

**MAINSTREET
APARTMENTS**

**A PROPERTY OF
CLEARWATER
HOUSING AUTHORITY**

**Special-Purpose
Financial Statements**

**Year ended
March 31, 2018**

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INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Clearwater Housing Authority
Clearwater, Florida

Report on the Financial Statements

We have audited the accompanying special-purpose financial statements of Mainstreet Apartments (the "Apartments"), a property of Clearwater Housing Authority, as of and for the year ended March 31, 2018. These special-purpose financial statements are the responsibility of Clearwater Housing Authority's management. Our responsibility is to express an opinion on these special-purpose financial statements based on our audit.

The accompanying special-purpose financial statements are only intended to present the net position, and the change in net position and cash flows of Mainstreet Apartments. They do not purport to, and do not, present fairly the net position of Clearwater Housing Authority as of March 31, 2018, and the change in its net position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these special-purpose financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the special-purpose financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the special-purpose financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the special-purpose 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 special-purpose financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the special-purpose 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 special-purpose financial statements referred to above present fairly, in all material respects, the net position of Mainstreet Apartments, a property of Clearwater Housing Authority, as of March 31, 2018, and the change in net position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

This report is intended solely for the information and use of the Board of Commissioners and management of the Clearwater Housing Authority, Mainstreet Apartments and U.S. Bank. It is not intended to be and should not be used by anyone other than these specified parties.

July 16, 2018
Melbourne, Florida

Berman Hopkins Wright & LaHam
CPAs and Associates, LLP

**Clearwater Housing Authority
Mainstreet Apartments**

STATEMENT OF NET POSITION

March 31, 2018

ASSETS

CURRENT ASSETS

Cash and cash equivalents - unrestricted	\$ 317,863
Cash and cash equivalents - restricted	1,647,990
Receivables	5,139
Prepaid expenses	8,242
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Total current assets	1,979,234

NONCURRENT ASSETS

Capital assets, net	13,924,113
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Total assets	15,903,347

LIABILITIES

CURRENT LIABILITIES

Current portion of long-term debt	410,000
Accounts payable and accrued liabilities	45,838
Accrued interest payable	154,295
Due to Authority	2,885,965
Accrued salaries and benefits	14,248
Unearned revenue	33,143
Tenant security deposits	21,575
Other current liabilities	1,536
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Total current liabilities	3,566,600

NONCURRENT LIABILITIES

Long-term debt, net of current portion	10,325,000
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Total liabilities	13,891,600

NET POSITION

Net investment in capital assets	3,189,113
Restricted	1,626,415
Unrestricted	(2,803,781)
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Total net position	\$ 2,011,747

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

**Clearwater Housing Authority
Mainstreet Apartments**

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Year ended March 31, 2018

OPERATING REVENUES

Rental revenue, net	\$ 2,306,958
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OPERATING EXPENSES

Administration	320,767
Utilities	221,828
Maintenance	448,311
Protective services	9,818
General	145,397
Depreciation	<u>702,708</u>

Total operating expenses	<u>1,848,829</u>
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OPERATING INCOME

458,129

NONOPERATING INCOME (EXPENSE)

Interest income	8,128
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Interest expense	<u>(511,747)</u>
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Total nonoperating income (expense)	<u>(503,619)</u>
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CHANGE IN NET POSITION

(45,490)

Total net position at April 1, 2017	<u>2,057,237</u>
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Total net position at March 31, 2018	<u><u>\$ 2,011,747</u></u>
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The accompanying notes are an integral part of these financial statements.

**Clearwater Housing Authority
Mainstreet Apartments**

STATEMENT OF CASH FLOWS

Year ended March 31, 2018

CASH FLOWS FROM OPERATING ACTIVITIES

Collections from tenants	\$ 2,304,234
Collections from other sources	1,620,750
Payments to employees for wages and benefits	(279,760)
Payments to suppliers	<u>(976,057)</u>
Net cash provided by operating activities	<u>2,669,167</u>

**CASH FLOWS FROM CAPITAL AND
RELATED FINANCING ACTIVITIES**

Payments on long-term debt	(390,000)
Interest paid	(516,508)
Purchase of property and equipment	<u>(1,574,839)</u>
Net cash used in capital and related financing activities	<u>(2,481,347)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest income	<u>8,128</u>
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NET INCREASE IN CASH AND CASH EQUIVALENTS

	195,948
Cash and cash equivalents at April 1, 2017	<u>1,769,905</u>
Cash and cash equivalents at March 31, 2018	<u><u>\$ 1,965,853</u></u>

AS PRESENTED ON THE STATEMENT OF NET POSITION:

Cash and cash equivalents - unrestricted	\$ 317,863
Cash and cash equivalents - restricted	<u>1,647,990</u>
	<u><u>\$ 1,965,853</u></u>

