

**HOUSING AUTHORITY OF THE
CITY OF WALSENBURG, COLORADO**

FINANCIAL STATEMENTS

March 31, 2017

HOUSING AUTHORITY OF THE TOWN OF WALSENBURG, COLORADO

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INDEPENDENT AUDITORS' REPORT

INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Housing Authority of the City of Walsenburg
Walsenburg, Colorado

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Housing Authority of the City of Walsenburg, as of and for the year ended March 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.

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 of the Housing Authority of the City of Walsenburg, as of March 31, 2017, and the respective changes in financial position and 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 on pages 3 – 8 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 the Housing Authority of the City of Walsenburg's basic financial statements. The schedule of expenses by program and the U.S. Department of Housing and Urban Development Supplementary Financial Data Schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedule of expenses by program and the U.S. Department of Housing and Urban Development Supplementary Financial Data Schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenses by program and the U.S. Department of Housing and Urban Development supplementary financial data schedule are fairly stated in all material respects in relation to the basic financial statements as a whole.

Plutt Hanson, P.C.

November 30, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

HOUSING AUTHORITY OF THE CITY OF WALSENBURG, COLORADO

Management's Discussion & Analysis Year Ended March 31, 2017

The following discussion and analysis of the financial statements of the Housing Authority of the City of Walsenburg, Colorado, ("the Authority") provides an overview of the financial activities for the fiscal year ended March 31, 2017. Please consider the following information in addition to your review of the information in the basic financial statements.

The primary focus of the Authority's financial statements is on the statements of its single enterprise fund encompassing all programs administered by the Authority. This information contained herein this Management Discussion and Analysis (MD&A) should be considered in conjunction with the Authority's basic financial statements and related notes to the financial statements.

The Authority has two individual programs. They include the Low Rent Public Housing Program and the Business Activities Program.

- The Low Rent Program consists of 129 dwelling units. Funding is provided based on dwelling rents paid by the tenants and operating fund payments received from the Department of Housing & Urban Development based on a formula. Included in the Low Rent Program are the Capital Fund grants which are also a formula based program from HUD. The purpose is to provide funding for the modernization and improvement of the Low Rent Public Housing Program units. These resources allow the Housing Authority to provide capital improvements for the current dwelling structures and assist in their operations.
- The Business Activities Program has been setup to receive grants and other local funding. This program controls non-HUD monies. The Authority acts as the management agent for the Huerfano County Economic Development Spanish Peaks Apartments (a 30-unit tax credit project), manages 2 city units and administers 45 Section 8 vouchers for the State of Colorado Housing Division for Huerfano & Las Animas Counties.

Financial Highlights

The Authority's financial condition continues to decline as grant funding continues to decrease.

- Total Net Position was \$2,111,802 at March 31, 2017, an increase of \$23,225 or 1.11% from the \$2,088,577 reported at March 31, 2016.
- Public Housing Annual Contributions for 2017 were \$301,002 representing a decrease in the amount of \$2,187 from fiscal year 2016 funding of \$303,189.
- Capital Grants for 2017 were \$241,890 representing an increase in the amount of \$208,193 from fiscal year 2016 funding of \$33,697.
- Total Cash was \$623,78526 in 2017 and \$417,611 at March 31, 2016 an increase of \$206,159.
- Total Capital Assets, Net decreased \$87,276 from \$1,669,150 in 2016 to \$1,581,874 at March 31, 2017. This was the result of the addition of Building Improvements, Site Improvements and Equipment of \$58,109 and the recording of Depreciation Expense of \$145,385.

HOUSING AUTHORITY OF THE CITY OF WALSENBURG, COLORADO

Management's Discussion & Analysis Year Ended March 31, 2017

Overview of Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authorities basic financial statements. The basic financial statements are comprised of two components: 1) fund financial statements, and 2) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

The **statement of net position** presents information on all of the Authority's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. Net Position is comprised of three individual components:

- Net Investment in Capital Assets consists of capital asset balances net of accumulated depreciation less any outstanding balances of related debt associated with these assets.
- Restricted Net Position consists of assets that are restricted by limitations placed on these assets by an external source or party.
- Unrestricted Net Position consists of net assets that do not meet the definition of the above categories. Unrestricted net position is basically the amount of funds available for future year appropriations.

The **statement of revenues, expenses and changes in net position** presents information showing how the Authority's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses reported in this statement for some items will result in cash flows in future periods.

The **statement of cash flows** reports cash activities for the fiscal year resulting from operating activities, investing activities, non-capital financing activities, and capital and related financing activities. The net result of these activities represents the increase or decrease of the cash equivalent account balance for the year ended March 31, 2017.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Authority keeps track of these monies to ensure and demonstrate compliance with finance-related legal requirements. The Authority's fund is a proprietary fund type.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found immediately after the basic financial statements.

