

**HOUSING AUTHORITY OF THE CITY OF SALINA
SALINA, KANSAS**

**INDEPENDENT AUDITOR'S REPORT
AND
FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

FOR THE YEAR ENDED JUNE 30, 2014

HOUSING AUTHORITY OF THE CITY OF SALINA
Salina, Kansas

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INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Housing Authority of the City of Salina
Salina, Kansas

Report on the Financial Statements

I have audited the accompanying financial statements of the business-type activities of the Housing Authority of the City of Salina (Authority), Kansas, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express opinion on these financial statements based on my audit. I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Housing Authority of the City of Salina, Kansas, as of June 30, 2014, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages i-vi 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. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Housing Authority of the City of Salina, Kansas's basic financial statements. The accompanying PHA's Statement of Certification of Actual Modernization Costs and the Financial Data Schedule are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The accompanying PHA's Statement of Certification of Actual Modernization Costs, the Financial Data Schedule and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the 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 my opinion, the accompanying PHA's Statement of Certification of Actual Modernization Costs, the Financial Data Schedule and the Schedule of Expenditures of Federal Awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated October 23, 2014, on my consideration of the Housing Authority of the City of Salina, Kansas's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Salina, Kansas's internal control over financial reporting and compliance.

Audit Solutions, LLC

Chesterfield, Missouri

October 23, 2014

HOUSING AUTHORITY OF THE CITY OF SALINA
Salina, Kansas

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
June 30, 2014

Management's Discussion & Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their *Statement No. 34 Basic Financial Statements – and Management's Discussion & Analysis – for State and Local Governments* issued in June 1999.

This discussion and analysis of the financial performance for the Housing Authority for the City of Salina, Kansas, provides an overview of the financial activities for the fiscal year ended June 30, 2014. Please read the MD&A in conjunction with the Housing Authority's financial statements.

Financial Highlights

- *Assets:*
Current assets increased by \$44,377 when compared to 2013 and net capital assets decreased by \$178,393. Total assets decreased by \$134,016 from \$7,732,545 as of June 30, 2013 to \$7,598,529 as of June 30, 2014.
- *Liabilities:*
Total liabilities increased \$8,446 from \$217,015 as of June 30, 2013, to \$225,461 as of June 30, 2014.
- *Revenue:*
Total revenue increased from \$2,050,365 for the year ended June 30, 2013, to \$2,136,062 for the year ended June 30, 2014, an increase of \$85,697. Tenant revenue decreased \$6,123; other income increased \$23,527 while operating grants increased \$151,299, investment income decreased \$1,526 and fraud recovery decreased \$3,638. Capital grants decreased \$77,842 from 2013 making 2014 receipts \$77,315.
- *Expenses:*
Total expenses increased from 2013 to 2014. Total expenses were \$2,198,706 for the year ended June 30, 2013, and increased \$79,818 to \$2,278,524 for the year ended June 30, 2014. Administrative expenses increased by \$12,850. Maintenance decreased \$4,122 and HAP payments increased 5% or \$52,281.

For accounting purposes, the Housing Authority is categorized as an enterprise fund. Enterprise funds account for activities similar to those found in the private business sector where the determination of net income is necessary or useful to sound financial administration. Enterprise funds are reported using the full accrual method of accounting in which all assets and all liabilities associated with the operation of these funds are included on the balance sheet. The focus of enterprise funds is on income measurement, which, together with the maintenance of equity, is an important financial indication.

Overview of Financial Statements

This annual report includes this Management Discussion & Analysis report, the Basic Financial Statements and the Notes to the Financial Statements. The Housing Authority's financial statements are presented as fund level financial statements because the Housing Authority only has proprietary funds.

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

HOUSING AUTHORITY OF THE CITY OF SALINA
Salina, Kansas

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) – (Continued)
June 30, 2014

Overview of Financial Statements – (Continued)

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

The Statement of Cash Flows reports cash receipts, cash payments, and net changes in cash resulting from operating, investing and financing activities and provides answers to such questions as where did cash come from, what was cash used for and what was the change in the cash balance during the reporting period.

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

The section Supplemental Information Required by HUD contains the Financial Data Schedule (FDS). HUD has established Uniform Financial Reporting Standards that require the Housing Authority to submit financial information electronically to HUD using the FDS format.

Financial Analysis

The Housing Authority's basic financial statements are the Statement of Net Position and the Statement of Changes in Net Position. The Statement of Net Position provides a summary of the Housing Authority's assets and liabilities as of the close of business on June 30, 2014. The Statement of Changes in Net Position summarizes the revenues and sources of those revenues generated during the year ended June 30, 2014 and the expenses incurred in operating the Housing Authority for the year ended June 30, 2014.

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 \$7,373,068 at the close of the year ended June 30, 2014. This represents a decrease of \$142,462 from the previous year.

The Housing Authority accounts for its housing activities in several programs. The main Housing Authority programs are a low rent program that provides housing for qualified tenants, a capital fund program that the Housing Authority uses for improvements to its low rent property, and a housing choice voucher program that provides rental assistance to tenants living in private housing. The following analysis focuses on the net position and the change in net position of the Housing Authority as a whole and not the individual programs.

| Net Position June 30, | | | |
|---|--------------|--------------|---------------|
| | 2014 | 2013 | Dollar Change |
| Current Assets, Net of Inter-program | \$ 1,802,651 | \$ 1,758,274 | \$ 44,377 |
| Capital Assets, Net | 5,795,878 | 5,974,271 | (178,393) |
| Total Assets | \$ 7,598,529 | \$ 7,732,545 | \$ (134,016) |
| Current Liabilities, Net of Inter-program | \$ 168,287 | \$ 164,043 | \$ 4,244 |
| Non-Current Liabilities | 57,174 | 52,972 | 4,202 |
| Total Liabilities | \$ 225,461 | \$ 217,015 | \$ 8,446 |
| Net Position: | | | |
| Net Investment in Capital Assets | \$ 5,795,878 | \$ 5,974,271 | \$ (178,393) |
| Restricted | 24,934 | 39,335 | (14,401) |
| Unrestricted | 1,552,256 | 1,501,924 | 50,332 |
| Total Net Position | \$ 7,373,068 | \$ 7,515,530 | \$ (142,462) |

HOUSING AUTHORITY OF THE CITY OF SALINA
Salina, Kansas

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) – (Continued)
June 30, 2014

Financial Analysis – (Continued)

Assets:

Total current assets were \$1,758,274 as of June 30, 2013 and increased by \$44,377 to \$1,802,651 as of June 30, 2014. The balance of cash increased by \$77,391 as of June 30, 2014. The increase was due to numerous factors including, but not limited to, an increase in governmental subsidy, tenant deposits and a local grant.

Net capital assets decreased to \$5,795,878 as of June 30, 2014 from \$5,974,271 as of June 30, 2013. This decrease of \$178,393 in net capital assets includes purchases of \$91,708 and depreciation of \$270,101.

Liabilities:

Total current liabilities increased from \$164,043 as of June 30, 2013, to \$168,287 as of June 30, 2014, an increase of \$4,244. Tenant security deposit liability increased from \$77,906 as of June 30, 2013 to \$82,383 as of June 30, 2014.

Net Position:

Net position decreased by \$142,462 as of June 30, 2014 as total expenses of \$2,278,524 exceeded total revenue of \$2,136,062. For June 30, 2014 there was \$24,934 set aside for Restricted Assets for the Section 8 and VASH programs. This represents funding that can only be used for housing assistance payments provided other mandates are followed.

Expendable Fund Balance:

Expendable Fund Balance

| | <u>2014</u> | <u>2013</u> | <u>Change</u> | <u>%-Change</u> |
|----------------------------------|--------------------|--------------------|-----------------|-----------------|
| Expendable Fund Balance | <u>\$1,544,234</u> | <u>\$1,493,637</u> | <u>\$50,597</u> | <u>3.39%</u> |
| Number of Months Expendable Fund | <u>19.81</u> | <u>18.49</u> | <u>\$1.31</u> | <u>7.11%</u> |

The expendable fund balance of an Authority is a measure of liquidity of the entity. If all of the Authority's current assets, less materials inventory, are converted to cash, and the Authority pays all the current liabilities, the amount of cash left on hand is the expendable fund balance. The expendable fund balance was \$1,544,234 at the end of the 2014 fiscal year.

