefits Provided

PERA provides retirement, disability, and survivor benefits. Retirement benefits are determined by the amount of service credit earned and/or purchased, highest average salary, the benefit structure(s) under which the member retires, the benefit option selected at retirement, and age at retirement. Retirement eligibility is specified in tables set forth at C.R.S. § 24-51-602, 604, 1713, and 1714.

The lifetime retirement benefit for all eligible retiring employees under the PERA Benefit Structure is the greater of the:

- Highest average salary multiplied by 2.5 percent and then multiplied by years of service credit
- The value of the retiring employee's member contribution account plus a 100 percent match on eligible amounts as of the retirement date. This amount is then annuitized into a monthly benefit based on life expectancy and other actuarial factors.

In all cases the service retirement benefit is limited to 100 percent of highest average salary and also cannot exceed the maximum benefit allowed by federal Internal Revenue Code.

Members may elect to withdraw their member contribution accounts upon termination of employment with all PERA employers; waiving rights to any lifetime retirement benefits earned. If eligible, the member may receive a match of either 50 percent or 100 percent on eligible amounts depending on when contributions were remitted to PERA, the date employment was terminated, whether 5 years of service credit has been obtained and the benefit structure under which contributions were made.

Benefit recipients who elect to receive a lifetime retirement benefit are generally eligible to receive post-retirement cost-of-living adjustments (COLAs), referred to as annual increases in the C.R.S. Benefit recipients under the PERA benefit structure who began eligible employment before January 1, 2007 and all benefit recipients of the DPS benefit structure receive an annual increase of 2 percent, unless PERA has a negative investment year, in which case the annual increase for the next three years is the lesser of 2 percent or the average of the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) for the prior calendar year. Benefit recipients under the PERA benefit structure who began eligible employment after January 1, 2007 receive an annual increase of the lesser of 2 percent or the average CPI-W for the prior calendar year, not to exceed 10 percent of PERA's Annual Increase Reserve for the LGDTF.

Disability benefits are available for eligible employees once they reach five years of earned service credit and are determined to meet the definition of disability. The disability benefit amount is based on the retirement benefit formula shown above considering a minimum 20 years of service credit, if deemed disabled.

Survivor benefits are determined by several factors, which include the amount of earned service credit, highest average salary of the deceased, the benefit structure(s) under which service credit was obtained, and the qualified survivor(s) who will receive the benefits.

Contributions

Eligible employees and Authority are required to contribute to the LGDTF at a rate set by Colorado statute. The contribution requirements are established under C.R.S. § 24-51-401, *et seq.* Eligible employees are required to contribute 8 percent of their PERA-includable salary. The employer contribution requirements are summarized in the table below:

| January 1 through December 31, 2016 | Rate* |
|--|---------|
| Employer contribution rate | 10.00% |
| Amount of employer contribution apportioned to the Health Care Trust Fund as specified in C.R.S. § 24-51-208(1)(f) | (1.02%) |
| Amount apportioned to the LGDTF | 8.98% |
| Amortization equalization disbursement (AED) as specified in C.R.S. § 24-51-411 | 2.20% |
| Supplemental amortization equalization disbursement (SAED) as specified in C.R.S. § 24-51-411 | 1.50% |
| Total employer contribution rate to the LGDTF | 12.68% |

*Rates are expressed as a percentage of salary as defined in C.R.S. § 24-51-101(42).

Employer contributions are recognized by the LGDTF in the period in which the compensation becomes payable to the member and the Authority is statutorily committed to pay the contributions to the LGDTF. Employer contributions recognized by the LGDTF from Authority were \$136,950 for the year ended December 31, 2017.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2017, the Authority reported a liability of \$2,094,807 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015. Standard update procedures were used to roll forward the total pension liability to December 31, 2016. The Authority's proportion of the net pension liability was based on Authority's contributions to the LGDTF for the calendar year 2016 relative to the total contributions of participating employers to the LGDTF.

At December 31, 2016, the Authority's proportion was 0.1551 percent, which was an increase of .017 from its proportion measured as of December 31, 2015.

