

**Housing Authority of the City of
Clay Center, Kansas**

**Financial Statements and
Independent Auditors' Report**

December 31, 2017



Housing Authority of the City of Clay Center, Kansas

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INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Housing Authority of the City of Clay Center, Kansas
Clay Center, Kansas

We have audited the accompanying financial statements of the Housing Authority of the City of Clay Center, Kansas (the Authority), as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the index.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of the Authority as of December 31, 2017, and the respective changes in net position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying Schedule of Housing Authority of the City of Clay Center's Proportionate Share of the Net Position Liability (Asset), the Schedule of Housing Authority of the City of Clay Center's Contributions, and the Schedule of Expenditures of Federal Awards, as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), is presented for purposes of additional analysis and is not a required part of the basic financial statements.

Such information is the responsibility of management and was 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 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 above described supplemental information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 23, 2018, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is 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 of the internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Lutz & Company, P.C.

August 23, 2018

Housing Authority of the City of Clay Center, Kansas

Management's Discussion and Analysis (MD&A)

December 31, 2017

Management's Discussion and 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 and Analysis – for State and Local Governments* issued June 1999.

Our discussion and analysis of the Housing Authority of the City of Clay Center, Kansas's financial performance provides an overview of the Authority's financial activities for the fiscal year ended December 31, 2017, for the major funds and the related component unit. Please read the MD&A in conjunction with the Authority's financial statements.

For accounting purposes, the Authority is classified as a proprietary fund. Proprietary 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. Proprietary 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 proprietary funds is on income measurement, which, together with the maintenance of equity, is an important financial indication.

Overview of the Financial Statements

This annual report includes this Management Discussion and Analysis report, the Basic Financial Statements and the Notes to the Financial Statements. This annual report also contains the Schedule of Expenditures of Federal Awards. The Authority's financial statements are presented as fund level financial statements because the Authority only has proprietary funds.

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

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds. 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 Statement of Cash Flows – Proprietary Funds 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.

Housing Authority of the City of Clay Center, Kansas

Management's Discussion and Analysis (MD&A)

December 31, 2017

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

Financial Highlights

The Authority accounts for its housing activities in two programs. The Authority has a program that provides housing for qualified tenants funded by U.S. Department of Housing and Urban Development through its Rental Assistance Demonstration (RAD) program. The Authority also provides a low rent program for qualified tenants through the U.S. Department of Agriculture's Rural Development program.

Our analysis below focuses on the net position and the change in net position of the Authority as a whole and not the individual programs.

	Net Position			
	2017	2016	Increase (Decrease)	Percent Change
Current Assets, Net of Intraprogram	\$ 453,305	\$ 384,189	\$ 69,116	18.0%
Capital Assets, Net	4,166,997	4,698,177	(531,180)	-11.3%
Total Assets	<u>4,620,302</u>	<u>5,082,366</u>	<u>(462,064)</u>	-9.1%
Deferred Outflow of Resources	41,609	59,986	(18,377)	-30.6%
Current Liabilities, Net of Intraprogram	66,813	85,613	(18,800)	-22.0%
Noncurrent Liabilities	1,219,662	1,242,667	(23,005)	-1.9%
Total Liabilities	<u>1,286,475</u>	<u>1,328,280</u>	<u>(41,805)</u>	-3.1%
Deferred Inflow of Resources	6,882	4,436	2,446	55.1%
Net Position				
Net Investment in Capital Assets	3,072,846	3,591,544	(518,698)	-14.4%
Restricted	244,504	180,582	63,922	35.4%
Unrestricted	51,204	37,510	13,694	36.5%
Total Net Position:	<u>3,368,554</u>	<u>3,809,636</u>	<u>(441,082)</u>	-11.6%
Unrestricted Resources	<u>\$ 141,988</u>	<u>\$ 117,994</u>	<u>\$ 23,994</u>	20.3%

Total assets for the year ended December 31, 2016, were \$5,082,366 and \$4,620,302 at December 31, 2017. This decrease of \$462,064, or 9.1%, is a combination of a decrease in capital assets offset by an increase in current assets. Current assets increased as a result of positive cash flow from operations while capital assets decreased due to current year depreciation in excess of current year capital asset additions.

Housing Authority of the City of Clay Center, Kansas

Management's Discussion and Analysis (MD&A)

December 31, 2017

Total liabilities for the year ended December 31, 2016, were \$1,328,280 and \$1,286,475 at December 31, 2017. This decrease of \$41,805, or 3.1%, was due to a decrease in both current and noncurrent liabilities. Current liabilities decreased as a result of a decrease in accounts payable. Noncurrent liabilities decreased as a result of a decrease in the Authority's rural development loan and proportionate share of the net pension liability.