The number of months in expendable funds is a measure of how many months the Authority could operate under current conditions without any additional income. The number of months in expendable funds is calculated by dividing the total expenses for the year, less depreciation and HAP expense, by twelve (12) to arrive at the average monthly expenses. The expendable fund balance is then divided by the average monthly expenses to arrive at the number of months expendable fund balance. The ratio as of June 30, 2014 was 20 months.

HOUSING AUTHORITY OF THE CITY OF SALINA
Salina, Kansas

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) – (Continued)
June 30, 2014

Financial Analysis – (Continued)

| Changes in Net Position for the Year Ended June 30 | | | |
|---|---------------------|---------------------|--------------------------------|
| | <u>2014</u> | <u>2013</u> | <u>Increase (Decrease)</u> |
| Revenue: | | | |
| Tenant Revenue | \$ 331,628 | \$ 337,751 | \$ (6,123) |
| Federal Grants & Subsidy | 1,752,455 | 1,678,998 | 73,457 |
| Investment Income | 8,428 | 9,954 | (1,526) |
| Other Income | 43,551 | 23,662 | 19,889 |
| Total Revenue | \$ 2,136,062 | \$ 2,050,365 | \$ 85,697 |
| Expenses: | | | |
| Administrative | \$ 513,135 | \$ 500,285 | \$ 12,850 |
| Tenant Services | 4,143 | 3,339 | 804 |
| Utilities | 15,426 | 15,973 | (547) |
| Routine Maintenance | 247,190 | 251,312 | (4,122) |
| Protective Services | 168 | 281 | (113) |
| Insurance Premiums | 94,247 | 93,829 | 418 |
| Other General Expenses | 36,064 | 31,657 | 4,407 |
| Casualty Losses | 25,122 | 19,694 | 5,428 |
| Housing Assistance Payments (HAP) | 1,072,928 | 1,020,647 | 52,281 |
| Depreciation | 270,101 | 261,689 | 8,412 |
| Total Expenses | \$ 2,278,524 | \$ 2,198,706 | \$ 79,818 |
| Increase (Decrease) in Net Position | \$ (142,462) | \$ (148,341) | \$ 5,879 |
| Prior Period Adjustment | 0 | 1,004 | (1,004) |
| Total Change in Net Position | \$ (142,462) | \$ (147,337) | \$ 4,875 |

Revenue:

The Authority has two basic sources of revenue. Rent and other tenant charges and funds received from the Department of Housing and Urban Development (HUD) in the form of operating subsidies, tenant assistance, and capital improvement grants.

Total tenant revenue decreased by approximately 2% for the current year from \$337,751 for the year ended June 30, 2013 to \$331,628 for the year ended June 30, 2014. Tenant revenue includes rent charged as well as any move-out charges or other maintenance charges incurred. The amount collected from tenants for charges other than rent decreased by \$1,069. Tenant rents are also affected by the tenant's reported income and other tenant attributes. The amount of rent that a tenant pays decreases as the tenant's income decreases.

Total federal grants and subsidy revenue increased from \$1,678,998 for the year ended June 30, 2013 to \$1,752,455 for the year ended June 30, 2014, for an increase of \$73,457. Capital grant revenue decreased by \$77,842. Section 8 HAP assistance increased \$94,647, \$25,874 of which was funding for VASH. HAP assistance is also determined by tenants reported income and other tenant attributes. HAP assistance will increase as the tenant's income decreases.

HOUSING AUTHORITY OF THE CITY OF SALINA
Salina, Kansas

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) – (Continued)
June 30, 2014

Financial Analysis – (Continued)

Revenue – (Continued):

Investment income decreased \$1,526 as the amount earned for the year ended June 30, 2013 was \$9,954 and \$8,428 for the year ended June 30, 2014. The decline in rates of return on investments and the return of Section 8 interest earned to HUD attributed to the decrease.

Expenses:

Administrative expenses increased by \$12,850 from \$500,285 for the year ended June 30, 2013 to \$513,135 for year ended June 30, 2014. General expenses increased by 14% from \$31,657 for the year ended June 30, 2013 to \$36,064 for the year ended June 30, 2014 as a result of increased bad debt. Routine maintenance expense decreased by \$4,122, from \$251,312 for fiscal year 2013 to \$247,190 for fiscal year 2014. Housing assistance payments increased by \$52,281, which is a 5% increase.

Capital Assets:

At June 30, 2014 the Housing Authority had \$5,795,878 invested in net capital assets. This amount represents a net decrease of \$178,393 in net capital assets when compared to net capital assets as of June 30, 2013.

Capital expenditures for FY 2014 included the purchase and installation of a server, as well as two (2) PCs for the office. Disposals consisted of various out dated computer-related equipment and the previous server.

During the current year, some work in progress projects were completed and certain assets of \$112,020 were transferred from construction in progress to other capital assets categories.

As of June 30, 2014, the Housing Authority has approximately \$130,738 in Capital program funds to spend on future improvements.

| Capital Assets at Year End (Net of Accumulated Depreciation) June 30, | | | |
|--|--------------|--------------|--------------------------------|
| | <u>2014</u> | <u>2013</u> | <u>Increase (Decrease)</u> |
| Land | \$ 1,456,891 | \$ 1,456,891 | \$ - |
| Buildings | 7,086,645 | 6,989,981 | 96,664 |
| Furniture, Equipment & Machinery, Dwellings | 18,730 | 18,730 | - |
| Furniture, Equipment & Machinery, Admin | 181,238 | 200,873 | (19,635) |
| Leasehold Improvements | 699,282 | 683,926 | 15,356 |
| Construction in Progress | 143,475 | 178,180 | (34,705) |
| Subtotal | 9,586,261 | 9,528,581 | \$ 57,680 |
| Accumulated Depreciation | (3,790,383) | (3,554,310) | (236,073) |
| Net Capital Assets | \$ 5,795,878 | \$ 5,974,271 | \$ (178,393) |

Debt

As of June 30, 2014, the Authority does not have any outstanding debt, bonds, mortgages, or notes payable. There are some non-current liabilities as of June 30, 2014, for employee compensated absences of approximately \$17,606 and escrow amounts of \$39,568 held for participating tenants of the FSS escrow program.

HOUSING AUTHORITY OF THE CITY OF SALINA
Salina, Kansas

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) – (Continued)
June 30, 2014

Economic Factors

The Housing Authority is dependent upon HUD for the funding of operations; therefore, the Housing Authority is affected both by federal budget and, to a lesser degree, local economic conditions. The funding of programs could be significantly affected by HUD and the 2015 federal budget.

Contacting the Housing Authority's Financial Management

Our financial report is designed to provide our citizens, taxpayers and creditors with a general overview of the Housing Authority's finances and to show the Housing Authority's accountability for the money it receives. If you have questions about this report or wish to request additional financial information, contact Kim Deal, Finance Manager, at the Salina Housing Authority, 469 S. 5th St., Salina, KS 67401, telephone number 785-827-0441.

HOUSING AUTHORITY OF THE CITY OF SALINA
Salina, Kansas

STATEMENT OF NET POSITION
June 30, 2014

ASSETS

Current Assets:

| | | |
|---------------------------------|----|---------------|
| Cash and cash equivalents | \$ | 669,740 |
| Cash - restricted | | 146,885 |
| Investments | | 905,294 |
| Receivables - net of allowances | | 19,318 |
| Inventory - net of allowances | | 25,628 |
| Prepaid expenses | | <u>35,786</u> |

Total Current Assets 1,802,651

Non-current Assets:

Capital assets:

| | | |
|---|--|------------------|
| Land and construction in progress | | 1,600,366 |
| Other capital assets, net of depreciation | | <u>4,195,512</u> |

Total capital assets - net 5,795,878

Total Non-current Assets 5,795,878

Total Assets \$ 7,598,529

See accompanying notes to the basic financial statements

HOUSING AUTHORITY OF THE CITY OF SALINA
Salina, Kansas

STATEMENT OF NET POSITION - (Continued)
June 30, 2014

LIABILITIES

Current Liabilities:

| | | |
|-----------------------------------|----|---------------|
| Accounts payable | \$ | 37,553 |
| Accrued salaries and benefits | | 34,836 |
| Tenant security deposit liability | | 82,383 |
| Accrued compensated absences | | 1,956 |
| Unearned revenues | | <u>11,559</u> |

Total Current Liabilities 168,287

Non-current Liabilities:

| | | |
|---------------------------------|--|---------------|
| Compensated absences | | 17,606 |
| Non-current liabilities - Other | | <u>39,588</u> |