For the year ended December 31, 2017, the Authority recognized pension expense of \$449,565. At December 31, 2017, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|--------------------------------------|-------------------------------------|
| Difference between expected and actual experience | \$ 37,278 | \$ - |
| Changes of assumptions or other inputs | 148,589 | 6,059 |
| Net difference between projected and actual earnings on pension plan investments | 251,577 | - |
| Changes in proportion and differences between contributions recognized and proportionate share of contributions | 93,533 | - |
| Contributions subsequent to the measurement date | 136,950 | - |
| Total | \$ 667,927 | \$ 6,059 |

\$136,950 reported as deferred outflows of resources related to pensions, resulting from contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended December 31, 2017.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Year Ended December 31 | | |
|------------------------|--|------------|
| 2018 | | \$ 329,979 |
| 2019 | | 122,054 |
| 2020 | | 70,493 |
| 2021 | | 2,392 |
| 2022 | | - |
| Thereafter | | - |

Actuarial Assumptions

The total pension liability in the December 31, 2015, actuarial valuation was determined using the following actuarial assumptions and other inputs:

| | |
|--|----------------------|
| Actuarial cost method | Entry age |
| Price inflation | 2.80 percent |
| Real wage growth | 1.10 percent |
| Wage inflation | 3.90 percent |
| Salary increases, including wage inflation | 3.90 - 10.85 percent |
| Long-term investment Rate of Return, net of pension plan investment expenses, including price inflation | 7.50 percent |
| Discount rate | 7.50 percent |
| Future post-retirement benefit increases: | |
| PERA Benefit Structure (automatic) | 2.00 percent |
| PERA Benefit Structure hired after 12/31/06 | Financed by the AIR |

Based on the 2016 experience analysis and the October 28, 2016, actuarial assumptions workshop, revised economic and demographic assumptions were adopted by PERA’s Board on November 18, 2016, and effective as of December 31, 2016. These revised assumptions shown below were reflected in the roll-forward calculation of the total pension liability from December 31, 2015, to December 31, 2016:

| | |
|---|----------------------|
| Actuarial cost method | Entry age |
| Price inflation | 2.40 percent |
| Real wage growth | 1.10 percent |
| Wage inflation | 3.50 percent |
| Salary increases, including wage inflation | 3.50 - 10.45 percent |
| Long-term investment Rate of Return, net of pension plan investment expenses, including price inflation | 7.25 percent |
| Discount rate | 7.25 percent |
| Future post-retirement benefit increases: | |
| PERA Benefit Structure (automatic) | 2.00 percent |
| PERA Benefit Structure hired after 12/31/06 | Financed by the AIR |

Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale AA to 2020 with Males set back 1 year, and Females set back 2 years. Active member mortality was based upon the same mortality rates but adjusted to 55 percent of the base rate for males and 40 percent of the base rate for females. For disabled retirees, the RP-2000 Disabled Mortality Table (set back two years for males and set back two years for females) was assumed.

The actuarial assumptions used in the December 31, 2015, valuation were based on the results of an actuarial study for the period January 1, 2008 through December 31, 2011, adopted by PERA’s Board on November 13, 2012, and an economic assumption study, adopted by PERA’s Board on November 15, 2013, and January 17, 2014.

As a result of the 2016 experience analysis and the October 28, 2016, actuarial assumptions workshop, revised economic and demographic actuarial assumptions including withdrawal rates, retirement rates for early reduced and unreduced retirement, disability rates, administrative expense load, and pre- and post-retirement and disability mortality rates were adopted by PERA’s Board on November 18, 2016, to more closely reflect PERA’s actual experience. As the revised economic and demographic assumptions are effective as of the measurement date, December 31, 2016, these revised assumptions were reflected in the total pension liability roll-forward procedures.

Healthy mortality assumptions for active members reflect the RP-2014 White Collar Employee Mortality Table, a table specifically developed for actively working people. To allow for an appropriate margin of improved mortality prospectively, the mortality rates incorporate a 70 percent factor applied to male rates and a 55 percent factor applied to female rates.

Healthy, post-retirement mortality assumptions reflect the RP-2014 Healthy Annuitant Mortality Table, adjusted as follows:

- Males: Mortality improvement projected to 2018 using the MP-2015 projection scale, a 73 percent factor applied to rates for ages less than 80, a 108 percent factor applied to rates for ages 80 and above, and further adjustments for credibility.
- Females: Mortality improvement projected to 2020 using the MP-2015 projection scale, a 78 percent factor applied to rates for ages less than 80, a 109 percent factor applied to rates for ages 80 and above, and further adjustments for credibility.

For disabled retirees, the mortality assumption was changed to reflect 90 percent of the RP-2014 Disabled Retiree Mortality Table.