Changes in Net Position

	2017	2016	Increase (Decrease)	Percent Change
Revenues:				
Tenant Revenue	\$ 696,754	\$ 689,493	\$ 7,261	1.1%
Rural Development Rental Assistance	14,586	15,201	(615)	-4.0%
Grants	-	37,500	(37,500)	-100.0%
Interest Subsidy	1,431	909	522	57.4%
Investment Income	1,197	1,240	(43)	-3.5%
Other Income	76,129	67,825	8,304	12.2%
Total Revenues	790,097	812,168	(22,071)	-2.7%
Expenses:				
Administrative	197,833	203,593	(5,760)	-2.8%
Utilities	167,330	155,654	11,676	7.5%
Ordinary Maintenance and Operations	247,540	272,925	(25,385)	-9.3%
Insurance	48,282	44,500	3,782	8.5%
General	14,240	17,540	(3,300)	-18.8%
Depreciation	546,670	550,730	(4,060)	-0.7%
Interest	9,284	10,024	(740)	-7.4%
Total Expenses	1,231,179	1,254,966	(23,787)	-1.9%
Increase (Decrease) in Net Position	\$ (441,082)	\$ (442,798)	\$ 1,716	-0.4%

It is apparent from the above schedule that total revenue decreased for the year ended December 31, 2017. This decrease was due to a decrease in capital grant funds, offset by an increase in other income. The Authority applied for and received a FEMA grant in the prior year, resulting in a greater amount of revenue in the prior year. Other income increased due to increased revenue from other tenant charges compared to prior year.

Total expenses of the Authority decreased \$23,787, or 1.9%, for the year ended December 31, 2017. This decrease was mainly due to a decrease in ordinary maintenance and operations. Ordinary maintenance and operations decreased due to a decrease in wages earned for maintenance employees.

Housing Authority of the City of Clay Center, Kansas

Management's Discussion and Analysis (MD&A)

December 31, 2017

At December 31, 2017, the Authority had \$4,166,997 invested in (net) capital assets. This amount represents a net decrease of \$531,180, which is mainly attributable to current year depreciation in excess of capital asset additions.

Capital Assets at Year End

	2017	2016	Increase (Decrease)	Percent Change
Land	\$ 51,683	\$ 51,683	\$ -	0.00%
Buildings	12,289,188	12,273,698	15,490	0.13%
Furniture, Equipment & Machinery - Admin	49,256	49,256	-	0.00%
Furniture, Equipment & Machinery - Dwelling	19,718	19,718	-	0.00%
Leasehold Improvements	372,911	372,911	-	0.00%
Subtotal	12,782,756	12,767,266	15,490	0.12%
Accumulated Depreciation	(8,615,759)	(8,069,089)	(546,670)	6.77%
Net Capital Assets	<u>\$ 4,166,997</u>	<u>\$ 4,698,177</u>	<u>\$ (531,180)</u>	<u>-11.31%</u>

Current year major additions were: Elevator rope and flooring.

Economic Factors

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 2017 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 Authority's finances and to show the Authority's accountability for the money it receives. If you have questions about this report or wish to request additional financial information, contact Executive Director, at the Housing Authority of the City of Clay Center, Kansas, 330 West Court, Clay Center, Kansas 67432, telephone number (785) 632-2100.

Housing Authority of the City of Clay Center, Kansas

Statement of Net Position – Proprietary Funds

December 31, 2017

	Rental			Component Unit	
	Assistance	Rural		Affordable	Total
	Demonstration	Development	Total	Housing, LP	Report Entity
CURRENT ASSETS					
Unrestricted					
Cash and Cash Equivalents	\$ 137,457	\$ 7,052	\$ 144,509	\$ 32,691	\$ 177,200
Accounts Receivable	2,649	8	2,657	6,346	9,003
Prepaid Insurance	12,151	3,315	15,466	7,132	22,598
Total Unrestricted Current Assets	152,257	10,375	162,632	46,169	208,801
Restricted					
Cash and Cash Equivalents	-	171,882	171,882	72,622	244,504
Total Restricted Current Assets	-	171,882	171,882	72,622	244,504
Total Current Assets	152,257	182,257	334,514	118,791	453,305
CAPITAL ASSETS					
Land, Structures and Equipment	3,184,439	1,192,463	4,376,902	8,405,854	12,782,756
Accumulated Depreciation	(2,533,662)	(733,225)	(3,266,887)	(5,348,872)	(8,615,759)
Total Capital Assets	650,777	459,238	1,110,015	3,056,982	4,166,997
TOTAL ASSETS	803,034	641,495	1,444,529	3,175,773	4,620,302
DEFERRED OUTFLOW OF RESOURCES	\$ 18,308	\$ 4,993	\$ 23,301	\$ 18,308	\$ 41,609

See Notes to Financial Statements.

Housing Authority of the City of Clay Center, Kansas

Statement of Net Position – Proprietary Funds

December 31, 2017

	Rental		Total	Component Unit	
	Assistance Demonstration	Rural Development		Affordable Housing, LP	Total Report Entity
CURRENT LIABILITIES					
Accounts Payable	\$ 168	\$ 36	\$ 204	\$ 132	\$ 336
Accrued Compensated Absences	4,824	1,316	6,140	4,824	10,964
Tenant Prepaid Rents	2,005	929	2,934	1,984	4,918
Tenant Security Deposits	15,363	6,404	21,767	16,346	38,113
Current Portion on Long-Term Debt	-	12,482	12,482	-	12,482
Total Current Liabilities	22,360	21,167	43,527	23,286	66,813
NONCURRENT LIABILITIES					
Rural Development Loan Payable	-	731,669	731,669	-	731,669
Net Pension Liability	60,717	16,559	77,276	60,717	137,993
FHLB Affordable Housing Loan Payable	-	-	-	350,000	350,000
Total Noncurrent Liabilities	60,717	748,228	808,945	410,717	1,219,662
TOTAL LIABILITIES	83,077	769,395	852,472	434,003	1,286,475
DEFERRED INFLOW OF RESOURCES	3,028	826	3,854	3,028	6,882
NET POSITION					
Net Investment in Capital Assets	650,777	(284,913)	365,864	2,706,982	3,072,846
Restricted	-	171,882	171,882	72,622	244,504
Unrestricted	84,460	(10,702)	73,758	(22,554)	51,204
Total Net Position	\$ 735,237	\$ (123,733)	\$ 611,504	\$ 2,757,050	\$ 3,368,554

See Notes to Financial Statements.