HOUSING AUTHORITY OF THE CITY OF WALSENBURG, COLORADO

**Management's Discussion & Analysis
Year Ended March 31, 2017**

Housing Authority Financial Analysis

As earlier noted, changes in net position may serve as a useful indicator of changes in the financial position of an organization. On March 31, 2017 assets exceeded liabilities by \$2,314,914. This amount is broken down to \$1,562,133 that is invested in capital assets and \$513,638 that is unrestricted. Capital Assets, Net represent the largest portion of assets at \$1,562,133. Cash represent the next largest portion of assets at \$699,596. The increase in cash is due to the decrease in grants receivable from 2016.

The Housing Authority's overall financial position and operations for the past two years are summarized below based on the information in the current and prior financial statements. The table below lists the asset and liability comparisons for the year ended March 31, 2017 and 2016.

CONDENSED STATEMENT OF NET POSITION				
	2017		2016	
ASSETS				
Current Assets	\$ 823,571	33.7%	\$ 624,499	27.6%
Noncurrent Assets	1,620,410	66.3%	1,640,496	72.4%
Total Assets	2,443,981	100.0%	2,264,995	100.0%
LIABILITIES				
Current Liabilities	128,028	5.2%	153,193	6.8%
Noncurrent Liabilities	1,039	0.0%	-	0.0%
Total Liabilities	129,067	5.3%	153,193	6.8%
NET POSITION				
Net Investment in Capital Asset	1,562,133	63.9%	1,581,874	69.8%
Unrestricted	513,638	21.0%	529,928	23.4%
Total Net Position	\$ 2,314,914	94.7%	\$ 2,111,802	93.2%

Rental revenue continues to remain steady as the economy gets worse. More and more tenants have become jobless and therefore our rents have declined and our negative rents have increased. Interest rates are as low as they can possible go without going to zero. Income from the state of Colorado Section 8 program and our management of the City Properties help supplement our Housing Authority. The Authority's operating revenues exceeded expenses including non-operating revenue and capital contributions by \$203,112. This excess revenue is primarily due to an increase in grant funding and a decrease in spending from the prior year. Revenues of the Authority are generated principally from dwelling rents, HUD grants (including Operating and Capital Funds) and Management Fees. The Authority's operating revenue increased by \$52,110 or 5.59% during the current fiscal year. The increase in revenue was primarily due to an increase in the HUD Operating Subsidy and Capital Grants revenue of \$89,723, an increase in rents of \$1,970 and a decrease in Other Revenue of \$39,583. Interest income increased due to a larger cash balance from the previous year. The increase in spending in all programs from \$932,964 in 2016 to \$985,074 is a result of an increase in salary and benefits in administration, and increase in utilities and insurance and a decrease in operations and maintenance salaries, benefits and other expenses. This change in net position of \$203,112 when added to the beginning net assets, results in ending net assets in the amount of \$2,314,914.

HOUSING AUTHORITY OF THE CITY OF WALSENBURG, COLORADO

**Management's Discussion & Analysis
Year Ended March 31, 2017**

The table below lists the revenue, expenses and changes in net position comparisons for the year ended March 31, 2017 and 2016.

CONDENSED STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET POSITION				
	2017		2016	
OPERATING REVENUE				
Rental	\$ 316,765	32.2%	\$ 314,795	33.7%
Grants	632,615	64.2%	542,892	58.2%
Other	35,694	3.6%	75,277	8.1%
Total Operating Revenue	985,074	100.0%	932,964	100.0%
OPERATING EXPENSES	780,730	79.3%	910,888	97.6%
OPERATING INCOME (LOSS)	204,344	20.7%	22,076	2.4%
NONOPERATING REVENUE (EXPENSES)	(1,232)	-0.1%	1,149	0.1%
Change in Net Position	203,112	20.6%	23,225	2.5%
Net Position, Beginning	2,111,802	100.0%	2,088,577	100.0%
Net Position, Ending	\$ 2,314,914	109.6%	\$ 2,111,802	101.1%

- Budgets are adopted for all funds as a management control device but are not presented in the financial statements as it is not legally required.
- Total ending Cash was \$699,596.
- Colorado statutes specify investment instruments meeting defined rating and risk criteria in which local governments may invest. The Authority had no investments at March 31, 2017.

