HOUSING AUTHORITY OF THE CITY OF
STERLING, COLORADO

BASIC FINANCIAL STATEMENTS,
REQUIRED SUPPLEMENTAL INFORMATION
AND
SUPPLEMENTAL INFORMATION

Year Ended March 31, 2018

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INDEPENDENT AUDITOR'S REPORT

Niewedde & Wiens
CERTIFIED PUBLIC ACCOUNTANTS
Randal D. Niewedde, CPA
Jeffrey J. Wiens, CPA

Independent Auditor's Report

To the Board of Commissioners
Housing Authority of the City of Sterling, Colorado

Report on the Basic Financial Statements

We have audited the accompanying financial statements of the Housing Program (a major fund) of the Housing Authority of the City of Sterling, Colorado, as of and for the year ended March 31, 2018, and the related notes to the basic financial statements. We were engaged to audit the financial statements of the Platte Valley Village Program (a major fund). These financial statements collectively comprise the Housing Authority of the City of Sterling, Colorado's basic financial statements as listed in the table of contents.

Management's Responsibility for the Basic Financial Statements

Management is responsible for the preparation and fair presentation of these basic 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 basic financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these basic 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 basic financial statements are free from material misstatement. Because of the matter described in the "Basis for Disclaimer of Opinion" paragraph, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an opinion on the Platte Valley Village Program (a major fund).

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the basic financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the basic 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 basic 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 basic financial statements.

Except for the matter described in the Basis For Disclaimer of Opinion paragraph, we believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Summary of Opinions

Opinion Unit	Type of Opinion
Housing Program (major fund)	Unmodified
Platte Valley Village Program (major fund)	Disclaimer

Basis for Disclaimer of Opinion of the Platte Valley Village Program (a major fund)

The financial statements of the Platte Valley Village Program (a major fund) have not been audited. On August 17, 2017, the Authority elected to default on two of its loans Platte Valley Village has with Colorado Housing and Finance Authority. As a result of this, Colorado Housing and Finance Authority filed a complaint in court for which the court approved the appointment of a receiver on February 7, 2018. This resulted in the Authority being required to hand over all records for the project and the Authority no longer managed the project after this date and the accounting records were not available after this time.

Disclaimer of Opinion

Because of the significance of the matter described in the "Basis for Disclaimer of Opinion of the Platte Valley Village Program (a major fund)" paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements of the Platte Valley Village Program (a major fund) of the Housing Authority of the City of Sterling, Colorado. Accordingly, we do not express an opinion on these financial statements.

Unmodified Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Housing Program (a major fund) of the Housing Authority of the City of Sterling, Colorado, as of March 31, 2018, and the 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.

Emphasis of Matter

As discussed in Note A, the Housing Authority of the City of Sterling, Colorado reports two major funds. For the year ended March 31, 2018, the Platte Valley Village program is now reported as a separate fund where all of the program were reported as one fund in the prior year.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as identified 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 were unable to apply certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America due to the limitations described in the "Basis for Disclaimer of Opinion of the Platte Valley Village Program (a major fund)" paragraph. We do not express an opinion or provide any assurance on the information.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements that collectively comprise the Housing Authority of the City of Sterling, Colorado's basic financial statements.

The Program Financial Schedules, Financial Data Schedule and Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Program Financial Schedules are the responsibility of management and were derived from and relates 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 Program Financial Schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Financial Data Schedule and Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Due to the limitations described in the "Basis for Disclaimer of Opinion of the Platte Valley Village Program (a major fund)" paragraph, the Financial Data Schedule and Schedule of Expenditures of Federal Awards were not 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. Because of the significance of the matter disclosed in the auditor's report, it is inappropriate to, and we do not express an opinion on the Financial Data Schedule and Schedule of Expenditures of Federal.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 7, 2018 on our consideration of the Housing Authority of the City of Sterling, Colorado's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Housing Authority of the City of Sterling, Colorado'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 Housing Authority of the City of Sterling, Colorado's internal control over financial reporting and compliance.

Niewedde & Wiens, CPA's

York, Nebraska
September 7, 2018

REQUIRED SUPPLEMENTAL INFORMATION -
MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Housing Authority of the City of Sterling, Colorado's annual financial report presents our managements analysis of the Authority's financial performance during the fiscal year ended on March 31, 2018. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position. Please read and consider the information presented in conjunction with the basic financial statements as a whole.

FINANCIAL HIGHLIGHTS

The term "Net Position" refers to the difference between assets and liabilities. The Authority's total net position as of March 31, 2018 was $3,629,205. The net position decreased by $30,677, a decrease of 0.8% from the prior year. Of this amount, $2,037,905 was reported as "unrestricted net position". Unrestricted net position represents the amount available to be used to meet the Authority's ongoing obligations to citizens, creditors and operations of facilities.

Operating revenues for the Authority was $1,045,094 for the year ended March 31, 2018. This was an increase of 3% over the prior year.

Operating expenses for the Authority were $1,289,807 for the year ended March 31, 2018. This was a increase of 3% over the prior year.

On August 17, 2017, the Authority elected to default on two of its loans Platte Valley Village has with Colorado Housing and Finance Authority. The Authority has been trying to either sell the property or transfer ownership but has been unable to receive approval USDA Rural Development which holds a secondary mortgage. As a result of this, Colorado Housing and Finance Authority filed a complaint in court for which the court approved the appointment of a receiver on February 7, 2018. This resulted in the Authority being required to hand over all records for the project and the Authority no longer managed the project after this date.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

This annual report includes this *Management Discussion and Analysis* report, the *Basic Financial Statements* and the *Notes to the Basic Financial Statements*. This report also contains the Financial Data Schedule (FDS) included in the *Supplemental Information* section. The Authority's basic financial statements are presented as fund level financial statements.

Required Basic Financial Statements

Proprietary Fund Financial Statements - The basic financial statements of the Housing Authority report information of the Authority using accounting methods similar to those used by private sector companies. These statements offer short- and long-term financial information about its activities. The Statement of Net Position includes all the Authority's assets, deferred outflows of resources, liabilities and deferred inflows of resources and provides information about the nature and amounts of investments in resources and obligations of the Authority creditors. It also provides the basis for evaluating the capital structure of the Authority and assessing the liquidity and financial flexibility of the Authority.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Fund Net Position. This statement measures the success of the Authority's operations over the past year and can be used to determine whether the Authority has successfully recovered all its costs through its user fees and other charges, profitability and credit worthiness.

The final required financial statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities and provides answers to such questions as where did cash

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS (CONT'D)

come from, what was cash used for, and what was the change in the cash balance during the reporting period.

The Authority reports two enterprise funds.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements and provide more detailed data.

Supplemental Information

This report also contains the Financial Data Schedule (FDS) included in the *Supplemental Information* section. HUD has established *Uniform Financial Reporting Standards* that requires the Housing Authority to submit financial information electronically to HUD using the FDS format. This financial information was electronically transmitted to the Real Estate Assessment Center (REAC) for the year ended March 31, 2018 and is required to be included in the audit reporting package.

FINANCIAL HIGHLIGHTS AND ANALYSIS

Net position may serve, over time, as a useful indicator of a government's financial position. In the case of the Authority, assets exceeded liabilities by $3,629,205 at the close of the year ended March 31, 2018. This represents a decrease of $30,677, or 0.8% from the prior year. The unrestricted component of net position was $2,037,905 as of March 31, 2018 which was an increase of $155,241 as a result of operations and the use of $70,000 of capital funds for operations.

CONDENSED STATEMENT OF NET POSITION

	FY 2018	FY 2017	Dollar Change	Percent Change
Current and other assets	$ 2,427,457	$ 2,249,319	$ 178,137	7.9%
Capital assets	2,947,874	3,192,009	(244,135)	-7.6%
Total Assets	5,375,331	5,441,328	(65,997)	-1.2%
Current liabilities	215,308	204,368	10,939	5.4%
Long-term debt	1,530,818	1,577,078	(46,260)	-2.9%
Total Liabilities	1,746,126	1,781,446	(35,321)	-2.0%
Net Position				
Net investment in capital assets	1,334,016	1,533,539	(199,524)	-13.0%
Restricted	257,285	243,679	13,606	5.6%
Unrestricted	2,037,905	1,882,664	155,241	8.2%
Total Net Position	$ 3,629,205	$ 3,659,882	$ (30,677)	-0.8%

A portion of the Authority's net position reflects its net investment in capital assets (e.g. land, buildings and equipment less accumulated depreciation and related debt). The Authority uses these capital assets to provide service and consequently these assets are not available to liquidate liabilities or other spending.

The restricted component of net position consisted replacement, residual and insurance reserves.

Current and other assets increased $178,137. Within this cash and investments increased $212,483 and the receivable from other governments decreased $35,784.

FINANCIAL HIGHLIGHTS AND ANALYSIS (CONT'D)

The decrease in long-term debt was just related to required payments being made.

While the Statement of Net Position shows the change in net position, the Statements of Revenues, Expenses, and Changes in Net Position provides answers as to the nature and source of these changes.

CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	FY 2018	FY 2017	Dollar Change	Percent Change
Revenues				
Program revenues				
Rental	$ 645,530	$ 640,060	$ 5,470	0.9%
Program contributions	592,913	585,491	7,422	1.3%
Other	66,488	44,398	22,090	49.8%
General revenues				
Interest	1,425	551	874	158.7%
Total Revenues	1,306,355	1,270,500	35,856	2.8%
Expenses				
Operating, less depreciation	956,094	925,310	30,784	3.3%
Depreciation	333,714	331,419	2,295	0.7%
Nonoperating	86,545	99,836	(13,291)	-13.3%
Total Expenses	1,376,353	1,356,565	19,788	1.5%
Excess (Deficiency) Before Contributions and Special Items	(69,998)	(86,065)	16,067	
Contributions	44,665	73,044	(28,379)	
Special items, net	(5,344)	-	(5,344)	
Changes in Net Position	(30,677)	(13,021)	(17,655)	
Beginning net position	3,659,882	3,672,903	(13,021)	
Ending net position	$ 3,629,205	$ 3,659,882	$ (30,677)	

Rental income increased $5,470 which was due to normal fluctuations in occupancy and rental charges.