Housing Authority of the City of Clay Center, Kansas

Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds

Year Ended December 31, 2017

	Rental			Component Unit	
	Assistance	Rural		Affordable	Total
	Demonstration	Development	Total	Housing, LP	Report Entity
OPERATING REVENUE					
Dwelling Rent	\$ 292,992	\$ 78,915	\$ 371,907	\$ 304,816	\$ 676,723
Excess Utilities/Other Tenant Revenue	8,641	-	8,641	11,390	20,031
Rural Development Rental Assistance	-	14,586	14,586	-	14,586
Other Income	36,781	11,165	47,946	28,183	76,129
Total Operating Revenue	338,414	104,666	443,080	344,389	787,469
OPERATING EXPENSES					
Administrative	84,100	25,867	109,967	87,866	197,833
Utilities	72,951	11,572	84,523	82,807	167,330
Ordinary Maintenance and Operations	107,249	32,823	140,072	107,468	247,540
Insurance	17,711	6,243	23,954	24,328	48,282
General	3,950	1,843	5,793	8,447	14,240
Depreciation	105,502	58,173	163,675	382,995	546,670
Total Operating Expenses	391,463	136,521	527,984	693,911	1,221,895
Net Operating Income (Loss)	(53,049)	(31,855)	(84,904)	(349,522)	(434,426)
NONOPERATING REVENUES/(EXPENSES)					
Interest Income	334	590	924	273	1,197
Interest Subsidy	-	1,431	1,431	-	1,431
Interest Expense	-	(9,284)	(9,284)	-	(9,284)
Total Nonoperating Revenues/(Expenses)	334	(7,263)	(6,929)	273	(6,656)
Change in Net Position	(52,715)	(39,118)	(91,833)	(349,249)	(441,082)
Net Position (Deficit), December 31, 2016	787,952	(84,615)	703,337	3,106,299	3,809,636
Net Position (Deficit), December 31, 2017	\$ 735,237	\$ (123,733)	\$ 611,504	\$ 2,757,050	\$ 3,368,554

See Notes to Financial Statements.

Housing Authority of the City of Clay Center, Kansas

Statement of Cash Flows – Proprietary Funds

Year Ended December 31, 2017

	Rental Assistance Demonstration	Rural Development	Total	Component Unit Affordable Housing, LP	Total Report Entity
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash Received from Tenants	\$ 301,681	\$ 79,963	\$ 381,644	\$ 327,910	\$ 709,554
Cash Received from Operating Grants	-	14,586	14,586	-	14,586
Cash Received from Other Operating Activities	36,781	11,165	47,946	28,183	76,129
Cash Payments for Goods and Services	(166,499)	(42,471)	(208,970)	(164,077)	(373,047)
Cash Payments to Employees	(136,035)	(33,497)	(169,532)	(136,744)	(306,276)
Net Cash Provided by (Used in) Operating Activities	35,928	29,746	65,674	55,272	120,946
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Purchase of Equipment	-	-	-	(15,490)	(15,490)
Interest Paid	-	(7,853)	(7,853)	-	(7,853)
Loan Principal Paid	-	(12,482)	(12,482)	-	(12,482)
Net Cash Provided by (Used in) Capital and Related Financing Activities	-	(20,335)	(20,335)	(15,490)	(35,825)
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest Received	334	590	924	273	1,197
Net Cash Provided by (Used in) Investing Activities	334	590	924	273	1,197
Net Increase (Decrease) in Cash and Cash Equivalents	36,262	10,001	46,263	40,055	86,318
Cash and Cash Equivalents, Beginning of Year	101,195	168,933	270,128	65,258	335,386
Cash and Cash Equivalents, End of Year	\$ 137,457	\$ 178,934	\$ 316,391	\$ 105,313	\$ 421,704

See Notes to Financial Statements.