Total Non-current Liabilities 57,174

Total Liabilities 225,461

NET POSITION

| | | |
|----------------------------------|--|------------------|
| Net investment in capital assets | | 5,795,878 |
| Restricted | | 24,934 |
| Unrestricted | | <u>1,552,256</u> |

Total Net Position 7,373,068

Total Liabilities and Net Position \$ 7,598,529

See accompanying notes to the basic financial statements

HOUSING AUTHORITY OF THE CITY OF SALINA
Salina, Kansas

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Year Ended June 30, 2014

| | |
|--|----------------------------|
| OPERATING REVENUES | |
| Tenant revenue | \$ 331,628 |
| Governmental grants and subsidy | 1,675,140 |
| Miscellaneous | <u>43,551</u> |
| Total operating revenue | <u>2,050,319</u> |
| OPERATING EXPENSES | |
| Administrative | 513,135 |
| Tenant services | 4,143 |
| Utilities | 15,426 |
| Ordinary maintenance and operations | 247,190 |
| Protective services | 168 |
| Insurance | 94,247 |
| General | 36,064 |
| Non routine maintenance | 25,122 |
| Housing assistance payment | 1,072,928 |
| Depreciation expense | <u>270,101</u> |
| Total operating expenses | <u>2,278,524</u> |
| Operating income (loss) | <u>(228,205)</u> |
| NON-OPERATING REVENUES (EXPENSES) | |
| Investment income | <u>8,428</u> |
| Net non-operating revenues (expenses) | <u>8,428</u> |
| Income (loss) before contributions and transfers | <u>(219,777)</u> |
| Capital contributions | <u>77,315</u> |
| Change in net position | (142,462) |
| Total net position - beginning of year | <u>7,515,530</u> |
| Total net position - end of year | \$ <u><u>7,373,068</u></u> |

See accompanying notes to the basic financial statements

HOUSING AUTHORITY OF THE CITY OF SALINA
Salina, Kansas

STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2014

| CASH FLOWS FROM OPERATING ACTIVITIES | |
|---|--------------------|
| Received from tenants | \$ 330,320 |
| Received from governmental grants and subsidy | 1,669,751 |
| Received from other operating activities | 298,228 |
| Payments for goods and services | (629,038) |
| Payments to employees | (519,298) |
| Payment in lieu of taxes | (25,836) |
| Payment for housing assistance | <u>(1,072,928)</u> |
| Net cash provided by (used in) operating activities | <u>51,199</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | |
| Proceeds from capital contributions | 74,716 |
| Purchases of capital assets | (91,708) |
| Receipts (payments) from deferred credits and escrow deposits | <u>2,186</u> |
| Net cash provided by (used in) capital and related financing activities | <u>(14,806)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Proceeds (payments) from sale (purchase) of investments | 32,476 |
| Receipts of interest and dividends | <u>8,522</u> |
| Net cash provided by (used in) investing activities | <u>40,998</u> |
| Net increase (decrease) in cash and cash equivalents | 77,391 |
| Cash and cash equivalents at beginning of year | <u>739,234</u> |
| Cash and cash equivalents at end of year | <u>\$ 816,625</u> |

See accompanying notes to the basic financial statements

HOUSING AUTHORITY OF THE CITY OF SALINA
Salina, Kansas

STATEMENT OF CASH FLOWS - (Continued)
For the Year Ended June 30, 2014

Reconciliation of operating income (loss) to net cash provided (used) by operating activities

| | | |
|---|----|----------------------|
| Operating income (loss) | \$ | (228,205) |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities: | | |
| Depreciation expense | | 270,101 |
| Change in assets and liabilities: | | |
| Receivables, net | | 7,682 |
| Inventories, net | | (1,751) |
| Prepaid expenses | | (2,888) |
| Accounts and other payables | | 1,023 |
| Tenant security deposit | | 4,477 |
| Deferred revenues | | (4,557) |
| Compensated absences | | 2,240 |
| Accrued expenses | | <u>3,077</u> |
| Net cash provided by (used) by operating activities | \$ | <u><u>51,199</u></u> |

See accompanying notes to the basic financial statements

HOUSING AUTHORITY OF THE CITY OF SALINA
Salina, Kansas

NOTES TO THE BASIC FINANCIAL STATEMENTS - (Continued)
June 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

1B. Basis of Presentation - (Continued)

The Authority operates the following programs in the enterprise fund:

Low Rent – The objective of the program is to provide decent, safe and sanitary housing and related facilities for eligible low-income individuals.

Capital Fund Program – The purpose of this program is to provide funds annually to Housing Authorities for the modernization of the housing development and for management improvements.

Housing Choice Vouchers – The objective of the program is to help low-income families obtain decent, safe, and sanitary housing through a system of rental assistance. HUD reimburses the Authority for the rental supplements paid to private landlords and the administrative costs of managing the program.

Resident Opportunity and Supportive Services – The objective of this program is to provide housing residents with supportive services, resident empowerment activities and assistance in becoming economically self-sufficient.

Shelter Plus Care – The Shelter Plus Care Program provides rental assistance to homeless persons with disabilities (primarily persons who are seriously mentally ill; have chronic problems with alcohol, drugs, or both, or have acquired immunodeficiency syndrome and related diseases) and their families.

Business Activities – The funds in this program are set aside for the development of new public housing units.

Central Office Cost Center (COCC) – Under the Asset Management rule, the purpose of this program is to provide day-to-day operation of other programs of the Housing Authority funded through property management, asset management, bookkeeping, program management and fee for service fee.

1C. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

Measurement Focus - The proprietary fund utilizes an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or non-current) associated with their activities are reported. Proprietary fund equity is classified as net position.

Basis of Accounting - In the financial statements, the proprietary fund utilizes the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

HOUSING AUTHORITY OF THE CITY OF SALINA
Salina, Kansas

NOTES TO THE BASIC FINANCIAL STATEMENTS - (Continued)
June 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

1D. Budgets

Budgets are prepared for regulatory purposes in accordance with the Authority's contract with HUD on an annual basis for all operating programs and on a project length basis for capital projects funds which are approved by the Board of Commissioners and submitted to HUD for their approval, if required.

1E. Estimates and assumptions

The preparation of financial statements in conformity with generally accepted accounting principles require management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could vary from those estimates.

1F. Assets, Liabilities, and Equity

Cash and Investments

For the purpose of the Statement of Net Position, "cash and cash equivalents" includes all demand, savings accounts, and certificates of deposits or short-term investments with an original maturity of three months or less. For the purpose of the Statement of Cash Flows, "cash and cash equivalents" include all demand and savings accounts, and certificates of deposit or short-term investments with an original maturity of three months or less.

Investments are carried at fair value except for short-term U.S. Treasury obligations, if any, with a remaining maturity at the time of purchase of one year or less. Those investments, if any, are reported at amortized cost. Fair value is based on quoted market price. Additional cash and investment disclosures are presented in Notes 2B and 3A.

Inter-fund Receivables and Payables

During the course of operations, numerous transactions occur within individual funds that may result in amounts owed between funds. Inter-fund receivables and payables between funds are eliminated for financial statement presentation.

Receivables

Receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable. Major receivable balances consist of HUD and tenant accounts receivable.

Inventories

Inventories are accounted for under the consumption method and recorded at lower of cost or market. Inventories consist primarily of maintenance materials and supplies held for consumption. The cost of these supplies is regarded as an expenditure at the time the items are consumed. Inventories are classified as current assets on the Statement of Net Position, net of an allowance for obsolete inventory.

Fixed Assets

Fixed assets in the proprietary fund types are stated at historical cost, or estimated historical cost if actual is unavailable, except for donated fixed assets which are recorded at their estimated fair value at the date of donation. It is the policy of the Authority to capitalize all assets with a cost of \$500 or greater. The cost of maintenance and repairs are charged to operations as incurred. Costs of major additions, improvements, and betterments are capitalized.

HOUSING AUTHORITY OF THE CITY OF SALINA
Salina, Kansas

NOTES TO THE BASIC FINANCIAL STATEMENTS - (Continued)
June 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

1F. Assets, Liabilities, and Equity - (Continued)

Fixed Assets – (Continued)

Depreciation of all exhaustible fixed assets is charged as an expense against operations and is recorded in the Statement of Revenues, Expenses and Changes in Net Position with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the assets estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

| | |
|---|-------------|
| Building | 20-40 years |
| Site Improvements | 15 years |
| Furniture, equipment and machinery - dwelling | 7 years |
| Furniture, equipment and machinery - administrative | 3-10 years |

Restricted Assets

Restricted assets include cash of the proprietary fund that are legally restricted as to their use. The primary restricted assets are related to the security deposit fund and FSS escrow account under the Low Rent Program and HAP funds under the Housing Choice Voucher program.