Program contributions included rental assistance, operating subsidy, capital fund grants used for operations and interest subsidy. There were only minor fluctuations in the various categories except for capital funds used for operations which increased by $10,000 to $70,000.

Operating expenses increased by $30,784. Within this, utilities increased $18,549 while the rest of the increases were spread across the various other categories.

Nonoperating expenses decreased as the Authority had an interest rate reduction in one of its loans during the prior year.

The Authority had HUD capital contributions of $44,665 for the year ended March 31, 2018. The Authority is allocated capital grant money each year as determined by HUD and remains relatively consistent form year to year based on the Authority's number and type of units. The amount presented will vary from year to year

FINANCIAL HIGHLIGHTS AND ANALYSIS (CONT'D)

depending on the timing of awards, project implementation and expenditures within budgets as outlined in the HUD approved capital grant budgets.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets – The Housing Authority of the City of Sterling, Colorado's capital assets as of March 31, 2018 were $2,947,874. Capital assets includes land, buildings, improvements, equipment and construction in progress net of accumulated depreciation.

The total decrease in the Authority's capital assets for the current fiscal year was 7.6% in terms of net book value. Actual expenditures to purchase or construct capital assets were $89,579. This consisted largely of siding, gutters and soffits in the Public Housing program and lighting improvements in both the Public Housing and MacLaren programs.

Depreciation expense for the year was $333,714.

Additional information on the Authority's capital assets can be found in Note F of the notes to the basic financial statements of this report.

Debt Administration – On August 17, 2017, the Authority elected to default on two of its loans Platte Valley Village has with Colorado Housing and Finance Authority. The Authority has been trying to either sell the property or transfer ownership but has been unable to receive approval USDA Rural Development which holds a secondary mortgage. As a result of this, Colorado Housing and Finance Authority filed a complaint in court for which the court approved the appointment of a receiver on February 7, 2018. This resulted in the Authority being required to hand over all records for the project and the Authority no longer managed the project after this date.

The only debt activity for the year ended March 31, 2018 was related to the payment of debt. No new debt was issued during the year. Additional information on the Authority's debt can be found in Note J of the notes to the basic financial statements of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The Board of Commissioners and Management of the Housing Agency considered many factors when approving the fiscal year 2019 budget. The user charges are based on tenant's income as established by HUD and RD guidelines and are not adjustable. In projecting the amount of rental income, the Authority considered prior year rental income and occupancy rates. The operating expenses are expected to increase by the economy's inflation rate.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Executive Director, Housing Authority of the City of Sterling, Colorado, 1200 N. 5th Street, Sterling, Colorado, 80751.

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BASIC FINANCIAL STATEMENTS

HOUSING AUTHORITY OF THE CITY OF STERLING, COLORADO
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
March 31, 2018

ASSETS	Housing	Platte Valley Village	Totals
CURRENT ASSETS:			
Cash and cash equivalents	$ 1,578,711.57	$ 66,332.57	$ 1,645,044.14
Investments	300,961.98	-	300,961.98
Accounts receivable, net	2,434.28	1,165.96	3,600.24
Due from other governments	132,736.00	-	132,736.00
Accrued interest receivable	1.24	-	1.24
Prepaid insurance	22,675.83	3,122.70	25,798.53
Restricted:			
Cash and cash equivalents	46,610.52	15,419.21	62,029.73
TOTAL CURRENT ASSETS	2,084,131.42	86,040.44	2,170,171.86
NONCURRENT ASSETS:			
Restricted:			
Cash and cash equivalents	188,108.93	69,175.75	257,284.68
Capital Assets, non-depreciable	261,051.89	123,302.94	384,354.83
Capital Assets, depreciable, net	1,504,097.85	1,059,421.66	2,563,519.51
TOTAL NONCURRENT ASSETS	1,953,258.67	1,251,900.35	3,205,159.02
TOTAL ASSETS	$ 4,037,390.09	$ 1,337,940.79	$ 5,375,330.88

LIABILITIES	Housing	Platte Valley Village	Totals
CURRENT LIABILITIES:			
Accounts payable	$ 12,995.88	$ -	$ 12,995.88
Accrued wages and benefits payable	319.58	-	319.58
Compensated absences payable	25,095.00	-	25,095.00
Due to other governments	21,972.31	-	21,972.31
Accrued interest payable	1,690.27	5,886.56	7,576.83
Unearned revenue	2,277.52	-	2,277.52
Trust and deposit liabilities	46,610.52	15,419.21	62,029.73
Current portion long-term debt	35,554.44	47,486.25	83,040.69
TOTAL CURRENT LIABILITIES	146,515.52	68,792.02	215,307.54
NONCURRENT LIABILITIES			
Mortgage payable	543,966.57	986,851.44	1,530,818.01
TOTAL NONCURRENT LIABILITIES	543,966.57	986,851.44	1,530,818.01
TOTAL LIABILITIES	690,482.09	1,055,643.46	1,746,125.55
NET POSITION			
Net investment in capital assets	1,185,628.73	148,386.91	1,334,015.64
Restricted for:			
Replacement reserve, residual receipts, insurance	188,108.93	69,175.75	257,284.68
Unrestricted	1,973,170.34	64,734.67	2,037,905.01
TOTAL NET POSITION	$ 3,346,908.00	$ 282,297.33	$ 3,629,205.33

See accompanying notes.

HOUSING AUTHORITY OF THE CITY OF STERLING, COLORADO
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION - PROPRIETARY FUNDS
Year Ended March 31, 2018

	Housing	Platte Valley Village	Totals
OPERATING REVENUES			
Rental income	$ 525,886.00	$ 119,644.00	$ 645,530.00
Rental assistance	284,556.00	48,519.80	333,075.80
Other income	57,588.64	8,899.29	66,487.93
TOTAL OPERATING REVENUES	868,030.64	177,063.09	1,045,093.73
OPERATING EXPENSES			
Administrative	253,843.94	27,508.22	281,352.16
Tenant services	3,875.98	-	3,875.98
Utilities	190,193.91	31,334.02	221,527.93
Ordinary maintenance and operations	254,872.82	41,982.66	296,855.48
Protective services	10,879.00	-	10,879.00
General expense	122,434.22	19,168.92	141,603.14
Depreciation	266,890.14	66,823.60	333,713.74
TOTAL OPERATING EXPENSES	1,102,990.01	186,817.42	1,289,807.43
OPERATING INCOME (LOSS)	(234,959.37)	(9,754.33)	(244,713.70)
NONOPERATING REVENUES (EXPENSES)			
HUD operating subsidy	155,649.00	-	155,649.00
HUD capital fund grants	70,000.00	-	70,000.00
Interest income	1,373.64	51.01	1,424.65
USDA interest subsidy	-	34,187.76	34,187.76
Interest expense	(20,837.48)	(65,707.90)	(86,545.38)
TOTAL NONOPERATING REVENUES(EXPENSES)	206,185.16	(31,469.13)	174,716.03
INCOME(LOSS) BEFORE CONTRIBUTIONS AND SPECIAL ITEMS	(28,774.21)	(41,223.46)	(69,997.67)
CONTRIBUTIONS			
HUD capital fund grants	44,665.00	-	44,665.00
SPECIAL ITEMS			
Nonroutine maintenance	(5,343.85)	-	(5,343.85)
INCREASE (DECREASE) IN NET POSITION	10,546.94	(41,223.46)	(30,676.52)
NET POSITION:			
Net position, beginning balance	3,336,361.06	323,520.79	3,659,881.85
TOTAL NET ASSETS - ENDING POSITION	$ 3,346,908.00	$ 282,297.33	$ 3,629,205.33

See accompanying notes.

HOUSING AUTHORITY OF THE CITY OF STERLING, COLORADO
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
Year Ended March 31, 2018

	Housing	Platte Valley Village	Totals
CASH FLOWS FROM OPERATING ACTIVITIES:			
Tenant receipts	$ 546,304.43	$ 125,090.45	$ 671,394.88
Rental assistance receipts	284,556.00	52,392.80	336,948.80
Other receipts	23,400.00	-	23,400.00
Trust and deposits	(465.00)	1,558.36	1,093.36
Cash payments for goods and services	(500,630.75)	(85,597.59)	(586,228.34)
Cash payments to employees for services	(320,916.67)	(33,163.35)	(354,080.02)
NET CASH PROVIDED USED BY OPERATING ACTIVITIES	32,248.01	60,280.67	92,528.68
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
HUD operating subsidy	192,029.40		192,029.40
HUD capital fund grants	60,000.00	-	60,000.00
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	252,029.40	-	252,029.40
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Purchases and construction of capital assets	(89,579.09)	-	(89,579.09)
HUD capital fund grants	54,069.00	-	54,069.00
Nonroutine maintenance	(5,343.85)	-	(5,343.85)
Principal paid on mortgage payable	(34,333.30)	(10,277.76)	(44,611.06)
Interest paid on capital debt	(20,937.62)	(27,097.24)	(48,034.86)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(96,124.86)	(37,375.00)	(133,499.86)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest received	1,373.64	51.01	1,424.65
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	1,373.64	51.01	1,424.65
NET INCREASE (DECREASE) IN CASH	189,526.19	22,956.68	212,482.87
CASH AND CASH EQUIVALENTS-BEGINNING	1,623,904.83	127,970.85	1,751,875.68
CASH AND CASH EQUIVALENTS-ENDING	$ 1,813,431.02	$ 150,927.53	$ 1,964,358.55
RECONCILIATION OF INCOME (LOSS) FROM OPERATIONS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating income (loss)	$ (234,959.37)	$ (9,754.33)	$ (244,713.70)
Adjustments to reconcile income from operations to net cash provided by operating activities:			
Depreciation	266,890.14	66,823.60	333,713.74
Change in assets and liabilities:			
(Increase) decrease in accounts receivable	398.52	339.69	738.21
(Increase) decrease in due from other governments	-	3,873.00	3,873.00
(Increase) decrease in prepaid insurance	(1,857.90)	(318.83)	(2,176.73)
Increase (decrease) in accounts payable	1,731.71	(137.00)	1,594.71
Increase (decrease) in accrued wages and benefits payable	25.80	(26.29)	(0.49)
Increase (decrease) in accrued leave	1,969.00	(1,721.00)	248.00
Increase (decrease) in due to governments	(573.25)	-	(573.25)
Increase (decrease) in trust and deposit liabilities	(465.00)	1,558.36	1,093.36
Increase (decrease) in unearned revenue	(911.64)	(356.53)	(1,268.17)
NET CASH PROVIDED USED BY OPERATING ACTIVITIES	$ 32,248.01	$ 60,280.67	$ 92,528.68

See accompanying notes.