HOUSING AUTHORITY OF THE CITY OF WALSENBURG, COLORADO

**Management's Discussion & Analysis
Year Ended March 31, 2017**

Capital Assets

During 2017 there was \$90,434 in additions to capital assets. Further information on the Authority's capital assets can be found in Notes 1 and 5 in the notes to financial statements.

CAPITAL ASSETS				
	Balance 3/31/16	Additions	Deletions	Balance 3/31/17
CAPITAL ASSETS, NOT BEING DEPRECIATED				
Land	\$ 810,246	\$ -	\$ -	\$ 810,246
CAPITAL ASSETS, BEING DEPRECIATED				
Site Improvements	413,084	65,000	-	478,084
Building and Improvements	6,967,220	21,162	-	6,988,382
Dwelling Equipment	100,671	2,697	6,016	97,352
Other Equipment	338,873	1,575	-	340,448
Total Capital Assets Being Depreciated	<u>7,819,848</u>	<u>90,434</u>	<u>6,016</u>	<u>7,904,266</u>
ACCUMULATED DEPRECIATION				
Site Improvements	236,007	23,145	-	259,152
Building and Improvements	6,384,477	82,394	-	6,466,871
Dwelling Equipment	95,294	-	2,799	92,495
Other Equipment	332,442	1,419	-	333,861
Total Accumulated Depreciation	<u>7,048,220</u>	<u>106,958</u>	<u>2,799</u>	<u>7,152,379</u>
Total Capital Assets Being Depreciated, Net	<u>771,628</u>	<u>(16,524)</u>	<u>3,217</u>	<u>751,887</u>
Total Capital Assets, Net	<u>\$ 1,581,874</u>	<u>\$ (16,524)</u>	<u>\$ 3,217</u>	<u>\$ 1,562,133</u>

Debt Administration

The Housing Authority has no debt.

Economic Factors and Future Plans for 2019

- In the year to come the Authority plans on continuing to provide an opportunity for a healthy, affordable, decent and safe living environment for the community through its programs.
- Public Housing Program - Continue scheduled preventive and regular maintenance to maintain the properties and fund planned major rehabilitation projects with Capital funds that will be expended on the dwelling units.
- Dwelling rents were projected conservatively as work in the area varies considerably.
- The Housing Authority is dependent upon HUD for operating grants and tenant rents for the funding of operations. As economic conditions continuing to improve, income from HUD and income from rents are bringing in income to the Housing Authority.
- It is anticipated that budget short falls will continue to require cuts in the PHA budget.

HOUSING AUTHORITY OF THE CITY OF WALSENBURG, COLORADO

**Management's Discussion & Analysis
Year Ended March 31, 2017**

- Business Activities Program – The city units and the Section 8 vouchers from the State of Colorado Housing Division will continue to provide income.
- Interest continues to remain very low with the local banks and economy.

Requests for Information

The financial report is designed to provide a general overview of Housing Authority of the City of Walsenburg, Colorado'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:

The Housing Authority of the City of Walsenburg
Jacque Sikes, Executive Director
220 Russell Avenue
Walsenburg, Colorado 81089

HOUSING AUTHORITY OF THE CITY OF WALSENBURG

STATEMENT OF NET POSITION

PROPRIETARY FUND

March 31, 2017

(With Comparative Actual Amounts for March 31, 2016)

	2017	2016
ASSETS		
Current Assets		
Cash	\$ 641,319	\$ 565,163
Accounts Receivable:		
PHA Projects	-	3,751
Tenants - Dwelling Rents	2,428	2,469
Accrued Interest Receivable	185	186
Prepaid Assets	4,104	-
Due from Other Governments - HUD	148,041	7,960
Inventories	27,494	44,970
Total Current Assets	823,571	624,499
Noncurrent Assets		
Cash - Restricted	58,277	58,622
Capital Assets Not Being Depreciated:		
Land	810,246	810,246
Capital Assets, net of Depreciation	751,887	771,628
Total Noncurrent Assets	1,620,410	1,640,496
Total Assets	2,443,981	2,264,995
LIABILITIES		
Current Liabilities		
Accounts Payable	4,554	10,797
Accrued Wage and Related Liabilities	19,651	4,816
Accrued Compensated Absences - Current	9,914	11,721
Tenant Security Deposits	58,277	58,622
Accrued Liabilities - Other	8,466	8,868
Due to Other Governments	17,011	50,582
Deferred Revenue	10,155	7,787
Total Current Liabilities	128,028	153,193
Noncurrent Liabilities		
Compensated Absences Due Beyond One Year	1,039	-
Total Noncurrent Liabilities	1,039	-
Total Liabilities	129,067	153,193
NET POSITION		
Net Investment in Capital Assets	1,562,133	1,581,874
Restricted Net Position	239,143	-
Unrestricted Net Position	513,638	529,928
Total Net Position	\$ 2,314,914	\$ 2,111,802