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

**Clearwater Housing Authority
Mainstreet Apartments**

STATEMENT OF CASH FLOWS (continued)

Year ended March 31, 2018

**RECONCILIATION OF OPERATING INCOME TO NET
CASH PROVIDED BY OPERATING ACTIVITIES**

Operating income	\$ 458,129
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	702,708
Provision for bad debts	28,349
(Increase) decrease in assets:	
Receivables	13,306
Prepaid expenses	(391)
Increase (decrease) in liabilities:	
Due to Authority	1,758,071
Accrued salaries and benefits	1,707
Unearned revenue	6,382
Accounts payable and accrued liabilities	(294,244)
Tenant security deposits	(4,850)
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Net cash provided by operating activities	<u><u>\$ 2,669,167</u></u>

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

**Clearwater Housing Authority
Mainstreet Apartments**

NOTES TO FINANCIAL STATEMENTS

March 31, 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Reporting entity

Clearwater Housing Authority (the "Authority"), a governmental agency, was created pursuant to Florida Statutes Chapter 421 by the City of Clearwater, Florida (the "City") on January 20, 1969. The primary purpose of the Authority is to develop, acquire and operate safe, decent, sanitary and affordable housing for low-income families and to operate the housing programs in accordance with federal legislation.

The Authority's governing board consists of a five member Board of Commissioners (the "Board"), which is appointed by the Mayor of the City. The Authority is not a component unit of the City, as defined in Governmental Accounting Standards Board Statement No. 61, *The Financial Reporting Entity: Omnibus*, ("GASB No. 61") since the Board independently oversees the Authority's operations.

The entity wide financial statements of Clearwater Housing Authority are issued under separate cover, and are available for public inspection by contacting the Authority's main office. In order to meet special reporting needs, the Authority has issued these special purpose statements of Mainstreet Apartments (the "Apartments").

This 204-unit apartment complex was purchased in 2000 using proceeds from housing revenue bonds. Approximately 20% of these units are available for low-income families under the Authority's affordable housing program. The Authority manages the operations of the Apartments.

2. Measurement focus and basis of accounting

The special-purpose financial statements of the Apartments have been prepared in accordance with accounting principles generally accepted in the United States of America. Measurement focus is a term used to describe which transactions are recorded within the various financial statements. The proprietary fund utilizes an economic resources measurement focus. The accounting objectives of this measurement focus are the determination of operating income, change in net position (or cost recovery), net position and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net position. The Authority maintains its accounts in accordance with the chart of accounts prescribed by the U.S. Department of Housing and Urban Development ("HUD").

Basis of accounting refers to when transactions are recorded regardless of the measurement focus applied. The basis of accounting used is similar to businesses in the private sector; thus these funds are maintained on the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset is used. In accordance with GASB Statement No. 34 and related guidance, tenant revenue is reported net of accounts written-off in the amount of \$28,349.

**Clearwater Housing Authority
Mainstreet Apartments**

NOTES TO FINANCIAL STATEMENTS

March 31, 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3. Cash and cash equivalents

For financial statement purposes, cash and cash equivalents are considered to be cash in banks and money market funds, which include restricted funded reserves, with maturities of three months or less.

4. Receivables

Receivables consist of revenues earned during the fiscal year and not yet received net of an associated allowance for doubtful accounts, if any. As of March 31, 2018, management expects 100% of the receivables to be collected, based on prior experience.

5. Capital assets

The Authority's policy is to capitalize assets with a value in excess of \$2,000 and a useful life in excess of two years. The Authority capitalizes the costs of site acquisition and improvement, structures, equipment and direct development costs meeting the capitalization policy. Assets are valued at historical cost, or estimated historical cost if actual historical cost is not available, and contributed assets are valued at fair value on the date contributed.

Depreciation has been provided using the straight-line method over the estimated useful lives, which are as follows:

Structures and improvements	10 - 30 years
Equipment	5 years

6. Impairment of long-lived assets

The Authority evaluates events or changes in circumstances affecting long-lived assets, including capital assets, to determine whether an impairment of the Apartments' assets has occurred. If the Authority determines that a long-lived asset is impaired, and that the impairment is significant and other-than temporary, then an impairment loss will be recorded. In the current year, the Authority did not recognize any loss on impairment related to the Apartments' long-lived assets.

7. Due to Authority

As of March 31, 2018, the Authority has transferred a portion of its surplus funds to the Apartments which report a net Interprogram payable of \$2,885,965.

**Clearwater Housing Authority
Mainstreet Apartments**

NOTES TO FINANCIAL STATEMENTS

March 31, 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

8. Unearned revenue

Unearned revenue includes amounts collected before revenue recognition criteria are met and consists of prepaid rent totaling \$33,143.