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Authority was created under the laws of the State of Colorado. The purpose of the Authority is to administer the housing programs authorized by the Quality Housing and Work Responsibility Act of 1998. These programs are subsidized by the Federal Government through the U.S. Department of Housing and Urban Development (HUD) and the U.S. Department of Agriculture.

The basic financial statements of the Authority have been prepared in accordance with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board ("GASB") is the standard-setting body for governmental accounting and financial reporting.

Financial Reporting Entity

In determining how to define the reporting entity, management has considered all potential component units. The decision whether to include a component unit in the reporting entity was made by applying the criteria set forth in Section 2100 and 2600 of the Government Accounting Standards Board Codification. These criteria state that the financial reporting entity consist of the primary government and organizations for which the primary government is financially accountable. In addition, the primary government may determine, through exercise of management's professional judgment, that the inclusion of an organization that does not meet the financial accountability criteria is necessary in order to prevent the reporting entity's basic financial statements from being misleading. In such instances, that organization should be included as a component unit. Based on these criteria, there are no additional agencies or entities which should be included in the basic financial statements of the Authority.

Basis of accounting, measurement focus, and financial statement presentation

The accounts of the Authority are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, deferred out flows of resources, liabilities, deferred inflows of resources, fund net position, revenues and expenditures or expenses, as appropriate.

Proprietary funds are accounted for using the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all assets, deferred outflow of resources, liabilities and deferred inflow of resources are included in the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Fund Net Position presents increases (revenues) and decreases (expenses) in net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

The Authority distinguishes between operating and nonoperating revenues and expenses in its Statement of Revenues, Expenses and Changes in Fund Net Position. For this purpose, the Authority's operating revenues result from providing low-income housing services such as tenant rent, rental assistance and other tenant charges. Operating expenses include the cost attributed to administration, tenant services, utilities, maintenance and operations and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

Proprietary Fund Financial Statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Fund Net Position, and a Statement of Cash Flows for each major proprietary fund and non-major funds aggregated.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

The reporting model as defined in Statement No. 34 and modified establishes criteria (percentage of the combined assets and deferred outflows of resources, combined liabilities and deferred inflows of resources, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for determination of major Funds. If non-major funds exist, these funds are combined in a single column in the fund financial statements.

The Authority reports the following major enterprise funds:

Housing. This fund accounts for the operation, maintenance, and development of housing units of the Public Housing program, Section 8 Administration program and the MacLaren House program.

Platte Valley Village. This fund accounts for the operation, maintenance, and development of housing units of the Platte Valley Village.

Budgetary Process

The Authority establishes a budget for the fiscal year and is adopted by the Board of Commissioners.

Estimates

The preparation of basic 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, expenses, and other disclosures. Accordingly, actual results could differ from those estimates.

Cash and Investments

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 Cash Investments are available upon demand and are considered to be "cash equivalents" when preparing these basic 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 to be "cash equivalents".

The Authority's deposits can only be invested in the following HUD approved investments: direct obligations of the federal government backed by the full faith and credit of the United States, obligations of federal government agencies, securities of government-sponsored agencies, demand and savings deposits, money-market deposit accounts, municipal depository fund, super now accounts, certificate of deposit, repurchase agreements, sweep accounts, separate trading of registered interest and principal securities (STRIPS), and mutual funds that consist of securities purchased from the HUD approved list.

Accounts Receivable

All receivables are current and therefore due within one year. Receivables are reported net of an allowance for uncollectible accounts and revenues net of uncollectibles. Allowances are reported when accounts are proven to be uncollectible.

Prepaid Items

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

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Capital Assets and Depreciation

Property and equipment are stated at actual or estimated historical cost, net of accumulated depreciation. Contributions of assets are recorded at acquisition value at the date received. The Authority generally capitalized assets with a cost of $1,000 or more as purchases and construction outlays occur.

Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Buildings and improvements	10-40 years
Furniture and fixtures	5-10 years
Equipment	3-10 years

Use of Restricted/Unrestricted Net Position

When an expense is incurred for purposes for which both restricted and unrestricted components of net position are available, the Authority's policy is to apply restricted first.

Investment Income

Investment income from pooled cash and investments is allocated monthly based on the percentage of a fund's average pooled cash and investments balance.

Compensated Absences

The Authority's policy allows employees to accumulate vacation leave not to exceed 30 working days. Sick leave may not be accumulated.

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 unearned revenue.

Postemployment Benefits Other Than Pensions (OPEB)

OPEB benefits are part of an exchange of salaries and/or benefits in a future period as the result of employee services rendered during employment. In accordance with the accrual basis of accounting, generally benefits should be associated with the periods in which the exchange occurs, rather than with the periods when benefits are paid or provided. The Authority has not incurred, adopted a plan or obligated resources to other postemployment benefits as defined in GASB Statement No. 45.

Income Taxes

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

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Leases

The majority of leases and subleases are short-term operating leases.

Taxpayer's Bill of Rights

In November, 1992, the voters of the State of Colorado approved an amendment to the State's Constitution limiting the amount of revenue which may be spent or retained by Colorado governmental entities. The amendment is in effect for most governmental entities for the years beginning after 1992, but exempts "enterprise" funds from the limitations. The Board of Commissioners of the Authority believes it is exempt form the provisions of the TABOR amendment because it is an "enterprise" (a business operation able to issue its own revenue bonds and receiving less than 10% of its revenue from state and local grants) as defined in the constitutional amendment. The Board also believes it is not subject to the provisions of TABOR because the governing board is not an elected board, does not have an electoral constituency, and does not have the power to impose taxes, all basic operational requirements of TABOR.

NOTE B - DEPOSITS AND INVESTMENTS

Deposits

At March 31, 2018, the Authority's carrying amount of deposits was $2,157,596.65 and the bank balances were $2,166,092.57. The Authority had cash on hand of $500 as of March 31, 2018.

As required by the Colorado Public Deposit Protection Act (PDPA), any amount in excess of $250,000 (including accrued interest) shall be collateralized as required by the Public Deposit Protection Acts, article 10.5 of title 11, C.R.S., as amended or article 47 of title 11, C.R.S, as amended. The entire balance was covered FDIC insurance and the Public Deposit Protection Act.

Investments

At March 31, 2018, the Authority had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities Less Than 1 Year
Colotrust Prime	$ 107,223.88	$ 107,223.88

Interest Rate Risk: The Authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk: The Authority has no investment policy that would limit its investment choices. At March 31, 2018, the Authority's investment in the Colotrust Fund was rated AAAm by Standard & Poor's.

The Colotrust Prime invests in U.S. Treasury securities, federal instrumentality securities, U.S. agency securities, collateralized bank deposits, repurchase agreements and tri-party repurchase agreements.

NOTE B - DEPOSITS AND INVESTMENTS (CONT'D)

Concentration of Credit Risk: The Authority places no limit on the amount the Authority may invest in any one issuer.

A reconciliation of cash and investments as shown on the Statement of Net Position is as follows:

Statement of Net Position		
Cash and cash equivalents	$	1,645,044.14
Investments		300,961.98
Restricted cash – current		62,029.73
Restricted cash - noncurrent		257,284.68
	$	2,265,320.53
Bank deposits	$	2,157,596.65
Investments		107,223.88
Cash on hand		500.00
	$	2,265,320.53

NOTE C – ACCOUNTS RECEIVABLE

A summary of accounts receivable as presented in the Statement of Net Position at March 31, 2018 is as follows:

		Housing		Platte Valley Village		Total
Tenant receivables	$	1,083.13	$	1,165.96	$	2,249.09
Miscellaneous		1,351.15		-		1,351.15
Allowance for doubtful accounts		-		-		-
	$	2,434.28	$	1,165.96	$	3,600.24

NOTE D – DUE FROM OTHER GOVERNMENTS

A summary of due from other governments as presented in the Statement of Net Position at March 31, 2018 is as follows:

		Housing
HUD - Operating Subsidy	$	34,096.00
HUD - Capital Funds		98,640.00
	$	132,736.00

NOTE E—RESTRICTED ASSETS

The Authority's restricted cash and cash equivalents at March 31, 2018 which were restricted for:

	Housing	Platte Valley Village	Total
Tenant security deposits	$ 46,610.52	$ 15,419.21	$ 62,029.73
Replacement reserves	167,627.64	64,055.98	231,683.62
Residual receipts	5,643.18	1,004.61	6,647.79
Insurance escrow	14,838.11	4,115.16	18,953.27
	$ 234,719.45	$ 84,594.96	$ 319,314.41