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

HOUSING AUTHORITY OF THE CITY OF WALSENBURG

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUND**

For the Year Ended March 31, 2017

(With Comparative Actual Amounts for the Year Ended March 31, 2016)

	2017	2016
OPERATING REVENUES		
Dwelling Rents	\$ 299,728	\$ 302,429
Other Tenant Revenue	17,037	12,366
Tenant Revenue	316,765	314,795
OPERATING EXPENSES		
Administrative	227,072	261,345
Tenant Services	263	289
Utilities	129,659	124,752
Maintenance & Operations	232,254	293,564
Other General Expense	22,519	28,248
Insurance Premiums	58,788	57,305
Depreciation Expense	110,175	145,385
Total Operating Expenses	780,730	910,888
OPERATING INCOME (LOSS)	(463,965)	(596,093)
OTHER INCOME		
HUD Contribution and Grant	575,575	517,611
HUD Capital Grants	57,040	25,281
Investment Income - Unrestricted	1,567	1,149
Gain on Sale of Assets	(2,799)	-
Other Revenue	35,694	75,277
Total Other Income	667,077	619,318
CHANGE IN NET POSITION	203,112	23,225
NET POSITION, Beginning	2,111,802	2,088,577
NET POSITION, Ending	\$ 2,314,914	\$ 2,111,802

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

HOUSING AUTHORITY OF THE CITY OF WALSENBURG

STATEMENT OF CASH FLOWS

PROPRIETARY FUND

(With Comparative Actual Amounts for March 31, 2016)

(With Comparative Actual Amounts for the Year Ended March 31, 2016)

	<u>2017</u>	<u>2016</u>
Cash Flows from Operating Activities		
Receipts from Tenants	\$ 322,580	\$ 341,232
Payments to Employees	(232,998)	(319,447)
Payments to Suppliers	<u>(450,334)</u>	<u>(470,860)</u>
Net Cash (Used) by Operating Activities	<u>(360,752)</u>	<u>(449,075)</u>
Cash Flows from Noncapital Financing Activities		
Federal Subsidies	435,494	395,016
Other Non-operating Revenues	<u>35,694</u>	<u>75,277</u>
Net Cash Provided by Noncapital Financing Activities	<u>471,188</u>	<u>470,293</u>
Cash Flows from Capital and Related Financing Activities		
HUD Capital Grants	57,040	241,890
Acquisition of Capital Assets	<u>(90,434)</u>	<u>(58,109)</u>
Net Cash Provided by Capital and Related Financing Activities	<u>(33,394)</u>	<u>183,781</u>
Cash Flows from Investing Activities		
Earnings on Investments	1,568	1,160
(Purchases) Sales of Investments, Net	<u>(2,799)</u>	<u>-</u>
Net Cash Provided (Used) by Investing Activities	<u>(1,231)</u>	<u>1,160</u>
Net Change in Cash	75,811	206,159
CASH, Beginning	<u>623,785</u>	<u>417,626</u>
CASH, Ending	<u>\$ 699,596</u>	<u>\$ 623,785</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities		
Operating Income (Loss)	\$ (463,965)	\$ (596,093)
Depreciation	110,175	145,385
Changes in operating assets and liabilities:		
Accounts Receivable	3,792	22,264
Prepaid Expenses	(4,104)	-
Inventory	17,476	-
Accounts Payable	(6,645)	(1,667)
Accrued Compensated Absences	14,067	(41,836)
Tenant Security Deposits	(345)	3,607
Due to Other Governments	(33,571)	18,699
Deferred Revenue	<u>2,368</u>	<u>566</u>
Net Cash (Used) by Operating Activities	<u>\$ (360,752)</u>	<u>\$ (449,075)</u>

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

HOUSING AUTHORITY OF THE CITY OF WALSENBURG, COLORADO

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Housing Authority of the City of Walsenburg was created for the purpose of administering Public Housing Programs authorized by the United States Housing Act of 1937. The Department of Housing and Urban Development has direct responsibility for the administering of low-income housing programs. The Housing Authority has entered into an annual contribution contract with the Department of Housing and Urban Development for the funding of these programs through annual contributions and subsidies.

This summary of significant accounting policies is presented to assist the reader in interpreting the financial statements and other data in this report. The policies are considered essential and should be read in conjunction with the accompanying financial statements.

The financial statements of the Authority have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to local government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The more significant of the Authority's accounting policies are described below.