The long-term expected return on plan assets is reviewed as part of regular experience studies prepared every four or five years for PERA. Recently, this assumption has been reviewed more frequently. The most recent analyses were outlined in presentations to PERA's Board on October 28, 2016. As a result of the October 28, 2016, actuarial assumptions workshop and the November 18, 2016, PERA Board meeting, the economic assumptions changed, effective December 31, 2016, as follows:

- Investment rate of return assumption decreased from 7.50 percent per year, compounded annually, net of investment expenses, to 7.25 percent per year, compounded annually, net of investment expenses.
- Price inflation assumption decreased from 2.80 percent per year to 2.40 percent per year.
- Real rate of investment return assumption increased from 4.70 percent per year, net of investment expenses, to 4.85 percent per year, net of investment expenses.
- Wage inflation assumption decreased from 3.90 percent per year to 3.50 percent per year.

Several factors were considered in evaluating the long-term rate of return assumption for the LGDTF, including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation.

As of the November 18, 2016, adoption of the long-term expected rate of return by the PERA Board, the target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>30 Year Expected Geometric Real Rate of Return</u> |
|-----------------------------------|------------------------------|---|
| U.S. Equity - Large Cap | 21.20% | 4.30% |
| U.S. Equity - Small Cap | 7.42% | 4.80% |
| Non U.S. Equity - Developed | 18.55% | 5.20% |
| Non U.S. Equity - Emerging | 5.83% | 5.40% |
| Core Fixed Income | 19.32% | 1.20% |
| High Yield | 1.38% | 4.30% |
| Non U.S. Fixed Income - Developed | 1.84% | 60.00% |
| Emerging Market Debt | 0.46% | 3.90% |
| Core Real Estate | 8.50% | 4.90% |
| Opportunity Fund | 6.00% | 3.80% |
| Private Equity | 8.50% | 6.60% |
| Cash | 1.00% | 0.20% |
| Total | 100.00% | |

* In setting the long-term expected rate of return, projections employed to model future returns provide a range of expected long-term returns that, including expected inflation, ultimately support a long-term expected rate of return assumption of 7.25%.

Discount Rate

The discount rate used to measure the total pension liability was 7.25 percent. The projection of cash flows used to determine the discount rate applied the actuarial cash method and assumptions shown above. In addition, the following methods and assumptions were used in the projection of cash flows:

- Updated economic and demographic actuarial assumptions adopted by PERA's Board on November 18, 2016.
- Total covered payroll for the initial projection year consists of the covered payroll of the active membership present on the valuation date and the covered payroll of future plan members assumed to be hired during the year. In subsequent projection years, total covered payroll was assumed to increase annually at a rate of 3.50 percent.
- Employee contributions were assumed to be made at the current member contribution rate. Employee contributions for future plan members were used to reduce the estimated amount of total service costs for future plan members.
- Employer contributions were assumed to be made at rates equal to the fixed statutory rates specified in law, including current and estimated future AED and SAED, until the actuarial value funding ratio reaches 103 percent, at which point the AED and SAED will each drop 0.50 percent every year until they are zero. Additionally, estimated employer contributions included reductions for funding of the AIR and retiree health care benefits. For future plan members, employer contributions were further reduced by the estimated amount of total service costs for future plan members not financed by their member contributions.
- Employer contributions and the amount of total service costs for future plan members were based upon a process used by the plan to estimate future actuarially determined contributions assuming an analogous future plan member growth rate.

- The AIR balance was excluded from the initial fiduciary net position, as, per statute, AIR amounts cannot be used to pay benefits until transferred to either the retirement benefits reserve or the survivor benefits reserve, as appropriate. As the ad hoc post-retirement benefit increases financed by the AIR are defined to have a present value at the long-term expected rate of return on plan investments equal to the amount transferred for their future payment, AIR transfers to the fiduciary net position and the subsequent AIR benefit payments have no impact on the Single Equivalent Interest Rate (SEIR) determination process when the timing of AIR cash flows is not a factor (i. e., the plan's fiduciary net position is not projected to be depleted). When AIR cash flow timing is a factor in the SEIR determination process (i.e. the plan's fiduciary net position is projected to be depleted), AIR transfers to the fiduciary net position and the subsequent AIR benefit payments are estimated and included in the projections.
- Benefit payments and contributions were assumed to be made at the end of the month.