NOTE F – CAPITAL ASSETS

Capital asset activity for the year ended March 31, 2018, was as follows:

	Balance 4/1/2017	Increases	Decreases	Balance 3/31/2018
Non-depreciable assets:				
Land	$ 355,714.83	$ -	$ -	$ 355,714.83
Construction in progress	73,044.00	28,640.00	(73,044.00)	28,640.00
Total non-depreciable assets	428,758.83	28,640.00	(73,044.00)	384,354.83
Depreciable assets				
Buildings	9,266,445.90	126,853.09	-	9,393,298.99
Equipment - Dwelling	132,075.50	-	-	132,075.50
Equipment - Administration	86,415.72	7,130.00	-	93,545.72
Total depreciable assets	9,484,937.12	133,983.09	-	9,618,920.21
Total Capital Assets	9,913,695.95	162,623.09	(73,044.00)	10,003,275.04
Accumulated depreciation				
Buildings	6,575,585.76	319,810.31	-	6,895,396.07
Equipment - Dwelling	71,621.23	8,319.10	-	79,940.33
Equipment - Administration	74,479.97	5,584.33	-	80,064.30
Total accumulated depreciation	6,721,686.96	333,713.74	-	7,055,400.70
Depreciable assets, net	2,763,250.16	(199,730.65)	-	2,563,519.51
Capital assets, net	$ 3,192,008.99	$ (171,090.65)	$ (73,044.00)	$ 2,947,874.34

NOTE G – ACCOUNTS PAYABLE

A summary of accounts payable as presented in the Statement of Net Position at March 31, 2018 is as follows:

	Housing
Vendor and contractors	$ 12,995.88

NOTE H – DUE TO OTHER GOVERNMENTS

A summary of due to other governments as presented in the Statement of Net Position at March 31, 2018 is as follows:

		Housing
Payments in lieu of taxes	$	21,972.31

NOTE I – UNEARNED REVENUE

A summary of unearned revenue as presented in the Statement of Net Position at March 31, 2018 is as follows:

		Housing
Prepaid rent	$	2,277.52

NOTE J—LONG TERM DEBT

MacLaren House – The first mortgage payable as of March 31, 2018, represents permanent loan from the Colorado Housing Finance Authority under the SMART program with an original loan amount of $893,000 date March 15, 2001. The loan is due April 1, 2031 and had an annual interest rate of 6.35% which was modified to 6% on August 1, 2015 and then modified again to 3.5% on June 1, 2016. The loan requires monthly payment of $4,605.91. Principal and accrued interest payable at March 31, 2018 were $579,521.01 and $1,690.27, respectively.

Platte Valley Village – The following is a summary of the mortgages related to the program known as Platte Valley Village:

CHFA Loan: The Authority refinanced the original note payable dated November 26, 1996 to the Colorado Housing and Finance Authority on November 1, 2003. The new note bears interest at 6.5% and is due August 1, 2031. The note requires monthly payments of $3,036.76. The note is secured by a first deed of trust. On August 17, 2017, the Authority elected to default on the loan. The Authority has been trying to either sell the property or transfer ownership but has been unable to receive approval USDA Rural Development which holds a secondary mortgage. As a result of this, Colorado Housing and Finance Authority filed a complaint in court for which the court approved the appointment of a receiver on February 7, 2018. This resulted in the Authority being required to hand over all records for the project and the Authority no longer managed the project after this date. The principal balance outstanding and accrued interest payable at March 31, 2018 were $363,559.04 and $2,532.28, respectively.

USDA Loan: The Authority refinanced the original construction of subsidized rental housing through a subsidized interest mortgage note from the USDA Rural Development dated August 14, 1996 for $702,488.88. This note bears interest at 8.00%, however the Authority only pays 1% and the difference is subsidized by USDA. The loan is secured by a second deed of trust. The loan had an outstanding balance at March 31, 2018 of $642,573.87. Principal and interest is payable in monthly installments of $1,033.

CHFA Loan: The Authority had an original note payable dated August 14, 1996 to the Colorado Housing and Finance Authority with an original amount of $60,000 which was modified on September 30, 2011. The modified note bears interest at 1% and was due October 1, 2017 and is secured by a third deed of trust. On August 17, 2017, the Authority elected to default on the loan. The Authority has been trying to either sell the property or transfer ownership but has been unable to receive approval USDA Rural Development which holds a secondary mortgage. As a result of this, Colorado Housing and Finance Authority filed a complaint

NOTE J—LONG TERM DEBT (CONT'D)

in court for which the court approved the appointment of a receiver on February 7, 2018. This resulted in the Authority being required to hand over all records for the project and the Authority no longer managed the project after this date. The principal balance outstanding at March 31, 2018 were $28,204.78.

A summary of changes in notes payable as of March 31, 2018 is as follows:

	Beginning Balance	Issued	Retired	Ending Balance	Due Within 1 Year
Long-term debt	$ 1,658,469.76	$ --	$ (44,611.06)	$ 1,613,858.70	$ 83,040.69

The principal and interest scheduled to be retired on these notes is as follows:

	Principal	Interest	Total
2019	$ 83,040.69	$ 94,145.29	$ 177,185.98
2020	57,489.28	91,491.92	148,981.20
2021	60,288.74	88,692.46	148,981.20
2022	63,243.32	85,737.88	148,981.20
2023	66,362.68	82,618.52	148,981.20
2024 - 2028	938,318.87	292,207.23	1,230,526.10
2029 - 2032	345,115.12	45,120.53	390,235.65
	$ 1,613,858.70	$ 780,013.83	$ 2,393,872.53

NOTE K--RETIREMENT PLAN

The Housing Authority participates in a qualified simplified employee pension plan. All eligible employees must participate. Eligible employees must be at least 21 and has performed services for the Authority in at least 3 of the preceding 5 years. The Housing Authority contributes an amount equal to 3.00% of the member's pay for the pay period. The total Housing Authority contribution was $7,481.54 for the fiscal year ended March 31, 2018 based on wages of $249,384.67. Total wages for the Authority was $272,682.70.

NOTE L—NET POSITION

The fund financial statements utilize a net position presentation. The components of net position are net investment in capital assets, restricted and unrestricted.

- ***Net Investment in Capital Assets*** – This component consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets, if any. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position.

- ***Restricted*** – This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

NOTE L—NET POSITION (CONT'D)

- ***Unrestricted*** – The unrestricted component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

The Authority has restricted net position in the following categories:

	Housing	Platte Valley Village	Total
Replacement reserves	$ 167,627.64	$ 64,055.98	$ 231,683.62
Residual receipts	5,643.18	1,004.61	6,647.79
Insurance escrow	14,838.11	4,115.16	18,953.27
	$ 188,108.93	$ 69,175.75	$ 257,284.68

NOTE M – RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets, errors and omissions; injuries to employees; and natural disasters for which the Authority purchases commercial insurance.

During the year ended March 31, 2018, the Authority did not reduce insurance coverage from levels in place during the prior year. No settlements have exceeded coverage levels in place during the past three fiscal years.

NOTE N – CONTINGENT LIABILITIES

The Authority receives revenues from various federal and state grant programs, which are subject to audit and adjustment by the respective grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable fund. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time, although the Authority expects such amounts, if any, to be immaterial.

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SUPPLEMENTAL INFORMATION

HOUSING AUTHORITY OF THE CITY OF STERLING, COLORADO
PROGRAM SCHEDULE OF NET POSITION
March 31, 2018

ASSETS	Public Housing	Section 8 Administration	MacLaren	Totals
CURRENT ASSETS:				
Cash and cash equivalents	$ 933,333.19	$ 50,417.51	$ 594,960.87	$ 1,578,711.57
Investments	300,961.98	-	-	300,961.98
Accounts receivable, net	2,355.28	-	79.00	2,434.28
Due from other governments	132,736.00	-	-	132,736.00
Accrued interest receivable	1.24	-	-	1.24
Prepaid insurance	18,269.74	-	4,406.09	22,675.83
Restricted:				
Cash and cash equivalents	32,805.52	-	13,805.00	46,610.52
TOTAL CURRENT ASSETS	1,420,462.95	50,417.51	613,250.96	2,084,131.42
NONCURRENT ASSETS:				
Restricted:				
Cash and cash equivalents	-	-	188,108.93	188,108.93
Capital Assets, non-depreciable	166,657.40	-	94,394.49	261,051.89
Capital Assets, depreciable, net	912,821.19	-	591,276.66	1,504,097.85
TOTAL NONCURRENT ASSETS	1,079,478.59	-	873,780.08	1,953,258.67
TOTAL ASSETS	$ 2,499,941.54	$ 50,417.51	$ 1,487,031.04	$ 4,037,390.09
LIABILITIES				
CURRENT LIABILITIES:				
Accounts payable	$ 9,076.63	$ -	$ 3,919.25	$ 12,995.88
Accrued wages and benefits payable	225.33	-	94.25	319.58
Compensated absences payable	16,562.00	-	8,533.00	25,095.00
Due to other governments	21,972.31	-	-	21,972.31
Accrued interest payable	-	-	1,690.27	1,690.27
Unearned revenue	1,664.27	-	613.25	2,277.52
Trust and deposit liabilities	32,805.52	-	13,805.00	46,610.52
Current portion long-term debt	-	-	35,554.44	35,554.44
TOTAL CURRENT LIABILITIES	82,306.06	-	64,209.46	146,515.52
NONCURRENT LIABILITIES				
Mortgage payable	-	-	543,966.57	543,966.57
TOTAL NONCURRENT LIABILITIES	-	-	543,966.57	543,966.57
TOTAL LIABILITIES	82,306.06	-	608,176.03	690,482.09
NET POSITION				
Net investment in capital assets	1,079,478.59	-	106,150.14	1,185,628.73
Restricted	-	-	188,108.93	188,108.93
Unrestricted	1,338,156.89	50,417.51	584,595.94	1,973,170.34
TOTAL NET POSITION	$ 2,417,635.48	$ 50,417.51	$ 878,855.01	$ 3,346,908.00

