Washington State Auditor's Office
Troy Kelley
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Financial Statements and Federal Single Audit Report

Tri-County Economic Development District

Stevens County

For the period January 1, 2013 through December 31, 2013

Published September 29, 2014

Report No. 1012695

Washington State Auditor
Troy Kelley

September 29, 2014

Board of Directors
Tri-County Economic Development District
Colville, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on the Tri-County Economic Development District's financial statements and compliance with federal laws and regulations.

We are issuing this report in order to provide information on the District's financial condition.

Sincerely,

TROY KELLEY

STATE AUDITOR

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Tri-County Economic Development District
Stevens County
January 1, 2013 through December 31, 2013

Federal Summary

Tri-County Economic Development District
Stevens County
January 1, 2013 through December 31, 2013

The results of our audit of the Tri-County Economic Development District are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

FINANCIAL STATEMENTS

An unmodified opinion was issued on the financial statements of the governmental activities, each major fund and the aggregate remaining fund information.

Internal Control Over Financial Reporting:

- ***Significant Deficiencies:*** We reported no deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.

- ***Material Weaknesses:*** We identified no deficiencies that we consider to be material weaknesses.

We noted no instances of noncompliance that were material to the financial statements of the District.

FEDERAL AWARDS

Internal Control Over Major Programs:

- ***Significant Deficiencies:*** We reported no deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.

- ***Material Weaknesses:*** We identified no deficiencies that we consider to be material weaknesses.

We issued an unmodified opinion on the District's compliance with requirements applicable to its major federal program.

We reported no findings that are required to be disclosed under section 510(a) of OMB Circular A-133.

Identification of Major Programs:

The following was a major program during the period under audit:

CFDA No.	Program Title
11.307	Economic Development Cluster - Economic Adjustment Assistance

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was $300,000.

The District qualified as a low-risk auditee under OMB Circular A-133.

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*

Tri-County Economic Development District
Stevens County
January 1, 2013 through December 31, 2013

Board of Directors
Tri-County Economic Development District
Colville, Washington

We have audited, 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, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Tri-County Economic Development District, Stevens County, Washington, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated September 11, 2014.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District'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 District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of the District's 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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Troy X. Kelley

TROY KELLEY
STATE AUDITOR

September 11, 2014

Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

Tri-County Economic Development District
Stevens County
January 1, 2013 through December 31, 2013

Board of Directors
Tri-County Economic Development District
Colville, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited the compliance of the Tri-County Economic Development District, Stevens County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013. The District's major federal programs are identified in the accompanying Federal Summary.

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

Our responsibility is to express an opinion on compliance for each of the District'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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District'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. Our audit does not provide a legal determination on the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District 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 December 31, 2013.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the District 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 District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order 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, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control 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.

PURPOSE OF THIS REPORT

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Troy X. Kelley

TROY KELLEY
STATE AUDITOR

September 11, 2014

Independent Auditor's Report on Financial Statements

Tri-County Economic Development District
Stevens County
January 1, 2013 through December 31, 2013

Board of Directors
Tri-County Economic Development District
Colville, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Tri-County Economic Development District, Stevens County, Washington, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 14.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Tri-County Economic Development District, as of December 31, 2013, and the respective changes in financial position thereof, and the respective budgetary comparison for the General, Loan and TC EDC funds, 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 15 through 19 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying 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*. This schedule is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated September 11, 2014 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 the District's internal control over financial reporting and compliance.

Troy X. Kelley

TROY KELLEY
STATE AUDITOR

September 11, 2014

Financial Section

Tri-County Economic Development District
Stevens County
January 1, 2013 through December 31, 2013

REQUIRED SUPPLEMENTARY INFORMATION

BASIC FINANCIAL STATEMENTS

SUPPLEMENTARY AND OTHER INFORMATION

TRI COUNTY ECONOMIC DEVELOPMENT DISTRICT

Management Discussion and Analysis

This section of Tri County Economic Development District's financial report presents a narrative overview and analysis of the financial activities of the District for the fiscal year ending December 31, 2013. Please read it in conjunction with the District's financial statements, which follows this section.