Based on the above assumptions and methods, the LGDTF's fiduciary net position was projected to be available to make all projected future benefit payments of current members. Therefore, the long-term expected rate of return of 7.25 percent on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The discount rate determination does not use the municipal bond index rate, and, therefore, the discount rate is 7.25 percent.

Sensitivity of the Authority's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the proportionate share of the net pension liability calculated using the discount rate of 7.25 percent, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25 percent) or 1-percentage-point higher (8.25 percent) than the current rate:

| | 1% Decrease (6.25%) | Current Discount Rate (7.25%) | 1% Increase (8.25%) |
|---------------------|------------------------|----------------------------------|------------------------|
| Proportionate share | \$ 3,088,697 | \$ 2,094,807 | \$ 1,271,757 |

Pension Plan Fiduciary Net Position.

Detailed information about the LGDTF's fiduciary net position is available in PERA's comprehensive annual financial report which can be obtained at www.copera.org/investments/pera-financial-reports.

Note 12 - Post-Employment Health Care Benefits

Plan Description

The Authority contributes to the Health Care Trust Fund ("HCTF"), a cost-sharing multiple-employer healthcare trust administered by PERA. The HCTF benefit provides a health care premium subsidy and health care programs (known as PERACare) to PERA participating benefit recipients and their eligible beneficiaries. Title 24, Article 51, Part 12 of the C.R.S., as amended, establishes the HCTF and sets forth a framework that grants authority to the PERA Board to contract, self-insure and authorize disbursements necessary in order to carry out the purposes of the PERACare program, including the administration of health care subsidies. PERA issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for the HCTF. That report can be obtained at www.copera.org/investments/pera-financial-reports.

Funding Policy

The Authority is required to contribute at a rate of 1.02 percent of PERA-includable salary for all PERA members as set by statute. No member contributions are required. The contribution requirements for the Authority are established under Title 24, Article 51, Part 4 of the C.R.S., as amended. The apportionment of the contributions to the HCTF is established under Title 24, Article 51, Section 208(1)(f) of the C.R.S., as amended. The Authority’s contributions to HCTF are equal to the required contributions for each year were as follows:

| | Amount |
|-------------------|----------|
| December 31, 2015 | \$ 8,082 |
| December 31, 2016 | 9,591 |
| December 31, 2017 | 10,196 |

Note 13 - 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. The Authority carries commercial insurance for these risks of loss, including worker’s compensation and employee accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. Limits of insurance coverage have been adjusted annually. As a political subdivision of the State of Colorado, the LHA has immunity protection under the Colorado governmental immunity act CRS 24 10 101.

Note 14 - Conduit Debt

In March of 2011, the Authority arranged for tax exempt financing in the amount of \$2,900,000 for Hover Village, Inc. (“Hover”). Hover utilized the tax-exempt financing to refinance existing debt relating to the purchase and improvement of a 121-unit rental housing facility for seniors, known as Hover Manor. The debt has a final maturity date of April 1, 2026 and is secured by real estate. The Authority in no way guarantees the loan or has any liability for the loan. Accordingly, the loan is not reported as a liability in the Authority's financial statements. Hover makes the loan payments directly to FirstBank of Longmont. As of December 31, 2017, the outstanding balance of the loan was \$1,840,429.

Note 15 - Commitments and Contingencies

Claims and Judgments

During 2017, the Authority was given notice that six tenants from the Suites Apartments, LLLP have filed with the ACLU to reserve the right to file a formal law suit within the next three years from the date of the incident. As of December 31, 2017, the outcome of this situation is unknown.

The Authority participates in a number of federal, state, and local programs that are fully or partially funded by grants received from other governmental units. 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. The Authority believes that disallowed expenses, if any, 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. Management believes the Authority is exempt from the provisions of the Amendment.

Forgivable Loans

During 2006 and 2005, the Authority received a loan in the amount of \$373,111 from the City of Longmont, the proceeds of which were loaned to Village Place Associates, LLLP (Note 5). The loan with the City of Longmont is non-interest bearing and will be forgivable after 20 years in exchange for providing affordable housing below market rates to low-income persons.

During 2010, the Authority received a loan in the amount of \$139,923 from FirstBank under the Federal Home Loan Bank Affordable Housing Program, the proceeds of which were loaned to Aspen Meadows Neighborhood, LLLP (Note 5). The loan with FirstBank is non-interest bearing and will be forgivable in its entirety after 15 years to the extent the property is used as low-income housing.