HOUSING AUTHORITY OF THE CITY OF STERLING, COLORADO
PROGRAM SCHEDULE OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
Year Ended March 31, 2018

	Public Housing	Section 8 Administration	MacLaren	Totals
OPERATING REVENUES				
Rental income	$ 347,813.00	$ -	$ 178,073.00	$ 525,886.00
Rental assistance	-	-	284,556.00	284,556.00
Other income	24,367.56	-	33,221.08	57,588.64
TOTAL OPERATING REVENUES	372,180.56	-	495,850.08	868,030.64
OPERATING EXPENSES				
Administrative	167,292.68	103.00	86,448.26	253,843.94
Tenant services	3,543.96	-	332.02	3,875.98
Utilities	134,218.02	-	55,975.89	190,193.91
Ordinary maintenance and operations	164,806.92	-	90,065.90	254,872.82
Protective services	6,280.00	-	4,599.00	10,879.00
General expense	96,225.53	-	26,208.69	122,434.22
Depreciation	174,968.70	-	91,921.44	266,890.14
TOTAL OPERATING EXPENSES	747,335.81	103.00	355,551.20	1,102,990.01
OPERATING INCOME (LOSS)	(375,155.25)	(103.00)	140,298.88	(234,959.37)
NONOPERATING REVENUES (EXPENSES)				
HUD operating subsidy	155,649.00	-	-	155,649.00
HUD capital fund grants	70,000.00	-	-	70,000.00
Interest income	1,148.46	0.50	224.68	1,373.64
USDA interest subsidy	-	-	-	-
Interest expense	-	-	(20,837.48)	(20,837.48)
TOTAL NONOPERATING REVENUES(EXPENSES)	226,797.46	0.50	(20,612.80)	206,185.16
INCOME(LOSS) BEFORE CONTRIBUTIONS AND SPECIAL ITEMS	(148,357.79)	(102.50)	119,686.08	(28,774.21)
CONTRIBUTIONS				
HUD capital fund grants	44,665.00	-	-	44,665.00
SPECIAL ITEMS				
Nonroutine maintenance	-	-	(5,343.85)	(5,343.85)
INCREASE (DECREASE) IN NET POSITION	(103,692.79)	(102.50)	114,342.23	10,546.94
NET POSITION:				
Net position, beginning balance	2,521,328.27	50,520.01	764,512.78	3,336,361.06
TOTAL NET POSITION - ENDING BALANCE	$ 2,417,635.48	$ 50,417.51	$ 878,855.01	$ 3,346,908.00

HOUSING AUTHORITY OF THE CITY OF STERLING, COLORADO
PROGRAM SCHEDULE OF CASH FLOWS
Year Ended March 31, 2018

	Public Housing	Section 8 Administration	MacLaren	Totals
CASH FLOWS FROM OPERATING ACTIVITIES:				
Tenant receipts	$ 361,784.47	$ -	$ 184,519.96	$ 546,304.43
Rental assistance receipts	-	-	284,556.00	284,556.00
Other income	-	-	23,400.00	23,400.00
Trust and deposits	(493.00)	-	28.00	(465.00)
Cash payments for goods and services	(351,679.93)	(103.00)	(148,847.82)	(500,630.75)
Cash payments to employees for services	(212,329.35)	-	(108,587.32)	(320,916.67)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(202,717.81)	(103.00)	235,068.82	32,248.01
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
HUD operating subsidy	192,029.40	-	-	192,029.40
HUD capital fund grants	60,000.00	-	-	60,000.00
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	252,029.40	-	-	252,029.40
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Purchases and construction of capital assets	(73,925.38)	-	(15,653.71)	(89,579.09)
HUD capital fund grants	54,069.00	-	-	54,069.00
Nonroutine maintenance	-	-	(5,343.85)	(5,343.85)
Principal paid on mortgage payable	-	-	(34,333.30)	(34,333.30)
Interest paid on capital debt	-	-	(20,937.62)	(20,937.62)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(19,856.38)	-	(76,268.48)	(96,124.86)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest received	1,148.46	0.50	224.68	1,373.64
NET CASH PROVIDED (USED) IN INVESTING ACTIVITIES	1,148.46	0.50	224.68	1,373.64
NET INCREASE (DECREASE) IN CASH	30,603.67	(102.50)	159,025.02	189,526.19
CASH AND CASH EQUIVALENTS-BEGINNING	935,535.04	50,520.01	637,849.78	1,623,904.83
CASH AND CASH EQUIVALENTS-ENDING	$ 966,138.71	$ 50,417.51	$ 796,874.80	$ 1,813,431.02

	Public Housing	Section 8 Administration	MacLaren	Totals
RECONCILIATION OF INCOME (LOSS) FROM OPERATIONS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:				
Operating income (loss)	$ (375,155.25)	$ (103.00)	$ 140,298.88	$ (234,959.37)
Adjustments to reconcile income from operations to net cash provided by operating activities:				
Depreciation	174,968.70	-	91,921.44	266,890.14
Change in assets and liabilities:				
(Increase) decrease in accounts receivable	453.52	-	(55.00)	398.52
(Increase) decrease in prepaid insurance	(2,980.13)	-	1,122.23	(1,857.90)
Increase (decrease) in accounts payable	297.51	-	1,434.20	1,731.71
Increase (decrease) in accrued wages and benefits payable	16.98	-	8.82	25.80
Increase (decrease) in accrued leave	1,132.00	-	837.00	1,969.00
Increase (decrease) in due to governments	(573.25)	-	-	(573.25)
Increase (decrease) in trust and deposit liabilities	(493.00)	-	28.00	(465.00)
Increase (decrease) in unearned revenue	(384.89)	-	(526.75)	(911.64)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	$ (202,717.81)	$ (103.00)	$ 235,068.82	$ 32,248.01

Housing Authority of the City of Sterling (CO025)
STERLING, CO
Entity Wide Balance Sheet Summary

Submission Type: Audited/Single Audit Fiscal Year End: 03/31/2018

	Project Total	14.195 Section 8 Housing Assistance Payments Program_Special Allocations	10.415 Rural Rental Housing Loans	10.427 Rural Rental Assistance Payments	1 Business Activities	Subtotal	Total
111 Cash - Unrestricted	$933,333	$594,961	$66,331		$50,418	$1,645,043	$1,645,043
113 Cash - Other Restricted		$188,109	$69,176			$257,285	$257,285
114 Cash - Tenant Security Deposits	$32,806	$13,805	$15,419			$62,030	$62,030
100 Total Cash	$966,139	$796,875	$150,926	$0	$50,418	$1,964,358	$1,964,358
122 Accounts Receivable - HUD Other Projects	$132,736					$132,736	$132,736
125 Accounts Receivable - Miscellaneous	$1,351					$1,351	$1,351
126 Accounts Receivable - Tenants	$1,004	$79	$1,166			$2,249	$2,249
129 Accrued Interest Receivable	$1					$1	$1
120 Total Receivables, Net of Allowances for Doubtful Accounts	$135,092	$79	$1,166	$0	$0	$136,337	$136,337
131 Investments - Unrestricted	$300,962					$300,962	$300,962
142 Prepaid Expenses and Other Assets	$18,270	$4,406	$3,123			$25,799	$25,799
150 Total Current Assets	$1,420,463	$801,360	$155,215	$0	$50,418	$2,427,456	$2,427,456
161 Land	$138,017	$94,394	$123,303			$355,714	$355,714
162 Buildings	$4,936,706	$2,220,554	$2,236,039			$9,393,299	$9,393,299
163 Furniture, Equipment & Machinery - Dwellings	$68,999	$57,976	$5,101			$132,076	$132,076
164 Furniture, Equipment & Machinery - Administration	$79,576	$12,937	$1,034			$93,547	$93,547
166 Accumulated Depreciation	-$4,172,459	-$1,700,190	-$1,182,752			-$7,055,401	-$7,055,401
167 Construction in Progress	$28,640					$28,640	$28,640
160 Total Capital Assets, Net of Accumulated Depreciation	$1,079,479	$685,671	$1,182,725	$0	$0	$2,947,875	$2,947,875
180 Total Non-Current Assets	$1,079,479	$685,671	$1,182,725	$0	$0	$2,947,875	$2,947,875
290 Total Assets and Deferred Outflow of Resources	$2,499,942	$1,487,031	$1,337,940	$0	$50,418	$5,375,331	$5,375,331
312 Accounts Payable <= 90 Days	$408	$278				$686	$686
321 Accrued Wage/Payroll Taxes Payable	$225	$94				$319	$319
322 Accrued Compensated Absences - Current Portion	$16,562	$8,533				$25,095	$25,095
325 Accrued Interest Payable		$1,690	$5,887			$7,577	$7,577
333 Accounts Payable - Other Government	$21,972					$21,972	$21,972
341 Tenant Security Deposits	$32,806	$13,805	$15,419			$62,030	$62,030
342 Unearned Revenue	$1,664	$613				$2,277	$2,277
343 Current Portion of Long-term Debt - Capital Projects/Mortgage Revenue		$35,554	$47,486			$83,040	$83,040
346 Accrued Liabilities - Other	$8,669	$3,642				$12,311	$12,311
310 Total Current Liabilities	$82,306	$64,209	$68,792	$0	$0	$215,307	$215,307
351 Long-term Debt, Net of Current - Capital Projects/Mortgage Revenue		$543,967	$986,851			$1,530,818	$1,530,818
350 Total Non-Current Liabilities	$0	$543,967	$986,851	$0	$0	$1,530,818	$1,530,818
300 Total Liabilities	$82,306	$608,176	$1,055,643	$0	$0	$1,746,125	$1,746,125
508.4 Net Investment in Capital Assets	$1,079,479	$106,150	$148,387			$1,334,016	$1,334,016
511.4 Restricted Net Position		$188,109	$69,176			$257,285	$257,285
512.4 Unrestricted Net Position	$1,338,157	$584,596	$64,734	$0	$50,418	$2,037,905	$2,037,905
513 Total Equity - Net Assets / Position	$2,417,636	$878,855	$282,297	$0	$50,418	$3,629,206	$3,629,206
600 Total Liabilities, Deferred Inflows of Resources and Equity - Net	$2,499,942	$1,487,031	$1,337,940	$0	$50,418	$5,375,331	$5,375,331