Compensated Absences

The Authority's policies regarding vacation time permit employees to accumulate earned but unused vacation leave. The liability for these compensated absences is recorded as long-term and short-term liabilities based on historical trends. Amounts not expected to be paid within the next fiscal year are classified as long-term liabilities.

Equity Classifications

Equity is classified as net position and displayed in three components:

- 1) Net investment in capital assets - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowing that are attributable to the acquisition, construction, or improvement of those assets.
- 2) Restricted net position - Consists of net position with constraints placed on the use either by (i) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; (ii) law through constitutional provisions or enabling legislation.
- 3) Unrestricted net position - All other net position that do not meet the definition of "restricted" or "net investment in capital assets."

Use of Restricted/Unrestricted Net Position

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

1G. Revenues, Expenditures, and Expenses

Operating Revenues and Expenses

Operating revenues and expenses are those that result from providing services and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, non-capital financing, or investing activities.

HOUSING AUTHORITY OF THE CITY OF SALINA
Salina, Kansas

NOTES TO THE BASIC FINANCIAL STATEMENTS - (Continued)
June 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

1G. Revenues, Expenditures, and Expenses - (Continued)

Inter-fund Transfers

Permanent reallocation of resources between programs of the reporting entity is classified as inter-fund transfers. For the purposes of the Statement of Revenues, Expenses and Changes in Net Position, all inter-fund transfers between individual programs, if any, have been eliminated.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

The Authority and its component units, if any, are subject to various federal, state, and local laws and contractual regulations. An analysis of the Authority's compliance with significant laws and regulations and demonstration of its stewardship over Authority resources follows.

2A. Program Accounting Requirements

The Authority's complies with all state and local laws and regulations requiring the use of separate programs. The programs used by the Authority are as follows:

| <u>Program</u> | <u>Required By</u> |
|---|--|
| Public and Indian Housing | U.S. Department of Housing and Urban Development |
| Capital Fund Program | U.S. Department of Housing and Urban Development |
| Housing Choice Vouchers | U.S. Department of Housing and Urban Development |
| Resident Opportunity and Supportive Services-ROSS | U.S. Department of Housing and Urban Development |
| Shelter Care Plus | U.S. Department of Housing and Urban Development |
| Central Office Cost Center-COCC | U.S. Department of Housing and Urban Development |
| Business Activities | Housing Authority |

2B. Deposits and Investments Laws and Regulations

It is the Authority's policy for deposits to be secured by collateral valued at market or par, whichever is lower, less the amount of the Federal Deposit Insurance Corporation (FDIC) insurance. The Authority must maintain a written collateral agreement from all financial institutions pledging collateral to the Authority. As reflected in Note 3A, all deposits were fully insured or collateralized.

Investing is performed in accordance with HUD regulations and State Statutes. Funds may be invested in the following type of investments:

- Direct obligations of the U.S. Government pledged by its full faith and credit.
- Demand, savings, money-market and certificates of deposit at commercial banks, mutual savings banks, savings and loan associations and credit unions provided that the entire deposit be insured by the FDIC and any deposits in excess of insured amounts are adequately collateralized.

HOUSING AUTHORITY OF THE CITY OF SALINA
Salina, Kansas

NOTES TO THE BASIC FINANCIAL STATEMENTS - (Continued)
June 30, 2014

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY - (Continued)

2C. Revenue Restrictions

The Authority has various restrictions placed over certain revenue sources. The primary restricted revenue sources include:

| <u>Revenue Source</u> | <u>Legal Restrictions of Use</u> |
|-------------------------|----------------------------------|
| Capital Fund Program | Modernization |
| Housing Choice Vouchers | Housing assistance payments |
| ROSS | Resident supportive services |
| Shelter Care Plus | Housing assistance payments |

For the year ended June 30, 2014, the Authority complied, in all material respects, with these revenue restrictions.

NOTE 3 – DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS

The following notes present detail information to support the amounts reported in the basic financial statements for its various assets, liabilities, equity, revenues, and expenditures/expenses.

3A. Cash and Investments

As of June 30, 2014, the Authority had the following cash deposits and investments:

| | |
|--------------------------|---------------------|
| Cash deposits | \$ 816,575 |
| Certificate of deposit | 905,294 |
| Petty cash / change fund | <u>50</u> |
| Total | <u>\$ 1,721,919</u> |

Following is a reconciliation of the Authority's deposit balances as of June 30, 2014:

| | |
|----------------------------|---------------------|
| Cash - unrestricted | \$ 669,740 |
| Cash - restricted | 146,885 |
| Investments - unrestricted | <u>905,294</u> |
| Total | <u>\$ 1,721,919</u> |

Deposits

Custodial Credit Risk - Deposits

The custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, the Authority will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. At June 30, 2014, the Authority's bank balances of \$824,842 were entirely covered by FDIC insurance or by pledged collateral held by the Authority's agent bank in the Authority's name.

HOUSING AUTHORITY OF THE CITY OF SALINA
Salina, Kansas

NOTES TO THE BASIC FINANCIAL STATEMENTS - (Continued)
June 30, 2014

NOTE 3 – DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS - (Continued)

3A. Cash and Investments - (Continued)

Investments

Custodial Credit Risk - Investments

The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. At June 30, 2014, the Authority's investment balance of \$905,294 was entirely covered by FDIC insurance or by pledged collateral held by the Authority's agent bank in the Authority's name.

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

State law limits investment in commercial paper, corporate bonds, and mutual bond funds to the top two ratings issued by nationally recognized statistical rating organization. As the Authority's investments consist entirely of certificate of deposits, credit risk is not applicable to the Housing Authority.

Concentration of Credit Risk

The Authority places no limit on the amount the Authority may invest in any one issuer. At June 30, 2014, the concentration of the Authority's investment (excluding cash deposits) was as follows:

| <u>Type of Investment</u> | <u>Market Value</u> | <u>Maturity Date</u> |
|---------------------------|---------------------|----------------------|
| Certificate of Deposit | \$ 150,861 | 2/15/2015 |
| Certificate of Deposit | 51,489 | 7/25/2014 |
| Certificate of Deposit | 52,159 | 5/25/2015 |
| Certificate of Deposit | 64,636 | 10/27/2014 |
| Certificate of Deposit | 109,188 | 8/25/2014 |
| Certificate of Deposit | 103,077 | 1/26/2015 |
| Certificate of Deposit | 109,135 | 9/30/2014 |
| Certificate of Deposit | 203,079 | 11/29/2015 |
| Certificate of Deposit | 31,822 | 11/12/2014 |
| Certificate of Deposit | 29,848 | 3/10/2015 |
| | \$ 905,294 | |

3B. Restricted Assets

Restricted assets at June 30, 2014 consist of the following:

| <u>Type of Restricted Assets</u> | <u>Cash</u> | <u>Investments</u> | <u>Accrued Interest</u> | <u>Total</u> |
|----------------------------------|-------------|--------------------|-------------------------|--------------|
| FSS Escrow | \$ 39,568 | \$ ---- | \$ ---- | \$ 39,568 |
| HAP funds | 24,934 | ---- | ---- | 24,934 |
| Security deposit | 82,383 | ---- | ---- | 82,383 |
| | \$ 146,885 | \$ ---- | \$ ---- | \$ 146,885 |

HOUSING AUTHORITY OF THE CITY OF SALINA
Salina, Kansas

NOTES TO THE BASIC FINANCIAL STATEMENTS - (Continued)
June 30, 2014

NOTE 3 – DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS - (Continued)

3C. Receivables

Receivables at June 30, 2014, consist of the following:

| | | | |
|--|--------|-------------------|--|
| Tenants - net of allowance | \$ | 8,185 | |
| Less: Allowance for doubtful account - tenants | | (950) | |
| Tenants - net of allowance | | 7,235 | |
| HUD | | 10,673 | |
| Miscellaneous | | 900 | |
| Interest | | 510 | |
| Total Accounts Receivable | \$ | <u>19,318</u> | |