Since there is a remote possibility that the Authority would fail to meet these requirements, these loans are not reported as a liability in the financial statements.



Required Supplementary Information
December 31, 2017

Longmont Housing Authority

Longmont Housing Authority
 Schedule of Employer's Share of Net Pension Liability and Schedule of Employer Contributions
 December 31, 2017

**Schedule of Employer's Share of Net Pension Liability
 PERA of Colorado
 Last 10 Fiscal Years***

| | 2017 | 2016 | 2015 |
|---|-------------|-------------|-------------|
| Employer's proportion of the net pension liability (asset) | 0.15513% | 0.13815% | 0.12679% |
| Employer's proportionate share of the net pension liability (asset) | \$2,094,807 | \$1,521,853 | \$1,136,349 |
| Employer's covered-employee payroll | \$935,658 | \$784,458 | \$694,703 |
| Employer's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll | 223.89% | 194.00% | 163.57% |
| Plan fiduciary net position as a percentage of the total pension liability | 73.65% | 76.87% | 80.72% |

*Complete data for this schedule is not available prior to 2015.

The amounts presented have a measurement date of the previous fiscal year end.

**Schedule of Employer Contributions
 PERA of Colorado
 Last 10 Fiscal Years***

| | 2017 | 2016 | 2015 |
|--|-------------|-------------|-------------|
| Statutorily required contribution | \$136,950 | \$133,078 | \$108,549 |
| Contributions in relation to the statutorily required contribution | (\$136,950) | (\$133,078) | (\$108,549) |
| Contribution deficiency (excess) | \$0.00 | \$0.00 | \$0.00 |
| Employer's covered-employee payroll | \$997,356 | \$935,658 | \$792,328 |
| Contributions as a percentage of covered-employee payroll | 13.73% | 14.22% | 13.70% |

*Complete data for this schedule is not available prior to 2015.

Note A - Changes of Benefit Terms

There have been no changes in benefit terms since the previous measurement date.

Note B - Changes of Assumptions

There were no changes in assumptions or other inputs that affected the measurement of the Total Pension Liability.



Supplementary Information
December 31, 2017

Longmont Housing Authority

Longmont Housing Authority
Combining Statement of Net Position
December 31, 2017

| | General Fund Development | Housing Choice Vouchers | Longmont Suites | Briarwood Apartments and Office | 615 Main Street | Moderate Rehab | RISE Program | Eliminations | Total |
|--|-----------------------------|-------------------------------|--------------------|---------------------------------------|--------------------|-------------------|------------------|--------------------|----------------------|
| Cash | \$ 1,406,365 | \$ 40,263 | \$ 399,014 | \$ 70,514 | \$ 30,671 | \$ 28,467 | \$ 64,563 | \$ - | \$ 2,039,857 |
| Restricted cash | - | 31,244 | - | 6,400 | - | 11,403 | - | - | 49,047 |
| Accounts receivable | | | | | | | | | |
| Accounts receivable - tenants | - | - | - | - | - | - | 1,045 | - | 1,045 |
| Accounts receivable - due from other agencies | 155,875 | - | - | - | - | - | - | - | 155,875 |
| Accounts receivable - developer fees | 191,629 | - | - | - | - | - | - | - | 191,629 |
| Prepaid expenses | 3,067 | 1,387 | 70 | 357 | - | - | - | - | 4,881 |
| Notes receivable, current portion | - | - | - | - | - | - | - | - | - |
| Interprogram - due from | 10,152 | - | - | - | - | - | - | (10,152) | - |
| Total current assets | <u>1,767,088</u> | <u>72,894</u> | <u>399,084</u> | <u>77,271</u> | <u>30,671</u> | <u>39,870</u> | <u>65,608</u> | <u>(10,152)</u> | <u>2,442,334</u> |
| Land | - | - | 429,469 | 203,000 | 41,440 | - | - | - | 673,909 |
| Buildings and improvements | - | - | - | 1,043,814 | 360,546 | - | - | - | 1,404,360 |
| Furniture and equipment | 41,265 | 19,062 | - | - | - | - | 13,259 | - | 73,586 |
| Accumulated depreciation | <u>(32,851)</u> | <u>(19,062)</u> | <u>-</u> | <u>(395,593)</u> | <u>(68,301)</u> | <u>-</u> | <u>(8,997)</u> | <u>-</u> | <u>(524,804)</u> |
| Total capital assets, net of accumulated depreciation | 8,414 | - | 429,469 | 851,221 | 333,685 | - | 4,262 | - | 1,627,051 |
| Accounts receivable - developer fees | 1,325,091 | - | - | - | - | - | - | - | 1,325,091 |
| Related party notes receivable, net of current portion | 8,973,722 | - | - | - | - | - | - | - | 8,973,722 |
| Total noncurrent assets | <u>10,307,227</u> | <u>-</u> | <u>429,469</u> | <u>851,221</u> | <u>333,685</u> | <u>-</u> | <u>4,262</u> | <u>-</u> | <u>11,925,864</u> |
| Deferred Outflows - Pension | <u>560,464</u> | <u>104,321</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>3,142</u> | <u>-</u> | <u>-</u> | <u>667,927</u> |
| Total Assets and Deferred Outflows | <u>\$ 12,634,779</u> | <u>\$ 177,215</u> | <u>\$ 828,553</u> | <u>\$ 928,492</u> | <u>\$ 364,356</u> | <u>\$ 43,012</u> | <u>\$ 69,870</u> | <u>\$ (10,152)</u> | <u>\$ 15,036,125</u> |