Reporting entity

The financial reporting entity consists of (1) the primary government, (2) organizations for which the primary government is financially accountable and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The reporting entity's financial statements should present the funds of the primary government (including its blended component units, which are, in substance, part of the primary government) and provide an overview of the discretely presented component units.

The Authority has examined other entities that could be included as defined in number 2 and 3 above. Based on these criteria, the Authority has no component units.

Nature of operations

The following programs are administered by the Housing Authority:

Public Housing Program - This program consists of 129 public housing units. Under this program, HUD provides funding through an annual contribution contract. These funds, along with dwelling rental income received from the tenants, are used to maintain the dwelling units. Included within this program are the Capital Fund grants which provide funding for the modernization and improvement of the Public Housing Program. These resources allow the Housing Authority to provide capital improvements for the current dwelling structures and assist in their operations.

Business Activities Program - This programs purpose is to provide flexibility to allow the Authority options of providing services to its residents as well as acquire, construct and manage housing units to meet the overall objective of the Authority. This program controls non-HUD monies. The Authority acts as the management agent for the Huerfano County Economic Development Spanish

HOUSING AUTHORITY OF THE CITY OF WALSENBURG, COLORADO

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2017

Peaks Apartments (a 30-unit tax credit project), manages 2 city units and administers 45 Section 8 vouchers for the State of Colorado Housing Division for Huerfano & Las Animas Counties.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The accounts of the Authority are organized on the basis of a proprietary fund types, specifically enterprise funds. The activities of these funds are accounted for with a separate set of self-balancing accounts that comprise the Authority's assets, liabilities, net position, revenues and expenses. Enterprise funds account for activities that (a) are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity, (b) are required by laws or regulations that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues, or (c) the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

The accounting and financial reporting treatment applied to the Authority is determined by its measurement focus. The transactions of the Authority are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the statement of net position. Net position (assets less liabilities) are segregated into net invested in capital assets, restricted for debt service and unrestricted components. Revenues are recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The Housing Authority's basic financial statements consist of a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position, and a Statement of Cash Flows.

A Statement of Net Position provides information about the assets, liabilities, and net position of the Authority at the end of the year. Assets and liabilities are classified as current, noncurrent, or other assets. Net position is classified according to availability of assets to satisfy the Authority's obligations. Net invested in capital assets represents that value of capital assets, net of accumulated depreciation, less any outstanding debt incurred to acquire or construct the assets. Restricted net position represents resources that have been externally restricted for specific purposes. Unrestricted net position, include all other net position, including those that have been designated by management to be used for other than general operating purposes.

A Statement of Revenues, Expenses and Changes in Net Position provide information about the Authority's financial activities during the year. Revenues and expenses are classified as either operating or nonoperating, and all changes in net assets are reported, including capital contributions.

Operating revenues and expenses generally result from providing services in connection with providing low income housing. Accordingly, revenue such as dwelling rent, operating grants and subsidies from HUD, and other tenant charges are considered to be operating revenues. Other revenues, such as interest income and capital contributions provided for building improvement projects or equipment purchases, are considered to be nonoperating revenues. Operating expenses

HOUSING AUTHORITY OF THE CITY OF WALSENBURG, COLORADO

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2017

include: administrative, maintenance, utilities, tenant services, depreciation on capital assets, and other general expenses.

A Statement of Cash Flow provides information about the Authority's sources and uses of cash and cash equivalents during the year. Increases and decreases in cash and cash equivalents are classified as operating activities, non-capital financing, and capital financing or investing.

Assets, Liabilities and Net Position

Cash and cash equivalents - For the purposes of the statement of cash flows, the Authority considers all highly liquid debt instruments with an original maturity of three months or less when purchased to be cash equivalents. All investments are recorded at fair value based on quoted market prices. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties. Cash and Investments that are available upon demand are considered to be "cash equivalents" when preparing these financial statements. In addition, any marketable securities that are owned by a specific amount and that are purchased with a maturity of ninety days or less are also considered "cash equivalents".

Receivables - All receivables are current and therefore due within one year. Receivables are reported net of an allowance for uncollectible account and revenues net of uncollectible. Allowances are reported when account are proven to be uncollectible. An allowance of \$-0- has been provided at year end.

Prepaid assets - Prepaid balances are for payments made by the Authority in the current year to provide services occurring in the subsequent fiscal year.

Inventories - Inventories are valued at cost, which approximates market value, using the first-in/first-out (FIFO) method. The consumption method is applied and expense is charged when inventory items are used for the units.

Capital assets - All capital assets with a unit cost greater than \$500 are capitalized at cost (or estimated historical cost, if actual cost is not available) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair value on the date received. Improvements to assets are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not. The Authority does not capitalize interest costs related to its constructed fixed assets.