3D. Capital Assets

A summary of capital asset activity for the year ended June 30, 2014 is as follows:

| | <u>Balance July 1, 2013</u> | <u>Additions</u> | <u>(Retirement)</u> | <u>Reclass/ Transfers in (out)</u> | <u>Balance June 30, 2014</u> |
|--|-------------------------------------|---------------------|---------------------|--|--------------------------------------|
| Non-depreciable assets: | | | | | |
| Land | \$ 1,456,891 | \$ - | \$ - | \$ - | \$ 1,456,891 |
| Construction in progress | 178,180 | 77,315 | - | (112,020) | 143,475 |
| Total non-depreciable assets | <u>1,635,071</u> | <u>77,315</u> | <u>-</u> | <u>(112,020)</u> | <u>1,600,366</u> |
| Depreciable assets: | | | | | |
| Building | 6,989,981 | - | - | 96,664 | 7,086,645 |
| Equipment - dwelling | 18,730 | - | - | - | 18,730 |
| Equipment - administration | 200,873 | 14,393 | (34,028) | - | 181,238 |
| Leasehold improvements | 683,926 | - | - | 15,356 | 699,282 |
| Total depreciable assets | <u>7,893,510</u> | <u>14,393</u> | <u>(34,028)</u> | <u>112,020</u> | <u>7,985,895</u> |
| Accumulated depreciation | <u>(3,554,310)</u> | <u>(270,101)</u> | <u>34,028</u> | <u>-</u> | <u>(3,790,383)</u> |
| Total depreciable assets, net | <u>4,339,200</u> | <u>(255,708)</u> | <u>-</u> | <u>112,020</u> | <u>4,195,512</u> |
| Capital assets, net | <u>\$ 5,974,271</u> | <u>\$ (178,393)</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 5,795,878</u> |

Depreciation expense is charged to programs as follows:

| Business-type Activities | |
|--------------------------------|-------------------|
| Low Rent | \$ 260,705 |
| COCC | 8,945 |
| Housing Choice Voucher | 451 |
| Total depreciation expense | <u>\$ 270,101</u> |

HOUSING AUTHORITY OF THE CITY OF SALINA
Salina, Kansas

NOTES TO THE BASIC FINANCIAL STATEMENTS - (Continued)
June 30, 2014

NOTE 3 – DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS - (Continued)

3E. Accounts Payable

Accounts payable at June 30, 2014, consist of the following:

| | |
|------------------------|------------------|
| Vendors & contractors | \$ 10,273 |
| PILOT | 26,044 |
| HUD | 448 |
| Accrued utilities | <u>788</u> |
| Total Accounts Payable | <u>\$ 37,553</u> |

3F. Non-current Liabilities

Non-current liabilities at June 30, 2014, consist of the following:

| | |
|-------------------------------|------------------|
| Accrued compensated absences | \$ 17,606 |
| FSS escrow | <u>39,568</u> |
| Total Non-Current Liabilities | <u>\$ 57,174</u> |

The following is the summary of changes in non-current liabilities:

| | <u>Balance July 1, 2013</u> | <u>Additions</u> | <u>Deductions</u> | <u>Balance June 30, 2014</u> | <u>Amounts Due within One Year</u> |
|------------------------------|-------------------------------------|------------------|-------------------|--------------------------------------|--|
| Accrued compensated absences | \$ 15,590 | \$ 2,016 | \$ --- | \$ 17,606 | \$ 1,956 |
| FSS escrow | <u>37,382</u> | <u>44,645</u> | <u>42,459</u> | <u>39,568</u> | <u>---</u> |
| | <u>\$ 52,972</u> | <u>\$ 46,661</u> | <u>\$ 42,459</u> | <u>\$ 57,174</u> | <u>\$ 1,956</u> |

3G. Inter-program Transactions and Balances

Operating Transfers

Transfers are used to move revenues from one program to the other program in accordance with the budgetary authorizations.

| | <u>Transfers In</u> | <u>Transfers Out</u> |
|----------------------|---------------------|----------------------|
| Low Rent | \$ 86,000 | \$ - |
| Capital Fund Program | <u>-</u> | <u>86,000</u> |
| | <u>\$ 86,000</u> | <u>\$ 86,000</u> |

HOUSING AUTHORITY OF THE CITY OF SALINA
Salina, Kansas

NOTES TO THE BASIC FINANCIAL STATEMENTS - (Continued)
June 30, 2014

NOTE 3 – DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS - (Continued)

3G. Inter-program Transactions and Balances - (Continued)

Inter-program Receivable/Payable

Inter-program receivable/payable is eliminated for financial statement presentation. The following inter-program receivable/payable existed at June 30, 2014:

| | <u>Due From</u> | <u>Due To</u> |
|------------------------|-------------------|--------------------|
| Low Rent | \$ 3,762 | \$ - |
| COCC | 25,200 | - |
| Housing Choice Voucher | | (25,200) |
| ROSS | - | (3,762) |
| | <u> </u> | <u> </u> |
| Total | <u>\$ 28,962</u> | <u>\$ (28,962)</u> |

NOTE 4 – OTHER NOTES

4A. Employee Pension Plan

Plan Description: The Authority participates in the Kansas Public Employees Retirement System (KPERS), a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, et seq. In addition to retirement benefits, KPERS also provides life insurance, long-term disability and death benefits. KPERS issues a publicly available financial report that includes financial statements and required supplementary information which can be obtained by writing to KPERS at 611 S. Kansas Avenue, Suite 100, Topeka, KS 66603 or by calling 1-888-275-5737.

Funding Policy: State statute require member employee to contribute 4%-6% of their covered salary. The employer contribution rate is determined annually based on the results of an annual actuarial valuation. KPERS is funded on an actuarial reserve basis. The plan required the Authority to contribute 7.94%-8.84% during FY 2014 of covered wages. Benefits are fully vested at the end of five years of service.

The employer contributions to KPERS for the years ended June 30, 2014, 2013 and 2012 were \$33,419, \$34,503 and \$33,737 respectively, equal to the statutory required contributions for each year.

4B. Contingencies

The Authority is subject to possible examinations made by Federal and State authorities who determine compliance with terms, conditions, laws and regulations governing other grants given to the Authority in the current and prior years. No significant violations of finance-related legal or contractual provisions occurred.

HOUSING AUTHORITY OF THE CITY OF SALINA
Salina, Kansas

NOTES TO THE BASIC FINANCIAL STATEMENTS - (Continued)
June 30, 2014

NOTE 4 – OTHER NOTES - (Continued)

4C. Commitments

At June 30, 2014, the Authority had the following pending Capital Fund, ROSS and Shelter Care Plus projects in progress. The commitments related to these projects are summarized as follows:

| | <u>Funds Approved</u> | <u>Funds Expended - Project to Date</u> | |
|------------------------------|---------------------------|---|--|
| <u>Capital Fund Program:</u> | | | |
| CFP 501-13 | \$ 199,447 | \$ 68,709 | |
| <u>ROSS:</u> | | | |
| ROSS 2013 | \$ 60,000 | \$ 3,763 | |
| <u>Shelter Care Plus:</u> | | | |
| SNAP 1203 | \$ 94,185 | \$ 69,806 | |

4D. Risk Management

The Authority is exposed to various risks of losses related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employee's health and life; and natural disasters. Claims liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. The Authority manages these various risks of loss as follows:

| <u>Type of Loss</u> | <u>Method Managed</u> |
|---|---|
| a. Torts, errors and omissions | Purchased insurance with Housing Authority Property Insurance, A Mutual Co. |
| b. Injuries to employees (workers' compensation) | Purchased insurance with Freestone Insurance Co. Claims are administered by the same company. |
| c. Physical property loss and natural disasters | Purchased commercial insurance with \$5,000 deductibles. |
| d. Health and life | Purchased health with Blue Cross Blue Shield of Kansas - Life insurance is provided by KPERS. |

Management believes such coverage is sufficient to preclude any significant uninsured losses to the Authority. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

4E. Financial Data Schedule

The Authority prepares its Financial Data Schedule (FDS) in accordance with HUD requirements in a prescribed format which differs from the presentation of the basic financial statements. The FDS format excludes depreciation expense, casualty losses and housing assistance payment (HAP) and includes investment income in operating activities, which differs from the presentation of basic financial statements.