FINANCIAL HIGHLIGHTS

- The total net position for the District increased by $65,447 which is a 1.1% increase from prior year.
- The component unit, Tri County Economic Development Non Profit Corporation was formed in 2011 and received its IRS 501c(3) status. In 2012, the Corporation was awarded a $100,000 grant / $400,000 loan combination from the U.S. Department of Agriculture/Rural Development through the rural entrepreneur assistance program (RMAP), and $25,000 of the grant and $200,000 of the loan was received in 2013.
- The District continued to experience instability in State and Federal grant awards during the course of the fiscal year. State funds (Department of Commerce / Associate Development Organization) that were anticipated were reduced and Federal funds (U.S. Department of Commerce / Economic Development Administration) awards were again delayed causing the district to access their local funds while awaiting the finalized award letter.
- The District's lending programs continues to see healthy loan activity.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to financial statements. In addition to the basic financial statements, this report also contains required and other supplemental information.

1) Government wide financial statements – The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

- The Statement of Net Position presents information on the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.
- The Statement of Activities presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g. uncollected grant reimbursements and earned but unused vacation leave).

Both the government-wide financial statements distinguish functions of the District that are principally supported by grants and contracts. The governmental activities of the District are considered economic environment in nature e.g. economic development, transportation planning, technical and financial assistance for businesses.

2) Fund financial statements – A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The District only maintains governmental funds.

- Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government–wide financial statements, governmental funds financial statements focus on near-term inflows and outflows of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both of the Governmental Funds Balance Sheet and the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and government activities.

The District maintains three governmental funds. Information is presented separately in the Governmental Funds Balance Sheet (Generally Accepted Accounting Principles - GAAP) and in the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances (GAAP) for the General and Loan Funds, which are considered the major funds. The District has a fund, Tri County Economic Development Corporation (TCEDC) which is not a major fund.

The District adopts an annual appropriated budget for both funds. A Budgetary Comparison Statement has been provided for these funds to demonstrate compliance with the budget.

3) Notes to financial statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Supplementary information – This Management Discussion and Analysis and the schedules represent financial information which provides to the users of the report additional data that supplements the government-wide statements, funds financial statements, and notes.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of the government's financial position. In the case of the District, assets far exceeded liabilities by $6,082,242. A condensed version of the Statement of Net Position is shown on the next page and it compares the governmental activities for fiscal years 2012 and 2013.

The increase in current liabilities is due to factors within the Loan Fund. Receipt of the RMAP loan to be used for relending purposes, increased principal due on the existing loans, and the increase costs associated with carrying foreclosed properties held for resale were the main aspects.

The increase in restricted net position resulted from program income in excess of administration expenses and the receipt of additional lendable funds for the Loan Fund.

TRI COUNTY ECONOMIC DEVELOPMENT DISTRICT Statement of Net Position				
	Governmental Activities		**2013 Change**	
	2012	**2013**	**Amount**	**Percent**
ASSETS				
Current and other assets	$6,667,198	$6,829,768	$162,570	2.4%
Capital assets	1,235,527	1,201,454	-$34,073	-2.8%
Total assets	**$7,902,725**	**$8,031,222**	**$128,497**	**1.6%**
LIABILITIES				
Current and other liabilities	$173,748	$161,037	-$12,711	-7.3%
Long-term liabilities outstanding	1,712,182	1,787,943	$75,761	4.4%
Total liabilities	**$1,885,930**	**$1,948,980**	**$63,050**	**3.3%**
NET POSITION				
Invested in capital assets, net of related debt	$1,123,488	$1,100,738	-$22,750	-2.0%
Restricted	4,795,594	4,817,945	$22,351	0.5%
Unrestricted	97,713	163,559	$65,846	67.4%
Total net position	**$6,016,795**	**$6,082,242**	**$65,447**	**1.1%**

TRI COUNTY ECONOMIC DEVELOPMENT DISTRICT Changes in Net Position				
	Governmental Activities		**2013 Change**	
	2012	**2013**	**Amount**	**Percent**
REVENUES				
Program Revenue				
Charges of services	$432,450	$445,375	$12,925	3.0%
Grants and contributions	290,877	372,661	81,784	28.1%
Capital grants and contributions	-	-	-	0.0%
General Revenue				
Investment Interest	3,657	3,228	-429	-11.7%
Total Revenues	**$726,984**	**$821,264**	**$94,280**	**13.0%**
EXPENDITURES				
Economic Environment	$519,231	$547,813	$28,582	5.5%
Interest of long-term debt	21,205	21,739	534	2.5%
Total Expenditures	**$540,436**	**$569,552**	**$29,116**	**5.4%**
Recovery of bad debt	$23,493	$41,241	$17,748	75.5%
Changes in Foreclosure property held for resale	207,500	(50,000.00)	-257,500	-124.1%
Loan refinance fees	-	-	-	0.0%
Write off expense	-305,213	-177,506	127,707	-41.8%
CHANGE IN NET POSITION	**$112,328**	**$65,447**	**-$46,881**	**-41.7%**
NET POSITION - DECEMBER 2013	**$6,016,795**	**$6,082,242**	**$65,447**	**1.1%**

Restricted funds are restricted by legal or contractual requirements,
and unrestricted are those which are not restricted or invested in capital assets.