Longmont Housing Authority
Combining Statement of Net Position
December 31, 2017

| | General Fund Development | Housing Choice Vouchers | Longmont Suites | Briarwood Apartments and Office | 615 Main Street | Moderate Rehab | RISE Program | Eliminations | Total |
|---|-----------------------------|-------------------------------|--------------------|---------------------------------------|--------------------|-------------------|------------------|--------------------|----------------------|
| Current Liabilities | | | | | | | | | |
| Accounts payable | \$ 10,345 | \$ - | \$ 44 | \$ 1,532 | \$ 35 | \$ - | \$ - | \$ - | \$ 11,956 |
| Accounts payable - HUD | - | 2,313 | - | - | - | 11,403 | - | - | 13,716 |
| Accrued payroll | 24,841 | - | - | - | - | - | - | - | 24,841 |
| Accrued compensated absences - current portion | 10,151 | 10,809 | - | 1,381 | 16 | 361 | - | - | 22,718 |
| Accrued interest payable | 4,905 | - | - | 1,663 | - | - | - | - | 6,568 |
| Unearned revenue | - | - | - | 30,206 | - | - | - | - | 30,206 |
| Tenant security deposits payable | - | - | - | 6,400 | - | - | - | - | 6,400 |
| Notes and mortgages payable, current portion | 30,704 | - | - | 16,359 | - | - | - | - | 47,063 |
| Interprogram - due to | - | 8,009 | 175 | 1,631 | 120 | 217 | - | (10,152) | - |
| Total current liabilities | <u>80,946</u> | <u>21,131</u> | <u>219</u> | <u>59,172</u> | <u>171</u> | <u>11,981</u> | <u>-</u> | <u>(10,152)</u> | <u>163,468</u> |
| Net pension liability | 1,757,773 | 327,180 | - | - | - | 9,854 | - | - | 2,094,807 |
| Notes and mortgages payable, net of current portion | 1,221,418 | - | - | 522,223 | - | - | - | - | 1,743,641 |
| Accrued interest payable | 43,341 | - | - | - | - | - | - | - | 43,341 |
| Total long-term liabilities | <u>3,022,532</u> | <u>327,180</u> | <u>-</u> | <u>522,223</u> | <u>-</u> | <u>9,854</u> | <u>-</u> | <u>-</u> | <u>3,881,789</u> |
| Total Liabilities | <u>3,103,478</u> | <u>348,311</u> | <u>219</u> | <u>581,395</u> | <u>171</u> | <u>21,835</u> | <u>-</u> | <u>(10,152)</u> | <u>4,045,257</u> |
| Deferred Inflows - Pension | 5,084 | 946 | - | - | - | 29 | - | - | 6,059 |
| Net Position | | | | | | | | | |
| Net investment in capital assets | 8,414 | - | 429,469 | 312,639 | 333,685 | - | 4,262 | - | 1,088,469 |
| Restricted | - | 28,931 | - | - | - | - | - | - | 28,931 |
| Unrestricted | 9,517,803 | (200,973) | 398,865 | 34,458 | 30,500 | 21,148 | 65,608 | - | 9,867,409 |
| Total Net Position | <u>9,526,217</u> | <u>(172,042)</u> | <u>828,334</u> | <u>347,097</u> | <u>364,185</u> | <u>21,148</u> | <u>69,870</u> | <u>-</u> | <u>10,984,809</u> |
| Total Liabilities, Deferred Inflows and Net Position | <u>\$ 12,634,779</u> | <u>\$ 177,215</u> | <u>\$ 828,553</u> | <u>\$ 928,492</u> | <u>\$ 364,356</u> | <u>\$ 43,012</u> | <u>\$ 69,870</u> | <u>\$ (10,152)</u> | <u>\$ 15,036,125</u> |