Housing Authority of the City of Clay Center, Kansas

Statement of Cash Flows – Proprietary Funds

Year Ended December 31, 2017

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES

Operating Income (Loss)	\$	(53,049)	\$	(31,855)	\$	(84,904)	\$	(349,522)	\$	(434,426)
Adjustment to Reconcile Income to Net Cash from Operating Income										
Depreciation		105,502		58,173		163,675		382,995		546,670
(Increase) Decrease in Assets										
Accounts Receivable		(1,919)		669		(1,250)		15,357		14,107
Prepays		(2,171)		820		(1,351)		4,446		3,095
(Increase) Decrease in Deferred Outflows		8,086		2,205		10,291		8,086		18,377
Increase (Decrease) in Liabilities										
Net Pension Liability		(4,630)		(1,263)		(5,893)		(4,630)		(10,523)
Deferred Income		348		567		915		(1,534)		(619)
Accounts Payable		(15,150)		(33)		(15,183)		(190)		(15,373)
Tenant Security Deposits		1,619		(188)		1,431		(2,119)		(688)
Accrued Liabilities		(3,783)		357		(3,426)		1,307		(2,119)
Increase (Decrease) in Deferred Inflows		1,075		294		1,369		1,076		2,445
Net Cash Provided by (Used in) Operating Activities	\$	35,928	\$	29,746	\$	65,674	\$	55,272	\$	120,946

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Interest Paid	\$	-	\$	6,422	\$	6,422	\$	-	\$	6,422
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See Notes to Financial Statements.

Housing Authority of the City of Clay Center, Kansas

Notes to Financial Statements

December 31, 2017

1. General Statement and Summary of Significant Accounting Policies

General Statement

The Authority was created under the provisions of the laws of the State of Kansas. The purpose of the agency was to administer Public Housing Programs authorized by the United States Housing Act. The governing board is appointed by the mayor of the City of Clay Center. The governing board employs executives; authorizes pursuant to that agency's regulations and statutory authorizations; and causes the agency to construct, own, and operate housing facilities. The financial liability of the Authority is essentially supported by the operating and debt service subsidies received under contract from the Federal government. The Housing Authority of the City of Clay Center is not considered a component unit of any other agency. In 2014, the Authority converted its units from Public Housing to Rental Assistance Demonstration.

The 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. In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the Authority has elected to apply all applicable Financial Accounting Standards Board Statements and Interpretations, including those issued after November 30, 1989, except for those pronouncements that conflict with or contradict GASB pronouncements.

The more significant accounting policies of the Authority are described below.

Reporting Entity

In determining how to define the reporting entity, management has considered all potential component units. The decision to include a component unit in the reporting entity was made by applying the criteria set forth in GASB Statement No. 61. These criteria state that the financial reporting entity consist of (a) the primary government, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the primary government is not accountable, but for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Based on these criteria, the Clay Center Affordable Housing, LP, should be included in the financial statements of the Authority. The board of commissioners and the executive director of the Housing Authority of the City of Clay Center, Kansas, act as the same for the Clay Center Affordable Housing, LP.

Housing Authority of the City of Clay Center, Kansas

Notes to Financial Statements

December 31, 2017

Measurement Focus and Basis of Accounting

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 outflow of resources, liabilities, deferred inflow of resources, net position, revenues and expenditures or expenses, as appropriate.

Proprietary Fund Type - The Authority uses a Proprietary Fund Type to account for the activities of the Authority in a manner similar to commercial enterprises. 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, if applicable.

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 (whether current or non-current), and deferred inflow of resources are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Fund Net Position presents increases (revenues) and decreases (expenses) in total 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.

Operating and Non-operating Revenues and Expenses - The Authority distinguishes between operating and non-operating 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 and other tenant charges. Grants, which finance current operations, are reported as operating revenues. Operating expenses include the costs 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 non-operating revenue and expenses.

Major Fund Determination - The reporting model as defined in Statement No. 34 established criteria for the determination of major funds. If non-major funds exist, these funds would be combined in a single column in the fund financial statements. No non-major funds exist.

The Authority reports the following major funds

Rural Development: This fund accounts for the operation and maintenance of 20 housing units which are owned by the Authority and financed by the U.S. Department of Agriculture. The development of the projects was funded primarily by Rural Development through low-interest loans which are subsidized by Rural Development through interest subsidy and rental assistance.

Housing Authority of the City of Clay Center, Kansas

Notes to Financial Statements

December 31, 2017

Rental Assistance Demonstration: This fund accounts for the activity of the former public housing program after the transition to project based voucher assistance effective December 1, 2014. The Authority applied for and received approval to convert all of the public housing units to Section 8 Project Based Voucher units. The program is still subsidized by HUD, but now through the Section 8 Program.

These are the only programs of the Authority and are considered major funds.

Budgetary Process

The Authority annually prepares an estimate (budget) of its operations for the upcoming year. The Authority uses the budget for management purposes. The budget is adopted by the Board of Commissioners.

Use of Estimates

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

Cash and Cash Equivalents

For purposes of reporting cash flows, all highly liquid investments (including restricted assets) with an initial maturity of three months or less are considered to be cash equivalents.

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. Tenant accounts are reviewed each month. If a tenant has a significant balance at the end of the month, they receive a 14/30 notice (14 days to pay or 30 days to vacate the apartment). If a balance remains 30 days after the final billing is sent to a former tenant, the Authority sends a collection letter every 30 days for 3 cycles to the former tenant. Once the outstanding balance is over 90 days delinquent it is turned over to collections in an attempt to collect.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future periods. These payments are recorded as prepaid expenses.

Housing Authority of the City of Clay Center, Kansas

Notes to Financial Statements

December 31, 2017

Investments

Investments are reported 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. Investments in certificates of deposits are reported at fair value, with fair value being cost plus interest earned. Cash and Cash Investments are available upon demand and are considered to be "cash equivalents" when preparing these financial statements.

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 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.