GOVERNMENT FUNDS FINANCIAL ANALYSIS

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. The District's basic operations are reported in the General Fund. The District's Revolving Loan Fund activities are reported in the Loan Fund. Governmental fund information helps to determine whether there are more or less financial resources that can be spent in the near future to finance the District's programs and/or services.

The District follows the generally accepted accounting principles and implemented Government Accounting Standard Board (GASB) Statement 54. These financial statements use the five new fund balance categories: non-spendable, restricted, committed, assigned and unassigned. Attention to detail was given and additional information can be found in the financial statements under Note 1 (E-12).

In 2013, the District had a net increase in the total fund balance of $177,000. This amount shows an improvement in the general fund of $66,633, a decrease of $115,372 for loan re-lendable funds and an increase of $225,739 for the EDC, which is primarily a combination of a loan received of $200,000 for relending purposes and a grant draw of $25,000 in the component unit Corporation (TC EDC).

BUDGETARY HIGHLIGHTS

The District amended the General Fund budget four times in 2013 and did not overspend on the authority approved appropriations.

In July, 2013, the District's Finance Manager was diagnosed with a terminal medical condition. This affected the budget as she was able to utilize her leave and be paid through the end of December, while TEDD hired temporary staff during the same period.

The original 2013 General Fund budget was increased and line items were amended to add appropriations for:

- a newly awarded Rural Development RBEG grant;
- TEDD hired two new temporary positions, one was funded with RTPO funds and the other was funded with multiple grant funds

CAPITAL ASSETS AND LONG-TERM DEBT ACTIVITY

- At December 31, 2013, the District's investment in capital assets (Note 5) $1,201,454 less related debt of $100,717 was $1,100,738.

- Long-Term Debt – The District has long-term debt for both the General Fund and the Loan Fund.
  - **General Fund -** The current year principal ($11,326) and interest ($4,531) payable was $15,857. At December 31, 2013, the Key Bank balance for the General Fund Incubator Program was $100,717.
  - **Loan Fund**. The current year principal ($111,519) and interest ($17,208) payable for all the USDA loans was $128,727.

  TCEDC Fund. The current loan is $200,000 . Principal and interest payments will not begin until 2014.

  Additional detailed notes regarding long term debt can be found in the financial statements under Note 8.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

In the coming year, management will continue to work with the Board on a number of key challenges that face the District.

- Funding cuts continue to be an issue for the District as additional Federal and State funding cuts are possible.

- Incubator – working on getting funds to convert the old offices to house cottage industry businesses with shared resources (access to high speed internet, copier, fax, telephone system, reception and conference room). Conversion of additional incubator space into small business internet hot spot made available at no charge to eligible businesses in the tri county region that are unable to access adequate internet service from their business location.

- The three counties in the District continue to experience the same double digit unemployment rates which have previously shown a demand for potential start up businesses. This can lead to an increased risk factor for business loans and demands that the District provides for additional technical assistance and business training programs.

- Tri County Economic Development Non Profit Corporation (TC EDC) - In August of 2011, the District formed a supporting 501(c) 3 corporation, TC EDC, which was started to meet the eligibility requirements of a USDA / Rural Development – Rural Micro-entrepreneurial grant and loan program. The action was advised to the District by the USDA after the District's initial application was denied as a governmental unit.

  TC EDC is a component unit composed of and governed by the same twenty-two (22) public entity members who are representative of the TEDD Board of Directors. It is a charitable organization that provides for the TEDD public agencies to have the structure needed for them to engage in cooperative actions for the promotion of planning and economic services that are not available to TEDD as a governmental unit.

  After the formation of the corporation, the District was awarded a $100,000 grant and $400,000 loan for business development purposes. These funds were not fully accessed as of December 31, 2013. A total of $25,000 grant and $200,000 loan funds were acquired in 2013 with the remaining funds anticipated to be accessed in 2014.