Longmont Housing Authority
Combining Statement of Revenues, Expenses and Changes in Net Position
Year Ended December 31, 2017

| | General Fund Development | Housing Choice Vouchers | Longmont Suites | Briarwood Apartments and Office | 615 Main Street | Moderate Rehab | RISE Program | Eliminations | Total |
|--|-----------------------------|-------------------------------|--------------------|---------------------------------------|--------------------|-------------------|------------------|--------------|----------------------|
| Operating Revenues | | | | | | | | | |
| HUD PHA grants | \$ - | \$ 4,591,321 | \$ - | \$ - | \$ - | \$ 81,369 | \$ - | \$ - | \$ 4,672,690 |
| Other grants | 23,930 | - | - | - | - | - | 26,452 | - | 50,382 |
| Rental income | - | - | - | 137,037 | 19,413 | - | - | - | 156,450 |
| Administrative fees | 404,948 | - | - | - | - | - | - | - | 404,948 |
| Developer fees | 1,697,697 | - | - | - | - | - | - | - | 1,697,697 |
| Other | 482 | 6,443 | 3,250 | 6,936 | - | - | - | - | 17,111 |
| Total Operating Revenues | 2,127,057 | 4,597,764 | 3,250 | 143,973 | 19,413 | 81,369 | 26,452 | - | 6,999,278 |
| Operating Expenses | | | | | | | | | |
| Housing assistance payments | - | 4,248,092 | - | - | - | 57,203 | - | - | 4,305,295 |
| Tenant services | - | - | - | 4,048 | - | - | 21,266 | - | 25,314 |
| Administrative salaries and benefits | 464,179 | 272,312 | - | 15,317 | 669 | 7,892 | - | - | 760,369 |
| Other administrative | 88,615 | 106,935 | - | 11,416 | 68 | 1,568 | 2,992 | - | 211,594 |
| Maintenance salaries | - | - | - | 14,366 | 85 | - | - | - | 14,451 |
| Regular and extraordinary maintenance | 39 | 1,490 | 2,581 | 44,437 | 5,050 | - | - | - | 53,597 |
| Depreciation | 4,590 | 161 | - | 38,173 | 12,018 | - | 1,894 | - | 56,836 |
| Utilities | - | - | - | 9,569 | 2,281 | - | - | - | 11,850 |
| Taxes and insurance | 26,348 | 11,235 | 3,103 | 4,822 | 765 | 297 | 51 | - | 46,621 |
| Total Operating Expenses | 583,771 | 4,640,225 | 5,684 | 142,148 | 20,936 | 66,960 | 26,203 | - | 5,485,927 |
| Operating Income (Loss) | 1,543,286 | (42,461) | (2,434) | 1,825 | (1,523) | 14,409 | 249 | - | 1,513,351 |
| Non-Operating Revenues (Expenses) | | | | | | | | | |
| Interest income | 344,890 | 29 | 20 | 3 | 2 | 4 | 5 | - | 344,953 |
| Interest expense | (10,110) | - | - | (17,752) | - | - | - | - | (27,862) |
| Total Non-Operating Revenues (Expenses) | 334,780 | 29 | 20 | (17,749) | 2 | 4 | 5 | - | 317,091 |
| Change in Net Position | 1,878,066 | (42,432) | (2,414) | (15,924) | (1,521) | 14,413 | 254 | - | 1,830,442 |
| Transfers In/Out | 164,950 | (160,127) | - | - | - | (4,823) | - | - | - |
| Net Position, Beginning of Year | 7,483,201 | 30,517 | 830,748 | 363,021 | 365,706 | 11,558 | 69,616 | - | 9,154,367 |
| Net Position, End of Year | \$ 9,526,217 | \$ (172,042) | \$ 828,334 | \$ 347,097 | \$ 364,185 | \$ 21,148 | \$ 69,870 | \$ - | \$ 10,984,809 |