Capital Assets

Capital assets owned by the Authority are recorded at cost or, if contributed property, at their fair market value at the time of contribution. Repairs and maintenance are recorded as expenses; renewals and betterments are capitalized. Assets capitalized have an original cost of \$5,000 or more and over a one year of life. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Buildings	20-40 years
Building improvements	10-40 years
Furniture and fixtures	5-7 years
Equipment	3-10 years

Compensated Absences

It is the Authority's policy to allow employees to accumulate up to 12 days (18 days for employees with over 10 years of service) of earned but unused vacation time. These amounts are charged to expense and a corresponding liability is established when earned. An employee may accumulate up to 120 days of earned but unused sick leave. Employees will not be paid for unused sick leave when their employment ends, therefore, no liability is established.

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.

Housing Authority of the City of Clay Center, Kansas

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December 31, 2017

Grant Revenues:

Grant revenues, net of estimated uncollectible amounts, if any, are recognized when all applicable eligibility requirements are met in accordance with GASB Statement No. 33. Grants received by the Authority before the eligibility requirements are met are reported as deferred inflow of resources in accordance with GASB Statement No. 65.

Income Taxes

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

Advertising

The Authority's policy is to expense advertising costs as incurred. Advertising for the year ended December 31, 2017, was \$8,016.

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. 75.

Activities of the Housing Authority

The Authority operates and administers public housing projects in the Clay Center, Kansas area under agreements with the U.S. Department of Housing and Urban Development and the U.S. Department of Rural Development. The housing projects of the Authority are as follows at December 31, 2017:

Rural Development:	20 Units
Rental Assistance Demonstration:	101 Units

Net Position

Net position comprises the various net earnings from operating income, non-operating revenues and expenses, capital contributions and special items. Net position is classified in the following three components:

Housing Authority of the City of Clay Center, Kansas

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December 31, 2017

Net investment in capital assets — This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at yearend, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

Restricted — This component of net position consists of constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted — This component of net position consists of net assets that does not meet the definition of "restricted" or "net investment in capital assets."

Restricted Net Position

The restricted net position relates to the cash held by the Authority's Rural Development program for replacement reserves. These reserves are restricted for capital improvements to the Rural Development property. These funds cannot be used without approval from Rural Development.

Use of Restricted/Unrestricted Net Position

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

Leases

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

2. Cash And Cash Equivalents

Cash (checking and MMDA) accounts are maintained by the Authority.

The amount of cash and cash equivalents of \$421,704 are allocated as follows:

Tenant Security Deposits	\$	38,113
Restricted		244,504
Unrestricted		139,087
	\$	<u>421,704</u>

Housing Authority of the City of Clay Center, Kansas

Notes to Financial Statements

December 31, 2017

3. Accounts Receivable

All receivables from tenants are for rentals and service charges. These receivables are shown net of an allowance for uncollectible amounts. This amount is estimated based upon historical information. The allowance was \$-0- at December 31, 2017.

As of December 31, 2017, there was rent prepaid in the amount of \$4,918.

4. Deposits and Investments

Typically, investments of the projects consist of only certificates of deposit. As of year-end, the Authority has no investments.

All of the funds of the Authority are invested in allowable investments in accordance with HUD guidelines. As of December 31, 2017, the Authority's deposits were fully collateralized by FDIC insurance and pledged securities.

5. Capital Assets

A summary of capital assets is as follows:

	Balance 12/31/16	Additions	Disposals	Balance 12/31/17
Land	\$ 51,683	\$ -	\$ -	\$ 51,683
Buildings	12,273,698	15,490	-	12,289,188
Furniture, Equipment & Machinery - Admin	49,256	-	-	49,256
Furniture, Equipment & Machinery - Dwelling	19,718	-	-	19,718
Leasehold Improvements	372,911	-	-	372,911
Subtotal	12,767,266	15,490	-	12,782,756
Accumulated Depreciation	(8,069,089)	(546,670)	-	(8,615,759)
Net Capital Assets	\$ 4,698,177	\$ (531,180)	\$ -	\$ 4,166,997

Total depreciation for the current year was \$546,670.

Housing Authority of the City of Clay Center, Kansas

Notes to Financial Statements

December 31, 2017

6. Long-Term Debt

The Authority has Rural Rental Housing loans with the U.S. Department of Agriculture - Rural Development. The loans are dated December 27, 1979, and have original principal amounts of \$440,000.00 at 8.25% and \$34,500.00 at 8.50%, respectively. Interest is repayable over a 50 year period for the construction of a 20 unit apartment complex. The loans were restructured June 3, 2010, and all principal and interest is being deferred for 20 years. The outstanding balances as of December 31, 2017, are \$198,472 and \$15,211, respectively. The loans are secured by the Rural Development project and the accounts and revenue of the project.

This debt restructuring also includes a zero percent, 50 year loan in the amount of \$610,557 with monthly debt service payments of \$1,040.13 beginning August 1, 2011. As of December 31, 2017, the outstanding balance of this note is \$530,468.