HOUSING AUTHORITY OF THE CITY OF SALINA
Salina, Kansas

NOTES TO THE BASIC FINANCIAL STATEMENTS - (Continued)
June 30, 2014

NOTE 4 – OTHER NOTES - (Continued)

4F. Subsequent Events

Events that occur after the balance sheet date but before the financial statements were issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the balance sheet date are recognized in the accompanying financial statements. Subsequent events, which provide evidence about conditions that existed after the balance sheet date, require disclosure in the accompanying notes. Management evaluated the activity of the Authority through October 23, 2014 and concluded that no subsequent events have occurred that would require adjustment to or disclosures within these financial statements.

4G. Economic Dependency

The Authority is primarily dependent upon HUD for the funding of operations; therefore, the Authority is affected more by the federal budget than by local economic conditions. The funding of programs could be significantly affected by the 2015 federal budget.

HOUSING AUTHORITY OF THE CITY OF SALINA
Salina, Kansas

PHA'S STATEMENT OF CERTIFICATION OF ACTUAL MODERNIZATION COST
June 30, 2014

1. Actual Capital Fund Program costs are as follows:

| | <u>CFP 501-12</u> |
|---------------------------------------|----------------------|
| Funds approved | \$ 206,817 |
| Funds expended | <u>206,817</u> |
| Excess of Funds Approved | <u><u>\$ ---</u></u> |
| | |
| Funds advanced | \$ 206,817 |
| Funds expended | <u>206,817</u> |
| Excess (deficiency) of Funds Advanced | <u><u>\$ ---</u></u> |

2. The costs as shown on the Actual Cost Certificate dated February 14, 2014 submitted to HUD for approval is in agreement with the Authority's records as of June 30, 2014.
3. All costs have been paid and all related liabilities have been discharged through payments.

HOUSING AUTHORITY OF THE CITY OF SALINA
Salina, Kansas

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2014

| <u>Federal Grantor</u> | <u>Federal CFDA #</u> | <u>Expenditures</u> |
|--|---------------------------|-----------------------------------|
| <u>U.S. Department of Housing and Urban Development</u> | | |
| Low Rent Program | 14.850 | \$ 306,370 |
| Capital Fund Program | 14.872 | 185,640 |
| Housing Choice Vouchers | 14.871 | 1,135,988 |
| ROSS | 14.870 | 54,651 |
| Shelter Care Plus | 14.238 | <u>69,806</u> |
| Total Federal Awards | | \$ <u><u>1,752,455</u></u> |

Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Housing Authority of the City of Salina, Kansas and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

HOUSING AUTHORITY OF THE CITY OF SALINA
Salina, Kansas

FINANCIAL DATA SCHEDULE
Year Ended June 30, 2014

| | Project Total | 1 Business Activities | 14.238 Shelter Plus Care | 14.871 Housing Choice Vouchers | 14.870 Resident Opportunity and Supportive Services | COCC | Subtotal | ELIM | Total |
|---|------------------|--------------------------|--------------------------------|---|--|------------|--------------|-----------|--------------|
| 111 Cash - Unrestricted | \$219,260 | \$55,619 | \$1,266 | \$10,329 | | \$383,266 | \$669,740 | | \$669,740 |
| 113 Cash - Other Restricted | \$39,568 | \$0 | \$0 | \$24,934 | | | \$64,502 | | \$64,502 |
| 114 Cash - Tenant Security Deposits | \$82,383 | \$0 | \$0 | \$0 | | | \$82,383 | | \$82,383 |
| 100 Total Cash | \$341,211 | 55,619 | \$1,266 | \$35,263 | \$0 | \$383,266 | \$816,625 | \$0 | \$816,625 |
| 122 Accounts Receivable - HUD Other Projects | \$2,599 | \$0 | \$201 | \$4,111 | \$3,762 | | \$10,673 | | \$10,673 |
| 125 Accounts Receivable - Miscellaneous | | \$0 | \$0 | \$0 | | \$900 | \$900 | | \$900 |
| 126 Accounts Receivable - Tenants | \$8,185 | \$0 | \$0 | \$0 | | | \$8,185 | | \$8,185 |
| 126.1 Allowance for Doubtful Accounts -Tenants | -\$950 | \$0 | \$0 | \$0 | | | -\$950 | | -\$950 |
| 129 Accrued Interest Receivable | \$371 | \$139 | \$0 | \$0 | | | \$510 | | \$510 |
| 120 Total Receivables, Net of Allowances for Doubtful Accounts | \$10,205 | \$139 | \$201 | \$4,111 | \$3,762 | \$900 | \$19,318 | \$0 | \$19,318 |
| 131 Investments - Unrestricted | \$640,545 | \$264,749 | \$0 | \$0 | | | \$905,294 | | \$905,294 |
| 142 Prepaid Expenses and Other Assets | \$35,084 | \$0 | \$0 | \$163 | | \$539 | \$35,786 | | \$35,786 |
| 143 Inventories | \$26,977 | \$0 | \$0 | \$0 | | | \$26,977 | | \$26,977 |
| 143.1 Allowance for Obsolete Inventories | -\$1,349 | \$0 | \$0 | \$0 | | | -\$1,349 | | -\$1,349 |
| 144 Inter Program Due From | \$3,762 | \$0 | \$0 | \$0 | | \$25,200 | \$28,962 | -\$28,962 | \$0 |
| 150 Total Current Assets | \$1,056,435 | \$320,507 | \$1,467 | \$39,537 | \$3,762 | \$409,905 | \$1,831,613 | -\$28,962 | \$1,802,651 |
| 161 Land | \$1,415,417 | \$0 | \$0 | \$0 | | \$41,474 | \$1,456,891 | | \$1,456,891 |
| 162 Buildings | \$6,919,870 | \$0 | \$0 | \$0 | | \$166,775 | \$7,086,645 | | \$7,086,645 |
| 163 Furniture, Equipment & Machinery - Dwellings | \$18,730 | \$0 | \$0 | \$0 | | | \$18,730 | | \$18,730 |
| 164 Furniture, Equipment & Machinery - Administration | \$114,718 | \$0 | \$0 | \$12,593 | | \$53,927 | \$181,238 | | \$181,238 |
| 165 Leasehold Improvements | \$699,282 | \$0 | \$0 | \$0 | | \$0 | \$699,282 | | \$699,282 |
| 166 Accumulated Depreciation | -\$3,643,730 | \$0 | \$0 | -\$11,564 | | -\$135,089 | -\$3,790,383 | | -\$3,790,383 |
| 167 Construction in Progress | \$143,475 | \$0 | \$0 | \$0 | | | \$143,475 | | \$143,475 |
| 160 Total Capital Assets, Net of Accumulated Depreciation | \$5,667,762 | \$0 | \$0 | \$1,029 | \$0 | \$127,087 | \$5,795,878 | \$0 | \$5,795,878 |
| 180 Total Non-Current Assets | \$5,667,762 | \$0 | \$0 | \$1,029 | \$0 | \$127,087 | \$5,795,878 | \$0 | \$5,795,878 |