Housing Authority of the City of Sterling (CO025)
STERLING, CO
Entity Wide Revenue and Expense Summary

Submission Type: Audited/Single Audit Fiscal Year End: 03/31/2018

	Project Total	14.195 Section 8 Housing Assistance Payments Program_Special Allocations	10.415 Rural Rental Housing Loans	10.427 Rural Rental Assistance Payments	1 Business Activities	Subtotal	ELIM	Total
70300 Net Tenant Rental Revenue	$347,813	$178,073	$119,644			$645,530		$645,530
70400 Tenant Revenue - Other	$24,367	$9,821	$8,899			$43,087		$43,087
70500 Total Tenant Revenue	$372,180	$187,894	$128,543	$0	$0	$688,617	$0	$688,617
70600 HUD PHA Operating Grants	$225,649	$284,556				$510,205		$510,205
70610 Capital Grants	$44,665					$44,665		$44,665
70800 Other Government Grants			$34,188	$48,520		$82,708		$82,708
71100 Investment Income - Unrestricted	$1,148	$107	$4		$1	$1,260		$1,260
71500 Other Revenue		$23,400				$23,400		$23,400
72000 Investment Income - Restricted		$118	$47			$165		$165
70000 Total Revenue	$643,642	$496,075	$162,782	$48,520	$1	$1,351,020	$0	$1,351,020
91100 Administrative Salaries	$104,712	$52,839	$18,761			$176,312		$176,312
91200 Auditing Fees	$5,500	$2,500	$450			$8,450		$8,450
91400 Advertising and Marketing	$2,378	$1,129	$88			$3,595		$3,595
91500 Employee Benefit contributions - Administrative	$32,871	$16,558	$2,004			$51,433		$51,433
91600 Office Expenses	$14,164	$9,575	$3,748			$27,487		$27,487
91700 Legal Expense	$2,029	$709	$728			$3,466		$3,466
91800 Travel	$136					$136		$136
91900 Other	$5,501	$3,142	$1,728		$103	$10,474		$10,474
91000 Total Operating - Administrative	$167,291	$86,452	$27,507	$0	$103	$281,353	$0	$281,353
92100 Tenant Services - Salaries	$2,880					$2,880		$2,880
92400 Tenant Services - Other	$664	$332				$996		$996
92500 Total Tenant Services	$3,544	$332	$0	$0	$0	$3,876	$0	$3,876
93100 Water	$30,484	$26,822	$26,915			$84,221		$84,221
93200 Electricity	$59,120	$21,713	$2,310			$83,143		$83,143
93300 Gas	$13,313	$7,441	$2,109			$22,863		$22,863
93600 Sewer	$31,301					$31,301		$31,301
93000 Total Utilities	$134,218	$55,976	$31,334	$0	$0	$221,528	$0	$221,528
94100 Ordinary Maintenance and Operations - Labor	$56,901	$29,846	$9,624			$96,371		$96,371
94200 Ordinary Maintenance and Operations - Materials and Other	$30,771	$18,772	$6,779			$56,322		$56,322
94300 Ordinary Maintenance and Operations Contracts	$59,273	$32,093	$24,553			$115,919		$115,919
94500 Employee Benefit Contributions - Ordinary Maintenance	$17,862	$9,353	$1,028			$28,243		$28,243
94000 Total Maintenance	$164,807	$90,064	$41,984	$0	$0	$296,855	$0	$296,855
95200 Protective Services - Other Contract Costs	$6,280	$4,599				$10,879		$10,879
95000 Total Protective Services	$6,280	$4,599	$0	$0	$0	$10,879	$0	$10,879
96110 Property Insurance	$52,906	$17,632	$14,013			$84,551		$84,551
96120 Liability Insurance	$2,661	$1,331				$3,992		$3,992
96130 Workmen's Compensation	$4,836	$2,989	$1,720			$9,545		$9,545
96140 All Other Insurance	$2,253	$627				$2,880		$2,880
96100 Total insurance Premiums	$62,656	$22,579	$15,733	$0	$0	$100,968	$0	$100,968
96210 Compensated Absences	$1,132	$837				$1,969		$1,969
96300 Payments in Lieu of Taxes	$21,972					$21,972		$21,972
96400 Bad debt - Tenant Rents	$10,465	$2,792	$3,436			$16,693		$16,693
96000 Total Other General Expenses	$33,569	$3,629	$3,436	$0	$0	$40,634	$0	$40,634
96710 Interest of Mortgage (or Bonds) Payable		$20,837	$65,708			$86,545		$86,545
96700 Total Interest Expense and Amortization Cost	$0	$20,837	$65,708	$0	$0	$86,545	$0	$86,545
96900 Total Operating Expenses	$572,365	$284,468	$185,702	$0	$103	$1,042,638	$0	$1,042,638
97000 Excess of Operating Revenue over Operating Expenses	$71,277	$211,607	-$22,920	$48,520	-$102	$308,382	$0	$308,382
97400 Depreciation Expense	$174,969	$91,921	$66,824			$333,714		$333,714
90000 Total Expenses	$747,334	$376,389	$252,526	$0	$103	$1,376,352	$0	$1,376,352
10010 Operating Transfer In	$70,000		$48,520			$118,520	-$118,520	$0
10020 Operating transfer Out	-$70,000			-$48,520		-$118,520	$118,520	$0
10080 Special Items (Net Gain/Loss)		-$5,344				-$5,344		-$5,344
10100 Total Other financing Sources (Uses)	$0	-$5,344	$48,520	-$48,520	$0	-$5,344	$0	-$5,344
10000 Excess (Deficiency) of Total Revenue Over (Under) Total Expenses	-$103,692	$114,342	-$41,224	$0	-$102	-$30,676	$0	-$30,676
11020 Required Annual Debt Principal Payments	$0	$34,333	$9,963	$0	$0	$44,296		$44,296
11030 Beginning Equity	$2,521,328	$764,513	$323,521	$0	$50,520	$3,659,882		$3,659,882
11190 Unit Months Available	1320	648	384			2352		2352
11210 Number of Unit Months Leased	1284	628	335			2247		2247
11270 Excess Cash	$1,272,190					$1,272,190		$1,272,190
11620 Building Purchases	$70,360					$70,360		$70,360
11640 Furniture & Equipment - Administrative Purchases	$3,565					$3,565		$3,565

Housing Authority of the City of Sterling (CO025)
STERLING, CO
Single Project Revenue and Expense

Submission Type: Audited/Single Audit   Fiscal Year End: 03/31/2018   Project: CO025000001 STERLING

	Low Rent	Capital Fund	Total Project
70300 Net Tenant Rental Revenue	$347,813		$347,813
70400 Tenant Revenue - Other	$24,367		$24,367
70500 Total Tenant Revenue	$372,180	$0	$372,180
70600 HUD PHA Operating Grants	$155,649	$70,000	$225,649
70610 Capital Grants		$44,665	$44,665
71100 Investment Income - Unrestricted	$1,148		$1,148
70000 Total Revenue	$528,977	$114,665	$643,642
91100 Administrative Salaries	$104,712		$104,712
91200 Auditing Fees	$5,500		$5,500
91400 Advertising and Marketing	$2,378		$2,378
91500 Employee Benefit contributions - Administrative	$32,871		$32,871
91600 Office Expenses	$14,164		$14,164
91700 Legal Expense	$2,029		$2,029
91800 Travel	$136		$136
91900 Other	$5,501		$5,501
91000 Total Operating - Administrative	$167,291	$0	$167,291
92100 Tenant Services - Salaries	$2,880		$2,880
92400 Tenant Services - Other	$664		$664
92500 Total Tenant Services	$3,544	$0	$3,544
93100 Water	$30,484		$30,484
93200 Electricity	$59,120		$59,120
93300 Gas	$13,313		$13,313
93600 Sewer	$31,301		$31,301
93000 Total Utilities	$134,218	$0	$134,218
94100 Ordinary Maintenance and Operations - Labor	$56,901		$56,901
94200 Ordinary Maintenance and Operations - Materials and Other	$30,771		$30,771
94300 Ordinary Maintenance and Operations Contracts	$59,273		$59,273
94500 Employee Benefit Contributions - Ordinary Maintenance	$17,862		$17,862
94000 Total Maintenance	$164,807	$0	$164,807
95200 Protective Services - Other Contract Costs	$6,280		$6,280
95000 Total Protective Services	$6,280	$0	$6,280
96110 Property Insurance	$52,906		$52,906
96120 Liability Insurance	$2,661		$2,661
96130 Workmen's Compensation	$4,836		$4,836
96140 All Other Insurance	$2,253		$2,253
96100 Total insurance Premiums	$62,656	$0	$62,656
96210 Compensated Absences	$1,132		$1,132
96300 Payments in Lieu of Taxes	$21,972		$21,972
96400 Bad debt - Tenant Rents	$10,465		$10,465
96000 Total Other General Expenses	$33,569	$0	$33,569
96900 Total Operating Expenses	$572,365	$0	$572,365
97000 Excess of Operating Revenue over Operating Expenses	-$43,388	$114,665	$71,277
97400 Depreciation Expense	$169,911	$5,058	$174,969
90000 Total Expenses	$742,276	$5,058	$747,334
10010 Operating Transfer In	$70,000		$70,000
10020 Operating transfer Out		-$70,000	-$70,000
10100 Total Other financing Sources (Uses)	$70,000	-$70,000	$0
10000 Excess (Deficiency) of Total Revenue Over (Under) Total Expenses	-$143,299	$39,607	-$103,692
11030 Beginning Equity	$2,521,328	$0	$2,521,328
11040 Prior Period Adjustments, Equity Transfers and Correction of Errors	$39,607	-$39,607	$0
11190 Unit Months Available	1320		1320
11210 Number of Unit Months Leased	1284		1284
11270 Excess Cash	$1,272,190		$1,272,190
11620 Building Purchases	$25,695	$44,665	$70,360
11640 Furniture & Equipment - Administrative Purchases	$3,565	$0	$3,565