All reported capital assets are depreciated with the exception of land costs. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

	<u>Estimated Useful Lives</u>
Buildings and Improvements	15 – 40 years
Furniture and Fixtures	7 – 10 years
Equipment	7 – 10 years

HOUSING AUTHORITY OF THE CITY OF WALSENBURG, COLORADO

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2017

Compensated absences - The Authority's personnel policies permit employees to carryover and receive vacation or sick leave benefits upon request. A liability for compensated absences that is attributable to services already rendered and that are not contingent on a specific event that is outside the control of the Authority and its employees, is accrued as employees earn the rights to the benefits. Compensated absences that relate to future services or that are contingent on a specific event that is outside the control of the Authority and its employees, are accounted for in the period in which such services are rendered or in which such events take place. Permanent employees will be paid for their unused vacation and sick leave upon leaving the Authority, if the employee leaves in good standing. This liability has been recorded in the financial statements pursuant to GASB Statement No. 16, "Accounting for Compensated Absences."

Net position - Net position represent the difference between assets and liabilities. Net investment in capital assets consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are liabilities imposed on their use either through the enabling legislation adopted by the Authority or through external restrictions imposed by creditors (such as through debt covenants), grantors or laws or regulations of other governments. Unrestricted Net Position - All other assets net assets that do not meet the definition, of "restricted" or "invested in capital assets, net of related debt".

Use of restricted/Unrestricted assets - When an expense is incurred for purposes for which both restricted and unrestricted assets are available, the Authority's policy is to apply restricted assets first.

Grant revenue - The Authority, a recipient of grant revenues, recognizes revenues (net of estimated uncollectible amounts, if any), when all applicable eligibility requirements, including time requirements are met in accordance with GASB Statement No. 33. Resources transmitted to the Authority before the eligibility requirements are met are reported as deferred revenue.

Operating revenues and expenses - Operating revenues and expenses consist of those revenues that result from the ongoing principal operations of the Authority. Operating revenues consist primarily of charges for services. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing type of activities and result from non-exchange transactions or ancillary activities.

Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect the reported amounts of certain assets, liabilities, revenues, expenditures, expenses, and other disclosures. Accordingly, actual results could differ from those estimates.

Income Taxes - The Authority is a governmental subdivision of the State of Colorado and is exempt from Federal and State income taxes.

HOUSING AUTHORITY OF THE CITY OF WALSENBURG, COLORADO

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2017

Budgetary Information - Budgets are prepared on an annual basis for each major operating program and are used as a management tool throughout the accounting cycle. The capital fund budgets are adopted on a "project length" basis.

Budget compared to actual presentation has been omitted because the Authority does not annually adopt a legally authorized budget. The Authority's budget is adopted by the Authority's board. This budget does not represent an appropriated budget that has been signed into law or a non-appropriated budget authorized by constitution. The Authority's budget represents budgetary execution and management by its board; therefore, budgetary data and presentation is not legally required. Therefore, budgetary information is not presented in the financial statements.

Leasing Activities (as Lessor) - The Authority is the lessor of dwelling units primarily to low-income residents. The rents under the leases are determined generally by the resident's income as adjusted for eligible deductions regulated by HUD, although the resident may opt for a flat rent. Leases may be cancelled by the lessee at any time. The Authority may cancel the lease only for cause.

Incomes associated with these leases are recorded in the financial statements and schedules as "Rental income". Rental income per resident generally remains consistent from year to year, but is affected by general economic conditions which impact personal income, such as local job availability.

NOTE 2: CASH AND INVESTMENTS

Cash Deposits

Custodial credit risk

Custodial risk for deposits is the risk that, in the event of a failure of a depository financial institution, the Authority will not be able to recover its deposits or will not be able to recover collateral securities that are in possession of an outside party. The Colorado Public Deposit Protection Act (PDPA) governs the investment of public funds. PDPA requires that all units of local government deposit cash in eligible public depositories. State regulators determine eligibility. Amounts on deposit in excess of federal insurance levels (\$250,000) must be collateralized. The eligible collateral is determined by the PDPA. PDPA allows the institution to create a single collateral pool for all public funds. The pool for all the uninsured public deposits as a group is to be maintained by another institution or held in trust. The market value of the collateral must be at least equal to 102% of the aggregate uninsured deposits. The institution's internal records identify the collateral by depositor and as such, these deposits are considered to be uninsured but collateralized. The State Regulatory Commissions for banks and financial services are required by statute to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pools. At March 31, 2017, the Authority's deposits amounting to \$390,334 were insured by federal depository insurance and consequently were not exposed to custodial credit risk as follows:

HOUSING AUTHORITY OF THE CITY OF WALSENBURG, COLORADO

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2017

	<u>Bank Balance</u>	<u>Carrying Balance</u>
FDIC Insured Deposits	\$ 250,000	\$ 250,000
PDPA Insured Deposits	472,466	449,396
Change Fund Cash	-	100
Petty Cash	-	100
Total Cash	<u>\$ 722,466</u>	<u>\$ 699,596</u>
Unrestricted Cash		\$ 641,319
Restricted - Tenant Deposits		<u>58,277</u>
Total Cash		<u>\$ 699,596</u>

Investments

The Authority's formal investment policy is to follow Colorado State Statutes which specify investment instruments meeting defined rating and risk criteria in which local governments may invest which include:

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

At March 31, 2017, the Authority did not have any investments.

HOUSING AUTHORITY OF THE CITY OF WALSENBURG, COLORADO

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2017

NOTE 3: ACCOUNTS RECEIVABLE

A summary of accounts receivable as presented in the Statement of Net Assets at March 31, 2014 are as follows:

Tenants	\$ 5,556
Allowance for Doubtful Accounts - Dwelling Rents	<u>(3,128)</u>
Total	<u>\$ 2,428</u>

NOTE 4: DUE FROM OTHER GOVERNMENTS

A summary of due from other governments as presented in the Statement of Net Assets at March 31, 2017 is as follows:

HUD – Operating Subsidy	<u>\$ 148,041</u>
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NOTE 5: CAPITAL ASSETS

Capital asset activity for the year was as follows:

	<u>Balance 3/31/2016</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 3/31/2017</u>
Non-Depreciable Assets				
Land and Improvements	\$ 810,246	\$ -	\$ -	\$ 810,246
Depreciable Assets				
Site Improvements	413,084	65,000	-	478,084
Buildings and Improvements	6,967,220	21,162	-	6,988,382
Dwelling Equipment	100,671	2,697	6,016	97,352
Other Equipment	<u>338,873</u>	<u>1,575</u>	<u>-</u>	<u>340,448</u>
Total Depreciable Assets	<u>7,819,848</u>	<u>90,434</u>	<u>6,016</u>	<u>7,904,266</u>
Total Capital Assets	<u>8,630,094</u>	<u>90,434</u>	<u>6,016</u>	<u>8,714,512</u>
Accumulated Depreciation				
Site Improvements	236,007	23,145	-	259,152
Buildings and Improvements	6,384,477	82,394	-	6,466,871
Dwelling Equipment	95,294	-	2,799	92,495
Other Equipment	<u>332,442</u>	<u>1,419</u>	<u>-</u>	<u>333,861</u>
Total Accumulated Depreciation	<u>7,048,220</u>	<u>106,958</u>	<u>2,799</u>	<u>7,152,379</u>
Depreciable Assets Net	<u>771,628</u>	<u>(16,524)</u>	<u>3,217</u>	<u>751,887</u>
Net Capital Assets	<u>\$ 1,581,874</u>	<u>\$ (16,524)</u>	<u>\$ 3,217</u>	<u>\$ 1,562,133</u>

HOUSING AUTHORITY OF THE CITY OF WALSENBURG, COLORADO

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2017

NOTE 6: ACCRUED COMPENSATED ABSENCES

A summary of accrued compensated absences as presented in the Statement of Net Assets as of March 31, 2017 is as follows:

	<u>Balance 3/31/2015</u>	<u>Net (Decrease)</u>	<u>Balance 3/31/2016</u>	<u>Due Within One Year</u>
Compensated Absences	<u>\$ 11,721</u>	<u>\$ (768)</u>	<u>\$ 10,953</u>	<u>\$ 9,914</u>

NOTE 7: PENSION PLAN

The Authority participates in the Edward Jones 457 variable annuity plan. Executive Director is authorized to establish and amend the plan benefits.

The Authority provides pension benefits for all its full-time employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. The Authority contributes an amount equal to 8% of the employee's base salary each month. The Authority's contributions for each employee (and interest allocated to the employee's account) are fully vested after five years of continuous service. Authority contributions for, and interest forfeited by, employees who leave employment before five years of service are used to reduce the Authority's current-period contribution requirement.

The Authority's total payroll in fiscal year 2017 was \$244,685. The Authority's contributions were calculated using the base salary amount of \$244,685. The Authority made the required contributions, amounting to \$17,215 from the Authority and \$17,215 from the employees.

NOTE 8: RISK MANAGEMENT

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 all risks of loss, including workers' compensation and employee health and accident insurance. There has been no significant reduction in insurance coverage from the prior year in any of the major categories of risk. Settled claims have not exceeded this coverage in any of the past three years.