HOUSING AUTHORITY OF THE CITY OF SALINA
Salina, Kansas

FINANCIAL DATA SCHEDULE - (Continued)
Year Ended June 30, 2014

| | Project Total | 1 Business Activities | 14.238 Shelter Plus Care | 14.871 Housing Choice Vouchers | 14.870 Resident Opportunity and Supportive Services | COCC | Subtotal | ELIM | Total |
|--|------------------|--------------------------|--------------------------------|---|--|-----------|-------------|-----------|-------------|
| 190 Total Assets | \$6,724,197 | \$320,507 | \$1,467 | \$40,566 | \$3,762 | \$536,992 | \$7,627,491 | -\$28,962 | \$7,598,529 |
| 200 Deferred Outflow of Resources | | \$0 | \$0 | \$0 | | | \$0 | | \$0 |
| 290 Total Assets and Deferred Outflow of Resources | \$6,724,197 | \$320,507 | \$1,467 | \$40,566 | \$3,762 | \$536,992 | \$7,627,491 | -\$28,962 | \$7,598,529 |
| 312 Accounts Payable <= 90 Days | \$8,078 | \$0 | \$0 | \$301 | | \$1,894 | \$10,273 | | \$10,273 |
| 321 Accrued Wage/Payroll Taxes Payable | \$20,354 | \$0 | \$0 | \$4,198 | | \$10,284 | \$34,836 | | \$34,836 |
| 322 Accrued Compensated Absences - Current Portion | \$1,152 | \$0 | \$0 | \$57 | | \$747 | \$1,956 | | \$1,956 |
| 331 Accounts Payable - HUD PHA Programs | | \$0 | \$161 | \$287 | | | \$448 | | \$448 |
| 333 Accounts Payable - Other Government | \$26,044 | \$0 | \$0 | \$0 | | | \$26,044 | | \$26,044 |
| 341 Tenant Security Deposits | \$82,383 | \$0 | \$0 | \$0 | | | \$82,383 | | \$82,383 |
| 342 Unearned Revenue | \$11,559 | \$0 | \$0 | \$0 | | | \$11,559 | | \$11,559 |
| 346 Accrued Liabilities - Other | \$611 | \$0 | \$0 | \$89 | | \$88 | \$788 | | \$788 |
| 347 Inter Program - Due To | | \$0 | \$0 | \$25,200 | \$3,762 | | \$28,962 | -\$28,962 | \$0 |
| 310 Total Current Liabilities | \$150,181 | \$0 | \$161 | \$30,132 | \$3,762 | \$13,013 | \$197,249 | -\$28,962 | \$168,287 |
| 353 Non-current Liabilities - Other | \$39,568 | \$0 | \$0 | \$0 | | | \$39,568 | | \$39,568 |
| 354 Accrued Compensated Absences - Non Current | \$10,369 | \$0 | \$0 | \$516 | | \$6,721 | \$17,606 | | \$17,606 |
| 350 Total Non-Current Liabilities | \$49,937 | \$0 | \$0 | \$516 | \$0 | \$6,721 | \$57,174 | \$0 | \$57,174 |
| 300 Total Liabilities | \$200,118 | \$0 | \$161 | \$30,648 | \$3,762 | \$19,734 | \$254,423 | -\$28,962 | \$225,461 |
| 400 Deferred Inflow of Resources | | \$0 | \$0 | \$0 | | | \$0 | | \$0 |
| 508.4 Net Investment in Capital Assets | \$5,667,762 | | | \$1,029 | | \$127,087 | \$5,795,878 | | \$5,795,878 |
| 511.4 Restricted Net Position | | | | \$24,934 | | \$0 | \$24,934 | | \$24,934 |
| 512.4 Unrestricted Net Position | \$856,317 | \$320,507 | \$1,306 | -\$16,045 | \$0 | \$390,171 | \$1,552,256 | | \$1,552,256 |
| 513 Total Equity - Net Assets / Position | \$6,524,079 | \$320,507 | \$1,306 | \$9,918 | \$0 | \$517,258 | \$7,373,068 | \$0 | \$7,373,068 |
| 600 Total Liab., Def. Inflow of Res., and Equity - Net Assets / Position | \$6,724,197 | \$320,507 | \$1,467 | \$40,566 | \$3,762 | \$536,992 | \$7,627,491 | -\$28,962 | \$7,598,529 |

HOUSING AUTHORITY OF THE CITY OF SALINA
Salina, Kansas

FINANCIAL DATA SCHEDULE - (Continued)
Year Ended June 30, 2014

| | Project Total | 1 Business Activities | 14.238 Shelter Plus Care | 14.871 Housing Choice Vouchers | 14.870 Resident Opportunity and Supportive Services | COCC | Subtotal | ELIM | Total |
|---|---------------|-----------------------------|-----------------------------------|---|--|-----------|-------------|------------|-------------|
| 70300 Net Tenant Rental Revenue | \$279,428 | \$0 | \$0 | \$0 | | | \$279,428 | | \$279,428 |
| 70400 Tenant Revenue - Other | \$52,200 | \$0 | \$0 | \$0 | | | \$52,200 | | \$52,200 |
| 70500 Total Tenant Revenue | \$331,628 | \$0 | \$0 | \$0 | \$0 | \$0 | \$331,628 | \$0 | \$331,628 |
| 70600 HUD PHA Operating Grants | \$414,695 | \$0 | \$69,806 | \$1,135,988 | \$54,651 | | \$1,675,140 | | \$1,675,140 |
| 70610 Capital Grants | \$77,315 | \$0 | \$0 | \$0 | | | \$77,315 | | \$77,315 |
| 70710 Management Fee | | | | | | \$150,446 | \$150,446 | -\$150,446 | \$0 |
| 70720 Asset Management Fee | | | | | | \$19,440 | \$19,440 | -\$19,440 | \$0 |
| 70730 Book Keeping Fee | | | | | | \$43,853 | \$43,853 | -\$43,853 | \$0 |
| 70740 Front Line Service Fee | | | | | | | | | |
| 70750 Other Fees | | | | | | \$34,328 | \$34,328 | -\$34,328 | \$0 |
| 70700 Total Fee Revenue | | | | | | \$248,067 | \$248,067 | -\$248,067 | \$0 |
| 71100 Investment Income - Unrestricted | \$3,875 | \$2,243 | \$4 | \$103 | | \$2,203 | \$8,428 | | \$8,428 |
| 71400 Fraud Recovery | | \$0 | \$0 | \$9,066 | | | \$9,066 | | \$9,066 |
| 71500 Other Revenue | \$29,948 | \$0 | \$0 | \$3,651 | | \$886 | \$34,485 | | \$34,485 |
| 70000 Total Revenue | \$857,461 | \$2,243 | \$69,810 | \$1,148,808 | \$54,651 | \$251,156 | \$2,384,129 | -\$248,067 | \$2,136,062 |
| 91100 Administrative Salaries | \$106,767 | \$0 | \$0 | \$48,564 | \$38,247 | \$112,317 | \$305,895 | | \$305,895 |
| 91200 Auditing Fees | \$4,320 | \$0 | \$0 | \$1,440 | | \$1,440 | \$7,200 | | \$7,200 |
| 91300 Management Fee | \$104,408 | \$360 | \$342 | \$45,336 | | | \$150,446 | -\$150,446 | \$0 |
| 91310 Book-keeping Fee | \$14,175 | \$0 | \$1,343 | \$28,335 | | | \$43,853 | -\$43,853 | \$0 |
| 91500 Employee Benefit contributions - Administrative | \$38,611 | \$0 | \$0 | \$21,048 | \$16,404 | \$39,615 | \$115,678 | | \$115,678 |
| 91600 Office Expenses | \$42,322 | \$0 | \$3,663 | \$19,327 | | \$7,685 | \$72,997 | -\$34,328 | \$38,669 |
| 91700 Legal Expense | \$723 | \$0 | \$0 | \$0 | | \$192 | \$915 | | \$915 |
| 91800 Travel | \$1,947 | \$0 | \$0 | \$160 | | \$6,447 | \$8,554 | | \$8,554 |
| 91900 Other | \$14,605 | \$0 | \$0 | \$6,930 | | \$14,689 | \$36,224 | | \$36,224 |
| 91000 Total Operating - Administrative | \$327,878 | \$360 | \$5,348 | \$171,140 | \$54,651 | \$182,385 | \$741,762 | -\$228,627 | \$513,135 |
| 92000 Asset Management Fee | \$19,440 | \$0 | \$0 | \$0 | | | \$19,440 | -\$19,440 | \$0 |