Principal Amortization Schedule:

2018	\$	12,482
2019		12,482
2020		12,482
2021		12,482
2022		12,482
2023-2027		62,410
2028-2032		276,094
2033-2037		62,410
2038-2042		62,410
2043-2047		62,410
2048-2052		62,410
2053-2057		62,410
2058-2060		31,187
	\$	<u>744,151</u>

The Authority entered into an agreement with United Bank and Trust on June 1, 2010, to receive \$350,000 of Federal Home Loan Bank Affordable Housing Program funds. This loan is conditional on the Authority maintaining low income housing for a period of 15 years. If the Authority maintains low income housing for the 15 year period, the loan is forgiven.

7. Interprogram Accounts

Interprogram receivables and payables arise from interprogram transactions and are recorded by all programs affected in the period in which transactions are executed. These receivables and payables are eliminated for presentation of the financial statements.

Housing Authority of the City of Clay Center, Kansas

Notes to Financial Statements

December 31, 2017

8. Contingencies

The entity is subject to possible examinations by federal regulators who determine compliance with terms, conditions, laws and regulations governing grants given to the entity in the current and prior years. These examinations may result in required refunds by the entity to the federal grantors and/or program beneficiaries.

9. 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 December 31, 2017, 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.

10. Major Source of Revenues

The Authority receives funding and supplemental reserves from HUD. These funds, including grants received, constitute the majority of the Authority's operations capital. Therefore, any change in funding from HUD could have a major impact on the operations of the Authority.

11. Rental Assistance Demonstration

The Authority applied and was accepted to participate in HUD's Rental Assistance Demonstration (RAD) Program. The Authority converted the units that were funded under HUD's Public Housing program to HUD's Section 8 Project Based Voucher program. The voucher is being administered through the Atchison Housing Authority in Atchison, Kansas. The Authority will no longer receive the Public Housing Operating Subsidy or Capital Funds starting in 2015. The Authority still owns the units but does not administer the federal funds.

12. Pension Plan

Description of Pension Plan

The Housing Authority of the City of Clay Center, Kansas (Authority) participates in a cost-sharing multiple-employer pension plan (Pension Plan), as defined in Governmental Accounting Standards Board Statement No. 67, *Financial Reporting for Pension Plans*. The Pension Plan is administered by the Kansas Public Employees Retirement System (KPERS), a body corporate and an instrumentality of the State of Kansas. KPERS provides benefit provisions to the following statewide pension groups under one plan, as provided by K.S.A. 74, article 49:

Housing Authority of the City of Clay Center, Kansas

Notes to Financial Statements

December 31, 2017

- Public employees, which includes:
 - State/School employees
 - Local employees
- Police and Firemen
- Judges

Substantially all public employees in Kansas are covered by the Pension Plan. Participation by local political subdivisions is optional, but irrevocable once elected.

Those employees participating in the Pension Plan for the Authority are included in the Local employee group.

KPERS issues a stand-alone comprehensive annual financial report, which is available on the KPERS website at www.kpers.org.

Benefits

Benefits are established by statute and may only be changed by the General Assembly. Members with ten or more years of credited service, may retire as early as age 55, with an actuarially reduced monthly benefit. Normal retirement is at age 65, age 62 with ten years of credited service, or whenever a member's combined age and years of service equal 85.

Monthly retirement benefits are based on a statutory formula that includes final average salary and years of service. When ending employment, members may withdraw their contributions from their individual accounts, including interest. Members who withdraw their accumulated contributions lose all rights and privileges of membership. For all pension coverage groups, the accumulated contributions and interest are deposited into and disbursed from the membership accumulated reserve fund as established by K.S.A. 74-4922.

Members choose one of seven payment options for their monthly retirement benefits. At retirement a member may receive a lump-sum payment of up to 50% of the actuarial present value of the member's lifetime benefit. His or her monthly retirement benefit is then permanently reduced based on the amount of the lump sum. Benefit increases, including ad hoc post-retirement benefit increases, must be passed into law by the Kansas Legislature. Benefit increases are under the authority of the Legislature and the Governor of the State of Kansas. For all pension coverage groups, the retirement benefits are disbursed from the retirement benefit payment reserve fund as established by K.S.A. 74-4922.

Housing Authority of the City of Clay Center, Kansas

Notes to Financial Statements

December 31, 2017

Contributions

Member contributions are established by state law, and are paid by the employee according to the provisions of Section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rates are determined based on the results of an annual actuarial valuation. The contributions and assets of all groups are deposited in the Kansas Public Employees Retirement Fund established by K.S.A. 74-4921. All of the retirement systems are funded on an actuarial reserve basis.

For fiscal years beginning in 1995, Kansas legislation established statutory limits on increases in contribution rates for KPERS employers. Annual increases in the employer contribution rates related to subsequent benefit enhancements are not subject to these limitations. The statutory cap increase over the prior year contribution rate is 1.1% of total payroll for the fiscal year ended June 30, 2016.

The actuarially determined employer contribution rates and the statutory contribution rates for Local employees are 8.46% and 8.46%, respectively. Member contribution rates as a percentage of eligible compensation for the fiscal year ended June 30, 2017, are 6.00% for Local employees. Employer and employee contributions for the fiscal year ended December 31, 2017, totaled \$14,490 and \$10,276, respectively.