9. Income taxes

The Authority is a governmental entity and is exempt from federal and state income taxes. Accordingly, no provision for federal or state income taxes has been made in the Authority's or the Apartments' financial statements.

10. 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 assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE B - CASH AND CASH EQUIVALENTS

As of March 31, 2018, the carrying value of the Apartments' cash and cash equivalents consist of cash of \$572,721 and U.S. Treasury Money Market Funds with a fair value of \$1,393,132.

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of bank failure, the Apartments' deposits may not be returned. The Apartments have a deposit policy for custodial credit risk which requires collateral to be held in the Apartments' name by its agent or by the bank's trust department. As of March 31, 2018, none of the Apartments' bank balance was exposed to custodial credit risk.

As of March 31, 2018, restricted cash and cash equivalents consist of:

Tenant security deposits	\$ 21,575
Restricted funded reserves:	
Fees fund	3,833
General fund	378,248
Debt service reserve fund	49,486
Replacement reserve fund	317,408
Operating reserve fund	644,157
Insurance fund	233,283
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	\$ 1,647,990
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**Clearwater Housing Authority
Mainstreet Apartments**

NOTES TO FINANCIAL STATEMENTS

March 31, 2018

NOTE C - CAPITAL ASSETS

A summary of changes in capital assets is as follows:

	Balance at April 1, 2017	Transfers in/ Additions	Transfers out/ Deletions	Balance at March 31, 2018
Land	\$ 1,562,736	\$ -	\$ -	\$ 1,562,736
Structures and improvements	20,027,631	1,498,007	(2,946)	21,522,692
Equipment - dwelling	21,420	-	(7,528)	13,892
Equipment - administration	87,435	50,372	-	137,807
Construction in progress	-	36,934	-	36,934
Total cost	21,699,222	1,585,313	(10,474)	23,274,061
Accumulated depreciation	(8,647,240)	(702,708)	-	(9,349,948)
Net capital assets	<u>\$ 13,051,982</u>	<u>\$ 882,605</u>	<u>\$ (10,474)</u>	<u>\$ 13,924,113</u>

NOTE D - LONG-TERM DEBT

On October 1, 2004, the Authority issued \$14,500,000 of revenue refunding bonds at interest rates on a graduating scale from 4.2% to 4.3% per annum to refinance the acquisition of its 204-unit multifamily housing complex known as Mainstreet Apartments. The fixed assets purchased from the proceeds of the original issue, as well as associated rental revenues, are pledged as collateral for this bond issue.

Interest and principal on the bonds are due semi-annually on June 1 and December 1 until December 1, 2034.

A summary of changes in long-term debt is as follows:

	Payable at April 1, 2017	Increases	Decreases	Payable at March 31, 2018	Current Portion
2004 Housing Revenue Bonds	<u>\$ 11,125,000</u>	<u>\$ -</u>	<u>\$ (390,000)</u>	<u>\$ 10,735,000</u>	<u>\$ 410,000</u>

**Clearwater Housing Authority
Mainstreet Apartments**

NOTES TO FINANCIAL STATEMENTS

March 31, 2018

NOTE D - LONG-TERM DEBT (continued)

As of March 31, 2018, the future principal maturities of long-term debt for the Apartments are as follows:

Year ended March 31,	Principal	Interest
2019	\$ 410,000	\$ 456,564
2020	430,000	439,134
2021	450,000	420,754
2022	475,000	401,082
2023	500,000	380,442
2024-2028	2,915,000	1,552,085
2029-2033	3,755,000	847,745
2034-2035	1,800,000	98,254
	<u>\$ 10,735,000</u>	<u>\$ 4,596,060</u>

Interest expense associated with debt service of the Apartments totaled \$511,747 for the year ended March 31, 2018. The Authority complied with the restrictive covenants associated with long-term debt.

NOTE E - RISK MANAGEMENT

The Apartments is exposed to various risks of loss related to torts, theft of, damages to and destruction of assets, errors and omissions, injuries to employees and natural disasters. Under the Authority's risk management program, the Authority joined Housing Authorities Risk Retention Group ("HARRG") and Housing Authorities Property Insurance ("HAPI"), public risk pools currently operating as common risk management and insurance programs. The Authority pays annual premiums to HARRG and HAPI for its general and property insurance coverage, which includes the Apartments. The agreements for formation of HARRG and HAPI provide that they will be self-sustaining through member premiums and will reinsure all other risks of loss, including workers' compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three years, nor has there been any reduction in coverage in the current year.

NOTE F - COMMITMENTS AND CONTINGENCIES

In the normal course of operations, the Authority may be party to various pending or threatened legal actions. As of the date of this report, management is not aware of any such instances associated with the Apartments.

NOTE G - SUBSEQUENT EVENTS

Management has evaluated subsequent events through July 16, 2018 the date that the financial statements were available to be issued, and has determined that no material events have occurred that would require disclosure.