HOUSING AUTHORITY OF THE CITY OF STERLING, COLORADO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended March 31, 2018

FEDERAL GRANTOR	FEDERAL CFDA NUMBER		FEDERAL EXPENDITURES
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:			
Section 8 Housing Assistance Payments Program			
Rental Assistance	14.195		284,556.00
Public and Indian Housing			
Operating Subsidy	14.850		155,649.00
Capital Funds			
Capital funds	14.872		114,665.00
TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT		$	554,870.00
U.S DEPARTMENT OF AGRICULTURE			
Rural Rental Housing Assistance			
Rental assistance	10.427		48,519.80
Rural Rental Housing Loan			
Loan balance at March 31, 2017	10.415		647,285.08
Interest subsidy	10.415		34,187.76
	10.415		681,472.84
TOTAL U.S. DEPARTMENT OF AGRICULTURE		$	729,992.64
Total Federal Awards Expended		$	1,284,862.64

Notes to the Schedule

1. The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Housing Authority of the City of Sterling, Colorado and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Costs Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

2. The outstanding balance of the Rural Rental Housing Loan mortgage at March 31, 2018 was $642,573.87.

3. The entity did not elect to use the 10% de minimus cost rate as covered in § 200.414 Indirect (F&A) costs.

SINGLE AUDIT SECTION

Niewedde & Wiens
Randal D. Niewedde, CPA
Jeffrey J. Wiens, CPA
CERTIFIED PUBLIC ACCOUNTANTS

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Basic Financial Statements Performed in Accordance With *Government Auditing Standards*

Independent Auditor's Report

To the Board of Commissioners
Housing Authority of the City of Sterling, 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 Housing Program (a major fund) financial statements of the Housing Authority of the City of Sterling, Colorado, as of and for the year ended March 31, 2018, and the related notes to the basic financial statements. We were engaged to audit 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 Platte Valley Village Program (a major fund) financial statements of the Housing Authority of the City of Sterling, Colorado, as of and for the year ended March 31, 2018, and the related notes to the basic financial statements. We have issued our report thereon dated September 7, 2018. Our report disclaims an opinion on the Platte Valley Village Program (a major fund) because of the issues described in the "Basis for Disclaimer of Opinion of the Platte Valley Village Program (a major fund)" paragraph in that report.

Internal Control Over Financial Reporting

In connection with our engagement to audit the financial statements, we considered Housing Authority of the City of Sterling, 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 Housing Authority of the City of Sterling, Colorado's internal control. Accordingly, we do not express an opinion on the effectiveness of Housing Authority of the City of Sterling, Colorado's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control that we consider to be a material weakness.

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 basic 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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as Finding 2018-001 to be a material weakness.

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Compliance and Other Matters

In connection with our engagement to audit the financial statements of the Housing Authority of the City of Sterling, Colorado, 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 instances of noncompliance that are required to be reported under *Government Auditing Standards* and are described in the accompanying schedule of findings and questioned costs as Finding 2018-001 and 2018-002.

Housing Authority of the City of Sterling, Colorado's Responses to the Findings

Housing Authority of the City of Sterling, Colorado's responses to the findings identified in our audit are described in the accompanying Corrective Action Plan. Housing Authority of the City of Sterling, Colorado's responses were not subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

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.

Niewedde & Wiens, CPA's

York, Nebraska
September 7, 2018

Niewedde & Wiens
Randal D. Niewedde, CPA
Jeffrey J. Wiens, CPA
CERTIFIED PUBLIC ACCOUNTANTS

Report on Compliance For Each Major Federal Program; Report on Internal Control Over Compliance Required by the Uniform Guidance

Independent Auditor's Report

To the Board of Commissioners
Housing Authority of the City of Sterling, Colorado

Report on Compliance for Each Major Federal Program

We were engaged to audit Housing Authority of the City of Sterling, Colorado's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Housing Authority of the City of Sterling, Colorado's major federal programs for the year ended March 31, 2018. Housing Authority of the City of Sterling, Colorado's major federal programs are 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 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 compliance for each of Housing Authority of the City of Sterling, Colorado's major federal programs based on our audit of the types of compliance requirements referred to above. We were engaged to conduct 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 types of 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 Housing Authority of the City of Sterling, Colorado's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

Due to the circumstances described in "Basis for Disclaimer of Opinion on the Rural Rental Housing Loan Program", we were unable to obtain sufficient appropriate audit evidence supporting the compliance of the Housing Authority of the City of Sterling, Colorado's compliance and therefore do not express an opinion.

Basis for Disclaimer of Opinion on the Rural Rental Housing Loan Program

As described in the accompanying Schedule of Findings and Questioned Costs, we were unable to obtain sufficient appropriate evidence supporting the Housing Authority of the City of Sterling, Colorado's Rural Rental Housing Loan program, CFDA 10.415, as Finding 2018-003, consequently we were unable to determine whether the Housing Authority of the City of Sterling, Colorado complied with those requirements applicable to that program.

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Qualified Opinion on Rural Rental Housing Loan Program

Because of the significance of the matter described in the "Basis for Disclaimer of Opinion on the Rural Rental Housing Loan Program" paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended March 31, 2018.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and is described in the accompanying schedule of findings and questioned costs as Finding 2018-004. Our opinion on each major federal program is not modified with respect to these matters.

Housing Authority of the City of Sterling, Colorado's responses to the noncompliance findings identified in our audit are described in the accompanying Corrective Action Plan. Housing Authority of the City of Sterling, Colorado's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on them.

Report on Internal Control Over Compliance

Management of Housing Authority of the City of Sterling, Colorado is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In connection with our engagement to audit compliance, we considered Housing Authority of the City of Sterling, Colorado's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the 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 Housing Authority of the City of Sterling, Colorado'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 type of compliance requirement of a federal program 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 over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as Finding 2018-003 we consider to be a material weakness.

Housing Authority of the City of Sterling, Colorado's response to the internal control over compliance finding identified in our audit is described in the accompanying Corrective Action Plan. Housing Authority of the City of Sterling, Colorado's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

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.

Nieweddе & Wiens, CPA's

York, Nebraska
September 7, 2018

The audit report for the year ended March 31, 2017 contained one finding and no questioned costs. The status of those findings are as follows:

Section II:

- Finding 2017-001: Repeated as 2018-001. The Authority did start review procedures but they were not adequately documented.

Section III:

- Finding 2017-002: Cleared.

- Finding 2017-003: Repeated as Finding 2018-004.

Section I - Summary of Auditors Results:

- We issued an unmodified on the financial statements of the Housing fund and a disclaimer of opinion on the financial statements Platte Valley Village fund of the Housing Authority of the City of Sterling, Colorado for the fiscal year ended March 31, 2018.

Financial Statements:

- The results of our audit procedures disclosed one material weaknesses, Finding 2018-001, and no significant deficiencies in internal control over financial reporting for the fiscal year ended March 31, 2018.

- We noted two instances of noncompliance which are material to the financial statements for the fiscal year ended March 31, 2018 and are reported as Findings 2018-001 and 2018-2.

Federal Awards:

- We issued a disclaimer of opinion on compliance for the major program for the year ended March 31, 2018.

- The results of our audit procedures disclosed material weaknesses and no significant deficiencies in internal control over major programs for the fiscal year ended March 31, 2018.

- The results of our audit procedures disclosed two audit findings that are required to be reported under code § .516 of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.*

- The programs identified and audited as major are as follows: Rural Rental Housing Loan (10.415)

- The dollar threshold used to distinguish between Type A and Type B programs was $750,000.

- For the fiscal year ended March 31, 2018, the Housing Authority of the City of Sterling, Colorado did not qualify as a low-risk auditee.

Section II - Financial Statement Findings:

Finding 2018-001: Capital Funds
Material Weakness/Noncompliance
Questioned Costs - $87,711.82
Repeat Finding: 2017-001

Criteria: The Authority is awarded an annual Capital Fund grant each year. The Authority prepares a five-year plan which indicates what each annual grant will be spent. This annual budget is modified upon the grant award to match the grant amount. Only items included within the budget are allowable costs.

Further, grant funds should only be advanced as needed.

Condition: During the year, we noted the Authority expended $73,044 of its 2015 Capital Funds grants for items that were not included in the 2015 Capital Funds budgets. In the prior audit, it was recommended the Authority perform a budget revision to include these items but the budget revision was not done and the $73,044 of costs will continue to be questioned.

During the current year, we noted the Authority expended an additional $14,667.82 of items not included in the 2015 Capital Funds budget and these costs are also questioned.