- With the loss of the long term finance manager and her knowledge and history with TEDD, the district was forced to contract the preparation of the annual report. As the new finance manager learns the intricacies of the position, it is anticipated that this will no longer be needed.

Contacting the District and the component unit:
The financial report is designed to provide a general overview of the District and its component unit finances and to show the District's accountability for the money it receives. If you have any questions about this report, contact the District's Finance Manager or the Executive Director at 986 South Main, Suite A, Colville, WA 99114 or at (509) 684-4571.

Tri County Economic Development District
Statement of Net Position
For the year ended December 31, 2013

	Governmental Activities
ASSETS	
Cash and cash equivalents	54,531
Investments	2,153,474
Petty cash	4,000
Receivables (net)	4,195,177
Due from other governments	63,339
Foreclosure property held for resale	157,500
Restricted assets	
Investments for bad debt	201,747
Total Assets	**6,829,768**
Capital assets not being depreciated	
Land	249,028
Capital assets net of accumulated depreciation	
Buildings	952,426
Total capital assets	**1,201,454**
TOTAL ASSETS	**8,031,222**
LIABILITIES	
Vouchers payable	32,820
Damage deposits	4,000
Deferred revenue	-
Non current liabilities:	
Due within one year	124,217
Due in more than one year	1,766,468
Compensated absences	21,475
TOTAL LIABILITIES	**1,948,980**
NET POSITION	
Net investment in capital assets	1,100,738
Restricted for:	
Loan loss / bad debt	262,391
Loan purposes	4,555,554
Unrestricted	163,559
TOTAL NET POSITION	**6,082,242**

The notes to the financial statements are an integral part of this statement.

Tri County Economic Development District
Statement of Activities
For the year Ended December 31, 2013

		Program Revenues			Net (Expense) Revenue and Changes in Net Position
			Operating	Capital Grants	
		Charges	Grants and	and	Primary Government
Functions/Programs	**Expenses**	**for Services**	**Contributions**	**Contributions**	**Total**
PRIMARY GOVERNMENT:					
Governmental Activities					
Economic Environment	547,813	445,375	372,661		270,223
Interest on Long-Term Debt	(21,739)				(21,739)
TOTAL GOVERNMENTAL ACTIVITIES	**526,074**	**445,375**	**372,661**	**-**	**248,484**

General Revenues:	
Unrestricted Investment Earnings	3,228
Extraordinary Items:	
Special Items:	
Recovery of Bad Debt	41,241
Loan Write-offs	(177,506)
Foreclosure Property Held for Resale	(50,000)
Transfers	
Total General Revenues, Extraordinary, Special Items, and Transfers	(183,037)
Change in Net Position	**65,448**
Net Position Beginning	**6,016,794**
Net Position Ending	**6,082,242**

The notes to financial statements are an integral part of this statement.

Tri County Economic Development District
Balance Sheet
Governmental Funds
For the year ended December 31, 2013

	Governmental Fund Types			
ASSETS	**General Fund**	**Loan Fund**	**Other Funds**	**Total Governmental Funds**
Cash and cash equivalents	57,531	1,000		58,531
Investments (at cost)	99,815	2,164,449	90,957	2,355,221
Foreclosure property held for resale		157,500		157,500
Receivables, net		4,039,844	155,333	4,195,176
Due from other funds	39,559			39,559
Due from other governmental units	63,339			63,339
Total Assets	**260,244**	**6,362,793**	**246,290**	**6,869,326**
LIABILITIES and FUND BALANCES				
Liabilities:				
Due to other funds		37,017	2,542	39,559
Vouchers Payable	14,152	1,170		15,322
Salaries Payable	17,498			17,498
Deferred Revenue				-
Customer deposits	4,000			4,000
Total Liabilities	**35,650**	**38,187**	**2,542**	**76,378**
Fund Balances:				
Restricted		6,324,606	243,748	6,568,354
Unassigned	224,594			224,594
Total Fund Balance	**224,594**	**6,324,606**	**243,748**	**6,792,948**
Total Liabilities and Fund Balance	**260,244**	**6,362,793**	**246,290**	**6,869,326**

Amounts reported for governmental activities in the statement of net position are different because of balances in government funds	6,792,948
Capital assets used in governmental activities are not financial resources and therefore not reported in the funds.	1,201,454
Some liabilities, including long-term payables, are not due and payable in the current period and therefore are not reported in the funds.	(1,912,160)
Net Position of governmental activities.	6,082,242

The notes to financial statements are an integral part of this statement.