HOUSING AUTHORITY OF THE CITY OF SALINA
Salina, Kansas

FINANCIAL DATA SCHEDULE - (Continued)
Year Ended June 30, 2014

| | Project Total | 1 Business Activities | 14.238 Shelter Plus Care | 14.871 Housing Choice Vouchers | 14.870 Resident Opportunity and Supportive Services | COCC | Subtotal | ELIM | Total |
|---|---------------|-----------------------------|-----------------------------------|---|--|-----------|-------------|------------|-----------|
| 92200 Relocation Costs | \$1,037 | \$0 | \$0 | \$0 | | | \$1,037 | | \$1,037 |
| 92400 Tenant Services - Other | \$3,106 | \$0 | \$0 | \$0 | | | \$3,106 | | \$3,106 |
| 92500 Total Tenant Services | \$4,143 | \$0 | \$0 | \$0 | \$0 | \$0 | \$4,143 | \$0 | \$4,143 |
| 93100 Water | \$1,449 | \$0 | \$0 | \$0 | | \$214 | \$1,663 | | \$1,663 |
| 93200 Electricity | \$6,550 | \$0 | \$0 | \$0 | | \$890 | \$7,440 | | \$7,440 |
| 93300 Gas | \$4,684 | \$0 | \$0 | \$0 | | \$198 | \$4,882 | | \$4,882 |
| 93600 Sewer | | \$0 | \$0 | \$0 | | \$61 | \$61 | | \$61 |
| 93800 Other Utilities Expense | \$1,380 | \$0 | \$0 | \$0 | | | \$1,380 | | \$1,380 |
| 93000 Total Utilities | \$14,063 | \$0 | \$0 | \$0 | \$0 | \$1,363 | \$15,426 | \$0 | \$15,426 |
| 94100 Ordinary Maintenance and Operations - Labor | \$71,613 | \$0 | \$0 | \$0 | | | \$71,613 | | \$71,613 |
| 94200 Ordinary Maintenance and Operations - Materials and Other | \$40,746 | \$0 | \$0 | \$175 | | \$739 | \$41,660 | | \$41,660 |
| 94300 Ordinary Maintenance and Operations Contracts | \$101,383 | \$0 | \$0 | \$0 | | \$1,893 | \$103,276 | | \$103,276 |
| 94500 Employee Benefit Contributions - Ordinary Maintenance | \$30,641 | \$0 | \$0 | \$0 | | | \$30,641 | | \$30,641 |
| 94000 Total Maintenance | \$244,383 | \$0 | \$0 | \$175 | \$0 | \$2,632 | \$247,190 | \$0 | \$247,190 |
| 95200 Protective Services - Other Contract Costs | \$84 | \$0 | \$0 | \$42 | | \$42 | \$168 | | \$168 |
| 95000 Total Protective Services | \$84 | \$0 | \$0 | \$42 | \$0 | \$42 | \$168 | \$0 | \$168 |
| 96110 Property Insurance | \$76,594 | \$0 | \$0 | \$0 | | | \$76,594 | | \$76,594 |
| 96120 Liability Insurance | \$1,129 | \$0 | \$0 | \$623 | | \$566 | \$2,318 | | \$2,318 |
| 96130 Workmen's Compensation | \$6,479 | \$0 | \$0 | \$1,665 | | \$2,899 | \$11,043 | | \$11,043 |
| 96140 All Other Insurance | \$3,952 | \$0 | \$0 | \$0 | | \$340 | \$4,292 | | \$4,292 |
| 96100 Total insurance Premiums | \$88,154 | \$0 | \$0 | \$2,288 | \$0 | \$3,805 | \$94,247 | \$0 | \$94,247 |
| 96200 Other General Expenses | | \$972 | \$0 | \$911 | | | \$1,883 | | \$1,883 |
| 96300 Payments in Lieu of Taxes | \$26,044 | \$0 | \$0 | \$0 | | | \$26,044 | | \$26,044 |
| 96400 Bad debt - Tenant Rents | \$8,137 | \$0 | \$0 | \$0 | | | \$8,137 | | \$8,137 |
| 96000 Total Other General Expenses | \$34,181 | \$972 | \$0 | \$911 | \$0 | \$0 | \$36,064 | \$0 | \$36,064 |
| 96900 Total Operating Expenses | \$732,326 | \$1,332 | \$5,348 | \$174,556 | \$54,651 | \$190,227 | \$1,158,440 | -\$248,067 | \$910,373 |

HOUSING AUTHORITY OF THE CITY OF SALINA
Salina, Kansas

FINANCIAL DATA SCHEDULE - (Continued)
Year Ended June 30, 2014

| | Project Total | 1 Business Activities | 14.238 Shelter Plus Care | 14.871 Housing Choice Vouchers | 14.870 Resident Opportunity and Supportive Services | COCC | Subtotal | ELIM | Total |
|---|---------------|-----------------------------|-----------------------------------|---|--|-------------|-------------|------------|-------------|
| 97000 Excess of Operating Revenue over Operating Expenses | \$125,135 | \$911 | \$64,462 | \$974,252 | \$0 | \$60,929 | \$1,225,689 | \$0 | \$1,225,689 |
| 97200 Casualty Losses - Non-capitalized | \$25,122 | \$0 | \$0 | \$0 | | | \$25,122 | | \$25,122 |
| 97300 Housing Assistance Payments | | \$0 | \$64,457 | \$1,008,471 | | | \$1,072,928 | | \$1,072,928 |
| 97400 Depreciation Expense | \$260,705 | \$0 | \$0 | \$451 | | \$8,945 | \$270,101 | | \$270,101 |
| 90000 Total Expenses | \$1,018,153 | \$1,332 | \$69,805 | \$1,183,478 | \$54,651 | \$199,172 | \$2,526,591 | -\$248,067 | \$2,278,524 |
| 10010 Operating Transfer In | \$86,000 | \$0 | \$0 | \$0 | | | \$86,000 | -\$86,000 | \$0 |
| 10020 Operating transfer Out | -\$86,000 | \$0 | \$0 | \$0 | | | -\$86,000 | \$86,000 | \$0 |
| 10000 Excess (Deficiency) of Total Revenue Over (Under) Total Expenses | -\$160,692 | \$911 | \$5 | -\$34,670 | \$0 | \$51,984 | -\$142,462 | \$0 | -\$142,462 |
| 11020 Required Annual Debt Principal Payments | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | | \$0 |
| 11030 Beginning Equity | \$5,828,552 | \$319,596 | \$1,301 | \$44,588 | \$0 | \$1,321,493 | \$7,515,530 | | \$7,515,530 |
| 11040 Prior Period Adjustments, Equity Transfers and Correction of Errors | \$856,219 | | | | | -\$856,219 | \$0 | | \$0 |
| 11170 Administrative Fee Equity | | | | -\$15,016 | | | -\$15,016 | | -\$15,016 |
| 11180 Housing Assistance Payments Equity | | | | \$24,934 | | | \$24,934 | | \$24,934 |
| 11190 Unit Months Available | 1919 | 0 | 180 | 3884 | 0 | 0 | 5983 | | 5983 |
| 11210 Number of Unit Months Leased | 1875 | 0 | 179 | 3790 | 0 | 0 | 5844 | | 5844 |
| 11270 Excess Cash | \$746,808 | | | | | | \$746,808 | | \$746,808 |
| 11620 Building Purchases | \$77,315 | | | | | \$0 | \$77,315 | | \$77,315 |
| 11640 Furniture & Equipment - Administrative Purchases | \$337 | | | | | \$0 | \$337 | | \$337 |

**INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Commissioners
Housing Authority of the City of Salina
Salina, Kansas

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the Housing Authority of the City of Salina (Authority), Kansas, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Authority’s basic financial statements, and have issued my report thereon dated October 23, 2014.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered the Authority’s internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority’s internal control. Accordingly, I do not express an opinion on the effectiveness of the Authority’s internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority’s financial statements are free from material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority'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.

Audit Solutions, LLC

Chesterfield, Missouri

October 23, 2014

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

Board of Commissioners
Housing Authority of the City of Salina
Salina, Kansas

Report on Compliance for Each Major Federal Program

I have audited the City of Housing Authority of the City of Salina (Authority), Kansas's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended June 30, 2014. The Authority'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 the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

My responsibility is to express an opinion on compliance for each of the Authority's major federal programs based on my audit of the types of compliance requirements referred to above. I conducted my 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I 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 the Authority's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances.

I believe that my audit provides a reasonable basis for my opinion on compliance for each major federal program. However, my audit does not provide a legal determination of the Authority's compliance.

Opinion on Each Major Federal Program

In my opinion, the Housing Authority of the City of Salina, Kansas, complied, in all material respects, 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 June 30, 2014.

Report on Internal Control Over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing my audit of compliance, I considered the Authority'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 OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of the Authority's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a 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.

My 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. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of my testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Audit Solutions, LLC

Chesterfield, Missouri

October 23, 2014

HOUSING AUTHORITY OF THE CITY OF SALINA
Salina, Kansas

SIGNIFICANT DEFICIENCIES COMMUNICATED IN PRIOR YEAR
June 30, 2014

The prior audit report for the year ended June 30, 2013 contained the following audit finding:

Financial Statement Findings

None noted.

Federal Award Findings

None noted.

HOUSING AUTHORITY OF THE CITY OF SALINA
Salina, Kansas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2014

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

➤ Material weakness(es) identified? No

➤ Significant deficiency(ies) identified? No

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major programs:

➤ Material weakness(es) identified? No

➤ Significant deficiency(ies) identified? No

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of Circular A-133? No

Identification of major programs:

➤ CFDA #14.871 Housing Choice Voucher program

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? Yes

Section II - Financial Statement Findings

The current audit report for the year ended June 30, 2014 disclosed no Financial Statement audit finding.

Section III - Federal Award Findings and Questioned Costs

The current audit report for the year ended June 30, 2014 disclosed no Federal Awards audit finding and questioned costs.