We further noted the Authority did not have procedures to monitor for cash management requirements as the Authority was unaware it only had three days to expend grant funds once received. The Authority advances $29,069 of grant funds on November 18, 2017 for which $14,667.82 were unexpended until dates between January 18, 2018 and February 15, 2018.

Cause: The Authority was not aware that the Capital Funds budget must be used a guiding document and funds can only be expended on items included in the budget. We noted the Authority struggled to locate approved copies of the budget. Further, the Authority did not take appropriate action to follow up on the prior year finding.

The Authority was unaware of the cash management requirements.

Effect or Potential Effect: $87,711.82 of costs are being questioned as unallowable costs.

Recommendation: The Authority needs to obtain training on Capital Fund grant requirements to ensure future compliance. The Authority should obtain a copy of HUD's Capital Fund Guidebook which is a good reference to the requirements the Authority must comply with.

The Authority should review the items with HUD and determine if they can do a budget revision to correct the error or what other action should be taken. For future grants, the Authority must ensure all work items are included in the budget prior to incurring the expense. Further, the Authority should only advance grant funds when they are ready to expend them within three business days.

View of the Responsible Officials of the Auditee: The auditee's management agrees with the finding.

Finding 2018-002: Debt Service Requirements
Noncompliance

Criteria: The Authority has two loan agreements with Colorado Housing and Finance Authority related to Platte Valley Village. The first mortgage is secured by a first deed of trust and requires monthly payments while the second loan is secured by a third deed of trust and was due October 1, 2017.

Section II - Financial Statement Findings (Cont'd):

Finding 2018-002: Debt Service Requirements (Cont'd)

Condition: On August 17, 2017, the Board of Commissioners approved for the Authority to default on the two mortgages and the Authority made no payments on the two mortgages after that date as required by the loan agreements.

Cause: The Authority has been trying to either transfer ownership or sell the property for some time but has been unable to receive approval from USDA Rural Development which hold a mortgage that is secured by a second deed of trust. The Authority indicated the property has significant capital needs for which the property does not funds to perform.

Effect or Potential Effect: The Authority was in noncompliance with its loan agreements with Colorado Housing and Finance Authority. As a result of this, Colorado Housing and Finance Authority filed a complaint in court for which the court approved the appointment of a receiver on February 7, 2018. This resulted in the Authority being required to hand over all records for the project and the Authority no longer managed the project after this date. Due to the lack of records, the Authority was unable to complete the accounting records for the Platte Valley Village fund which has resulted in a disclaimer of opinion on that fund.

Recommendation: As the property is in receivership now, there is no recommendation for this finding other than to follow any future court orders regarding it.

View of the Responsible Officials of the Auditee: The auditee's management agrees with the finding.

Section III - Federal Award Findings and Questioned Costs:

Finding 2018-003: Rural Rental Housing Loan Compliance
Rural Rental Housing Loan – CFDA 10.415
Allowable Costs/Eligibility/Cash Management/Reporting
Noncompliance

Criteria: The Authority is responsible for complying with the applicable compliance requirements that govern the Rural Rental Housing Loan program and to further have adequate controls to ensure compliance. Those controls should be documented.

Condition: As noted in Finding 2018-002, the Authority chose to default on the Platte Valley Village loans it had with Colorado Housing and Finance Authority which resulted in the project being placed in receivership on February 7, 2018 by the courts and all records related to this project were removed from the Authority. As the Authority no longer had access to these records, the Authority was unable to have a complete set of accounting records for the year ended March 31, 2018 and did not have records to allow us to test for compliance. Following the Uniform Guidance rules, the Rural Rental Housing Loan program was a major program which required testing for the year ended March 31, 2018.

Cause: The Authority chose to no longer make the required debt payments which lead to the program being placed in receivership.

Effect or Potential Effect: We were unable to test compliance for the Rural Rental Housing Loan program which has resulted in a disclaimer of opinion on compliance.

Recommendation: As the property is in receivership now, there is no recommendation for this finding other than to follow any future court orders regarding it.

View of the Responsible Officials of the Auditee: The auditee's management agrees with the finding.

<u>Section III - Federal Award Findings and Questioned Costs (Cont'd):</u>

Finding 2018-004: Capital Funds
Capital Funds – CFDA 14.872
Allowable Cost
Noncompliance
Questioned Costs - $87,711.82
Repeat Finding: 2017-003

Criteria: The Authority is awarded an annual Capital Fund grant each year. The Authority prepares a five-year plan which indicates what each annual grant will be spent. This annual budget is modified upon the grant award to match the grant amount. Only items included within the budget are allowable costs.

Further, grant funds should only be advanced as needed.

Condition: During the year, we noted the Authority expended $73,044 of its 2015 Capital Funds grants for items that were not included in the 2015 Capital Funds budgets. In the prior audit, it was recommended the Authority perform a budget revision to include these items but the budget revision was not done and the $73,044 of costs will continue to be questioned.

During the current year, we noted the Authority expended an additional $14,667.82 of items not included in the 2015 Capital Funds budget and these costs are also questioned.

We further noted the Authority did not have procedures to monitor for cash management requirements as the Authority was unaware it only had three days to expend grant funds once received. The Authority advances $29,069 of grant funds on November 18, 2017 for which $14,667.82 were unexpended until dates between January 18, 2018 and February 15, 2018.

Cause: The Authority was not aware that the Capital Funds budget must be used a guiding document and funds can only be expended on items included in the budget. We noted the Authority struggled to locate approved copies of the budget. Further, the Authority did not take appropriate action to follow up on the prior year finding.

The Authority was unaware of the cash management requirements.

Effect or Potential Effect: $87,711.82 of costs are being questioned as unallowable costs.

Recommendation: The Authority needs to obtain training on Capital Fund grant requirements to ensure future compliance. The Authority should obtain a copy of HUD's Capital Fund Guidebook which is a good reference to the requirements the Authority must comply with.

The Authority should review the items with HUD and determine if they can do a budget revision to correct the error or what other action should be taken. For future grants, the Authority must ensure all work items are included in the budget prior to incurring the expense. Further, the Authority should only advance grant funds when they are ready to expend them within three business days.

View of the Responsible Officials of the Auditee: The auditee's management agrees with the finding.

Housing Authority of The City of Sterling

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1200 NORTH FIFTH STREET
435 MACGREGOR ROAD
441 MACGREGOR ROAD
STERLING, COLORADO 80751

September 7, 2018

Section II – Financial Statement Findings:

Finding 2018-001: Capital Funds
Material Weakness/Noncompliance
Questioned Costs - $87,711.82
Repeat Finding: 2017-001

The Authority agrees with the finding.

I have contacted HUD staff at the Housing and Urban Development (HUD) office within Region VIII located in Denver, Colorado to clarify/assist in addressing the issues you have identified. HUD staff conducted an on-sight management/oversight visit on Tuesday, August 21, 2018.

HUD staff has provided a copy of the Capital Fund Guidebook and I have located the pages referencing the three-day window for expending grant funds.

Finding 2018-002: Debt Service Requirements
Noncompliance

The Authority agrees with the finding.

The Housing Authority attempted, on numerous times in good faith to transfer or sell the property known as Platte Valley Village – Phase 1. Unfortunately, the United States Department of Agriculture (USDA) – Rural Development would not approve either a transfer or sale of this property. After a period of four years of meeting with CHFA, USDA and Community Resources & Housing Development Corporation (CRHDC), the Board of Directors agreed to a default of loan with Colorado Housing and Finance Authority (CHFA), which forced the court-ordered receivership of Platte Valley Village. The court appointed Griffis-Blessing to provide over-sight to the receivership process. Griffis-Blessing is located at 102 N. Cascade Ave, Ste 550, Colorado Springs, CO 80903. On June 26, 2018, USDA paid off both mortgages held by CHFA; USDA then stepped into the position originally held by CHFA. At the time of this response, USDA is working the Northeast Colorado Housing, Incorporated (NECHI) in a sale proposal.

The Housing Authority will follow future court orders regarding this receivership status.

Section III – Federal Award Findings and Questioned Costs

Finding 2018-003: Rural Rental Housing Loan Compliance
Rural Rental Housing Loan – CFDA 10.415
Allowable Costs/Eligibility/Cash Management Reporting
Noncompliance

The Authority agrees with the finding.

The Housing Authority attempted, on numerous times in good faith to transfer or sell the property known as Platte Valley Village – Phase 1. Unfortunately, the United States Department of Agriculture (USDA) – Rural Development would not approve either a transfer or sale of this property. After a period of four years of meeting with CHFA, USDA and Community Resources & Housing Development Corporation (CRHDC), the Board of Directors agreed to a default of loan with Colorado Housing and Finance Authority (CHFA), which forced the court-ordered receivership of Platte Valley Village. The court appointed Griffis-Blessing to provide over-sight to the receivership process. Griffis-Blessing is located at 102 N. Cascade Ave., Ste 550, Colorado Springs, CO 80903. On June 26, 2018, USDA paid off both mortgages held by CHFA; USDA then stepped into the position originally held by CHFA. At the time of this response, USDA is working with Northeast Colorado Housing, Incorporated (NECHI) in a sale proposal.

The Housing Authority will follow future court orders regarding this receivership status.

Finding 2018-004: Capital Funds
Capital Funds – CFDA 14.872
Allowable Cost
Noncompliance
Questioned Costs - $87,711.82
Repeat Finding: 2017-003

The Authority agrees with the finding.

I have contacted HUD staff at the Housing and Urban Development (HUD) office within Region VIII located in Denver, Colorado to clarify/assist in addressing the issues you have identified. Ms. Noakes conducted an on-sight management/oversight visit on Tuesday, August 21, 2018.

HUD staff has provided a copy of the Capital Fund Guidebook and have located the pages referencing the three-day window for expending grant funds.

Will Herrboldt

William Herrboldt
Executive Director
Sterling Housing Authority