Employer Allocations

Although KPERS administers one cost-sharing multiple-employer defined benefit pension plan, separate (sub) actuarial valuations are prepared to determine the actuarial determined contribution rate by group. Following this method, the measurement of the collective net pension liability, deferred outflow of resources, deferred inflow of resources, and pension expense are determined separately for each of the following groups of the plan:

- State/School
- Local
- Police and Firemen
- Judges

To facilitate the separate (sub) actuarial valuations, KPERS maintains separate accounts to identify additions, deductions, and fiduciary net position applicable to each group. The allocation percentages presented for each group in the schedule of employer and nonemployer allocations are applied to amounts presented in the schedules of pension amounts by employer and nonemployer.

The allocation percentages for the Authority's share of the collective pension amounts as of June 30, 2017 and 2016, was based on the ratio of its contributions to the total of the employer and nonemployer contributions of the group for the fiscal years ended June 30, 2017 and 2016, respectively.

Housing Authority of the City of Clay Center, Kansas

Notes to Financial Statements

December 31, 2017

The contributions used exclude contributions made for prior service, excess benefits and irregular payments. At June 30, 2017, the Authority's proportion was 0.009527%, which was a decrease of 0.000073% from its proportion measured at June 30, 2016.

Net Pension Liability

At June 30, 2017, the Authority reported a liability of \$137,993 for its proportionate share of the net pension liability.

Pension Liabilities, Pension Expense, and Deferred Outflow of Resources and Deferred Inflow of Resources Related to Pensions

At June 30, 2017, the Authority reported a liability of \$137,993 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015. The Authority's proportion of the net pension liability was based on a projection of the Authority's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2017, the Authority's proportion was 0.009527%, which was a decrease of 0.000073% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2017, the Authority's allocated pension expense was \$24,825. At June 30, 2017, the Authority reported deferred outflow of resources and deferred inflow of resources related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ 667	\$ 4,772
Changes of Assumptions	7,432	1,009
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	4,328	-
Changes in Proportion and Differences Between Authority Contributions and Proportionate Share of Contributions	21,900	1,101
Authority Contributions Made Subsequent to the Measurement Date	7,282	-
	<u>\$ 41,609</u>	<u>\$ 6,882</u>

Housing Authority of the City of Clay Center, Kansas

Notes to Financial Statements

December 31, 2017

\$7,282 reported as deferred outflow of resources related to pensions resulting from Authority contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflow of resources and deferred inflow of resources related to pensions will be recognized in pension expense as follows:

Year Ended March 31:

2018	\$	11,358
2019		14,596
2020		2,864
2021		(1,712)
2022		339
Thereafter		-

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of December 31, 2015, which was rolled forward to June 30, 2017, using the following actuarial assumptions:

Price Inflation	2.75%
Salary Increases, Including Wage Increases	3.50 to 12.00%, Including Inflation
Long-Term Rate of Return, Net of Investment Expense, and Including Price Inflation	7.75% compounded annually, net of investment expense, including price inflation

Mortality rates were based on the RP-2000 Healthy Annuitant Mortality Table for Males and Females, with adjustments to better match actual experience. Separate tables apply for males and females as well as each group (State, School, Local, KP&F and Judges).

The actuarial assumptions used in the December 31, 2015, valuation were based on the results of an actuarial experience study conducted for three years ending December 31, 2012.

The long-term expected rate of return of pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2016, are summarized in the following table:

Housing Authority of the City of Clay Center, Kansas

Notes to Financial Statements

December 31, 2017

Asset Class	Long-Term Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	47.00%	6.80%
Fixed Income	13.00	1.25
Yield Driven	8.00	6.55
Real Return	11.00	1.71
Real Estate	11.00	5.05
Alternatives	8.00	9.85
Short-Term Investments	2.00	(0.25)
	<u>100.00%</u>	

Discount Rate

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the contractually required rate. The State, School and Local employers do not necessarily contribute the full actuarial determined rate. Based on legislation passed in 1993, the employer contribution rates certified by the System’s Board of Trustees for these groups may not increase by more than the statutory cap. The expected KPERS employer statutory contribution was modeled for future years, assuming all actuarial assumptions are met in future years. Employers contribute the full actuarial determined rate for Police & Firemen, and Judges.

Future employer contribution rates were also modeled for Police & Firemen and Judges, assuming all actuarial assumptions are met in future years. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Authority’s proportionate share of the net pension liability to changes in the discount rate

The following presents the Authority’s proportionate share of the net pension liability calculated using the discount rate of 7.75%, as well as what the Authority’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.75%) or 1-percentage point higher (8.75%) than the current rate:

1% Decrease (6.75%)	Discount Rate (7.75%)	1% Increase (8.75%)
\$198,742	\$137,993	\$86,786

Housing Authority of the City of Clay Center, Kansas

Notes to Financial Statements

December 31, 2017

Payables to the Pension Plan

For the year ended December 31, 2017, the Authority had a liability of \$433 of employee contributions to the pension plan and \$610 of employer contributions. These amounts are included in the current liabilities.

13. Subsequent Events

Upon evaluation, the Authority notes that there were no other material subsequent events between the date of the financial statements and August 23, 2018, the date the financial statements were available to be issued.