Longmont Housing Authority
 Schedule of Expenditures of Federal Awards
 Year Ended December 31, 2017

| Federal Agency/Pass-Through Grantor Program Title | Federal CFDA Number | Pass-through Entity Identifying Number | Federal Expenditures |
|--|---------------------------|---|-------------------------|
| U.S. Department of Housing and Urban Development | | | |
| <i>Direct Programs:</i> | | | |
| Section 8 Housing Choice Vouchers (DEN 658V) | 14.871 | N/A | \$ 4,640,064 |
| Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation | 14.856 | N/A | 66,960 |
| Total U.S. Department of Housing and Urban Development | | | 4,707,024 |
| Total Federal Expenditures | | | \$ 4,707,024 |

Note A – Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Longmont Housing Authority and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the Uniform Guidance. Longmont Housing Authority received federal awards both directly from federal agencies and indirectly through pass-through entities. No federal financial assistance has been provided to a subrecipient.

Note B – Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Subpart E – Cost Principles of the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Longmont Housing Authority’s summary of significant accounting policies is presented in Note 1 in the Longmont Housing Authority’s basic financial statements.

The organization has not elected to use the 10% de minimis cost rate and does not draw for indirect administrative expenses.



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*

The Board of Commissioners
Longmont Housing Authority
Longmont, Colorado

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 and the discretely presented component units, of Longmont Housing Authority (the Authority) which comprise the statement of net position as of December 31, 2017, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 30, 2018. The financial statements of Aspen Meadows Neighborhood, LLLP and Suites Apartments, LLLP were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with Aspen Meadows Neighborhood, LLLP and Suites Apartments, LLLP.

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) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions 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 a 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 charge with governance.

Our consideration of internal control over financial reporting 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 may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency as described as item 2017-A.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 determination of financial statement amounts. 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*.

Entity's Response to Finding

The Authority's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result 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.

A handwritten signature in cursive script that reads "Eide Sallie LLP".

Bismarck, North Dakota
April 30, 2018



Independent Auditor’s Report on Compliance for The Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

The Board of Commissioners
Longmont Housing Authority
Longmont, Colorado

Report on Compliance for the Major Federal Program

We have audited Longmont Housing Authority’s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Authority’s major federal program for the year ended December 31, 2017. The Authority’s major federal program is identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

Management’s Responsibility

Management is responsible for compliance with the federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor’s Responsibility

Our responsibility is to express an opinion on the compliance for the Authority’s major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Authority’s compliance.

Opinion on the Major Federal Program

In our opinion, the Authority complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2017.

Report on Internal Control over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance 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 and therefore, material weaknesses and significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Bismarck, North Dakota
April 30, 2018

Section I – Summary of Auditor’s Results

FINANCIAL STATEMENTS

| | |
|---|------------|
| Type of auditor's report issued: | Unmodified |
| Internal control over financial reporting: | |
| Material weakness(es) identified? | No |
| Significant deficiency(ies) identified? | Yes |
| Noncompliance material to financial statements noted? | No |

FEDERAL AWARDS

| | |
|---|---------------|
| Internal control over major programs: | |
| Material weakness(es) identified? | No |
| Significant deficiency(ies) identified? | None Reported |
| Type of auditor's report issued on compliance for major programs: | Unmodified |
| Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516: | No |

Identification of major programs:

| <u>Name of Federal Program</u> | <u>CFDA Number</u> |
|---|--------------------|
| Section 8 Housing Choice Vouchers | 14.871 |
| Dollar threshold used to distinguish between Type A and Type B programs: | \$ 750,000 |
| Auditee qualified as low-risk auditee? | Yes |

Section II – Financial Statement Findings

2017-A Preparation of Financial Statements

Significant Deficiency in Internal Control over Financial Reporting

Criteria: A complete system of internal accounting control contemplates an adequate system for internally preparing the Authority's financial statements.

Condition: The Authority does not have an internal control system designed to provide for the preparation of the financial statements being audited. The auditors were requested to, and did, draft the financial statements and accompanying notes to the financial statements.

Effect: The disclosures in the financial statements could be incomplete.

Cause: The Authority does not have an internal control system designed to provide for the preparation of the financial statements being audited.

Recommendation: This circumstance is not unusual in an Authority of your size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Views of Responsible Officials: Management agrees with the finding.

Section III – Federal Award Findings and Questioned Costs

None