HOUSING AUTHORITY OF THE CITY OF WALSENBURG, COLORADO

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2017

NOTE 9: COMMITMENTS AND CONTINGENCIES

Federal funding

The Authority recognizes as revenue grant monies received as reimbursement for costs incurred in certain Federal and State programs it administers. Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the Federal Government. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the Authority expects such amounts, if any, to be immaterial.

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.

NOTE 10: ECONOMIC DEPENDENCY

The Housing Authority is economically dependent on annual contributions and grants received from HUD. The extent of this funding from HUD depends upon appropriations from the federal level.

HOUSING AUTHORITY OF THE CITY OF WALSENBURG

**SCHEDULE OF EXPENSES BY PROGRAM
PROPRIETARY FUND**

**(With Comparative Actual Amounts for March 31, 2016)
(With Comparative Actual Amounts for the Year Ended March 31, 2016)**

	<u>Public Housing</u>	<u>Business Activities</u>	<u>Total</u>	<u>2016</u>
OPERATING EXPENSES				
Administrative				
Administrative Salaries	\$ 129,392	\$ 4,500	\$ 133,892	\$ 128,405
Auditing Fees	6,000	-	6,000	6,000
Advertising and Marketing	463	-	463	38
Employee Benefit Contributions	49,544	-	49,544	68,849
Office Expenses	26,498	292	26,790	42,093
Legal Expense	-	-	-	76
Travel	6,693	-	6,693	12,092
Other	3,690	-	3,690	3,792
Total Administrative	<u>222,280</u>	<u>4,792</u>	<u>227,072</u>	<u>261,345</u>
Tenant Services				
Tenant Services - Other	238	25	263	289
Total Tenant Services	<u>238</u>	<u>25</u>	<u>263</u>	<u>289</u>
Utilities				
Water	68,233	-	68,233	64,694
Electricity	10,786	-	10,786	10,027
Gas	3,420	-	3,420	4,304
Sewer	47,220	-	47,220	45,727
Total Utilities	<u>129,659</u>	<u>-</u>	<u>129,659</u>	<u>124,752</u>
Maintenance & Operations				
Labor	106,293	4,500	110,793	149,206
Materials	45,303	475	45,778	27,426
Contracts	29,953	3,982	33,935	38,887
Maintenance	41,748	-	41,748	78,045
Total Maintenance & Operations	<u>223,297</u>	<u>8,957</u>	<u>232,254</u>	<u>293,564</u>
Insurance Premiums				
Property Insurance	38,717	-	38,717	25,979
Liability Insurance	7,928	-	7,928	7,515
Workmen's Compensation	7,242	-	7,242	10,108
All Other Insurance	4,901	-	4,901	13,703
Total Insurance Premiums	<u>58,788</u>	<u>-</u>	<u>58,788</u>	<u>57,305</u>
Other General Expense				
Other General Expenses	-	-	-	89
Compensated Absences	2,380	-	2,380	-
Payments in Lieu of Taxes	17,011	-	17,011	18,699
Bad debt - Tenant Rents	3,128	-	3,128	9,460
Total Other General Expenses	<u>22,519</u>	<u>-</u>	<u>22,519</u>	<u>28,248</u>
Total Operating Expenses	<u>656,781</u>	<u>13,774</u>	<u>670,555</u>	<u>765,503</u>
Non-Operating Expenses				
Depreciation Expense	110,175	-	110,175	145,385
Total Non-Operating Expenses	<u>110,175</u>	<u>-</u>	<u>110,175</u>	<u>145,385</u>
Total Expenses	<u>\$ 766,956</u>	<u>\$ 13,774</u>	<u>\$ 780,730</u>	<u>\$ 910,888</u>

See the accompanying Independent Auditors' Report.

**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***

Board of Commissioners
Housing Authority of the City of Walsenburg
Walsenburg, Colorado

We have audited, in accordance with the 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 Housing Authority of the City of Walsenburg, Colorado, as of and for the year ended March 31, 2017, and the related notes to the financial statements, which collectively comprise the Housing Authority of the City of Walsenburg, Colorado's basic financial statements and have issued our report thereon dated November 30, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Housing Authority of the City of Walsenburg, Colorado'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 Housing Authority of the City of Walsenburg, Colorado's internal control. Accordingly, we do not express an opinion on the effectiveness of the Housing Authority of the City of Walsenburg, Colorado'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 charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Housing Authority of the City of Walsenburg, Colorado'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.

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

Plutt Rogers & Company PC

November 30, 2017