SUPPLEMENTAL INFORMATION

Housing Authority of the City of Clay Center, Kansas

Schedule of Housing Authority of the City of Clay Center's Proportionate Share of the Net Pension Liability (Asset)

Kansas Public Employees Retirement System Cost-Sharing Multiple-Employer Defined Benefit Pension Plan

Last 10 Fiscal Years*

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Authority's Proportion of the Net Pension Liability (Asset)	0.009527%	0.009600%	0.009572%	0.009610%
Authority's Proportionate Share of the Net Pension Liability (Asset)	\$ 137,993	\$ 148,516	\$ 125,685	\$ 118,281
Authority's Covered-Employee Payroll	\$ 171,687	\$ 181,754	\$ 161,870	\$ 158,455
Authority's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	80.37%	81.71%	77.65%	74.65%
Plan Fiduciary Net Position as a Percentage of the Total Net Pension Liability (Asset)	72.15%	68.55%	71.98%	72.56%

*The amounts present for each fiscal year were determined as of the calendar year end that occurred within the fiscal year

Notes to Schedule:

1) Only the four most current fiscal years are presented because 10-year data is not yet available.

Housing Authority of the City of Clay Center, Kansas

Schedule of Housing Authority of the City of Clay Center's Contributions

Kansas Public Employees Retirement System Cost-Sharing Multiple-Employer Defined Benefit Pension Plan

Last 10 Fiscal Years*

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually Required Contribution	\$ 14,525	\$ 16,685	\$ 15,345	\$ 15,354
Contributions in Relation to the Contractually Required Contribution	\$ 14,525	\$ 16,685	\$ 15,345	\$ 15,354
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -
Authority's Covered-Employee Payroll	\$ 171,687	\$ 181,754	\$ 161,870	\$ 158,455
Contributions as a Percentage of Covered-Employee Payroll	8.46%	9.18%	9.48%	9.69%

*The amounts present for each fiscal year were determined as of the calendar year end that occurred within the fiscal year

Notes to Schedule:

- 1) Only the four most current fiscal years are presented because 10-year data is not yet available.

Housing Authority of the City of Clay Center, Kansas

Schedule of Expenditures of Federal Awards

Year Ended December 31, 2017

Federal Grantor	Federal CFDA Number	Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE		
Direct Program:		
Rural Development:		
Rent Supplements - Rental Housing for Lower Income Families	10.427	\$ 14,586
Rural Rental Housing Loans		
Loan Guarantee	10.415	753,771
Noncash Interest Subsidy	10.415	1,431
Total Rural Rental Housing Loans		755,202
Total U.S. Department of Agriculture		769,788
Total Federal Awards Expended		\$ 769,788

Notes to the Schedule of Expenditures of Federal Awards

1. General Statement

The accompanying Schedule of Expenditures of Federal Awards includes grant activity of the Housing Authority of the City of Clay Center, Kansas, under programs of the federal government for the year ended December 31, 2017. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Authority.

2. Basis of Accounting

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following cost principles contained in Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. Rural Rental Housing

Rural rental housing loans were distributed to Clay Center Housing Authority. The funds were used to construct the rental units. The funds advanced are repayable to the U.S. Department of Agriculture - Rural Development. The balance of the loans at December 31, 2017 was \$744,151.

Housing Authority of the City of Clay Center, Kansas

Schedule of Expenditures of Federal Awards

Year Ended December 31, 2017

4. De Minimis Cost Rate

Clay Center Housing Authority has not elected to use the \$10 de minimus cost rate as covered in 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) 200.414 Indirect (F&A) costs.

**INDEPENDENT AUDITORS' 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 Clay Center, Kansas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Housing Authority of the City of Clay Center, Kansas (the Authority), which comprise the statement of net position as of December 31, 2017, and the related statements of changes in net position and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated August 23, 2018.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance, or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Lutz & Company, P.C." The signature is written in a cursive, professional style.

August 23, 2018

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Board of Commissioners
Housing Authority of the City of Clay Center, Kansas

Report on Compliance for Each Major Program

We have audited the Housing Authority of the City of Clay Center, Kansas's (the Authority) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement*, that could have a direct and material effect on the Authority's major federal program for the year ended December 31, 2017. The Authority's major federal program is identified in the summary of auditors' 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 federal awards applicable to its federal program.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) 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 the major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Program

In our opinion, the Authority 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 identified above for the year ended December 31, 2017.

Report on Internal Control over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program as a basis for designing 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 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 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. We did not identify any deficiencies in internal control over compliance that we 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 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.

Lutz & Company, P.C.

August 23, 2018

Housing Authority of the City of Clay Center, Kansas

Schedule of Findings and Questioned Costs

December 31, 2017

I. SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

- Are any material weakness(es) identified? Yes No
- Are any significant deficiencies identified? Yes None Reported
- Is any noncompliance material to financial statements noted? Yes No

Federal Awards

Type of auditors' report issued on compliance for major programs: Unmodified

Internal control over major programs:

- Are any material weakness(es) identified? Yes No
- Are any significant deficiencies identified? Yes None Reported
- Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? Yes No

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

10.415

Rural Rental Housing Loans

Dollar threshold used to distinguish between Type A and type B programs

\$750,000

Is the auditee qualified as low-risk auditee?

Yes No

II. FINANCIAL STATEMENT FINDINGS

None

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

Housing Authority of the City of Clay Center, Kansas

Summary Schedule of Prior Audit Findings

December 31, 2017

NONE

Lutz