Tri County Economic Development District
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
For the year ended December 31, 2013

	Governmental Fund Types			
	General Fund	**Loan Fund**	**Other Funds**	**Total Governmental Funds**
REVENUES				
Intergovernmental revenues	336,494		25,000	361,494
Charges for services	10,560			10,560
Miscellaneous revenues	115,618	324,137	9,457	449,212
Total Revenues	**462,672**	**324,137**	**34,457**	**821,266**
EXPENDITURES				
Current:				
Economic Environment	471,134	7,519		478,653
Intergovernmental payments	32,566	2,198		34,764
Debt Service:				
Principal	11,326	111,519		122,845
Interest	4,531	17,208		21,739
Total Expenditures	**519,557**	**138,444**	**-**	**658,001**
Excess (Deficiency) of Revenues over Expenditures	(56,885)	185,693	34,457	163,265
OTHER FINANCING SOURCES (USES)				
Recovery of write offs		41,241		41,241
Foreclosure property held for resale		(50,000)		(50,000)
Intergovernmental loan proceeds		-	200,000	200,000
Write offs		(177,506)		(177,506)
Transfers in	123,518			123,518
Transfers out		(114,800)	(8,718)	(123,518)
Total Other Financing Sources and Uses	**123,518**	**(301,065)**	**191,282**	**13,735**
Net Changes in Fund Balance	**66,633**	**(115,372)**	**225,739**	**177,000**
Fund Balance Beginning	**157,962**	**6,439,977**	**18,009**	**6,615,948**
Fund Balances - Ending	**224,595**	**6,324,605**	**243,748**	**6,792,948**

*The reconciliation of the net changes in fund balances of government funds to the change in net position in the the statement of activities is presented below:

Net change in fund balances - total government funds	177,000
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures.	
However in the statement of activities, the cost of those assets is allocated over their estimated useful life as depreciation expense. The current year depreciation expense is:	(34,073)
Governmental funds report debt payments as expenditures.	
Current year debt payment for the general and loan funds	122,845
New lendable funds received	(200,000)
Decrease (Increase) in accrued leave	(324)
Change in net position of governmental activities	65,448

The notes to financials statements are an integral part of this statement.

Tri County Economic Development District
Budgetary Comparison Statement
For the Year Ended December 31, 2013

General Fund	**Original Budget**	**Final Budget**	**Actuals**	**Variance**
Fund Balance At January 1	**126,249**	**126,249**	**157,962**	**31,713**
Resources (inflows):				
Intergovernmental Revenues	311,755	337,297	336,494	(803)
Private Sources	-	-	10,560	10,560
Interest Earnings	-	-	148	148
Miscellaneous	106,572	106,572	115,470	8,898
Transfers (Intra Fund)	36,420	36,420	36,400	(20)
Transfers (inter Fund)	226,111	226,111	123,518	(102,593)
Amount Available for Appropriation	**680,858**	**706,400**	**622,590**	**(83,810)**
Changes to Appropriations (outflows):				
Salary & Wages	260,843	289,043	230,781	58,262
Personnel Benefits	81,927	86,497	70,047	16,450
Supplies	33,500	33,500	19,058	14,442
Other Services and Charges	223,808	240,965	151,247	89,718
Intergovernmental Payments	17,000	17,000	27,566	(10,566)
Intergovernmental Agreements (Projects)	29,368	22,444	5,000	17,444
Debt Payment	15,858	15,858	15,857	1
Transfers (Intra Fund)	36,420	36,420	36,400	20
Total Changes to Appropriations	**698,724**	**741,727**	**555,956**	**185,771**
Fund Balance At December 31	**108,383**	**90,922**	**224,596**	**133,674**

Loan Fund	**Original Budget**	**Final Budget**	**Actuals**	**Variance**
Fund Balance At January 1	**-**	**-**	**6,439,976**	**6,439,976**
Resources (inflows):				
Interest Earnings	317,758	317,758	304,458	(13,300)
Miscellaneous	28,000	28,000	19,678	(8,322)
Recovery of Bad Debt / Loan Modifications	-	-	41,241	41,241
Intergovernmental Loan	-	-		-
Foreclosure Property Held For Resale	-	-	(50,000)	50,000
Amount Available for Appropriation	**345,758**	**345,758**	**315,377**	**69,619**
Changes to Appropriations (outflows):				
Supplies	700	700	1,160	(460)
Other Services and Charges	27,000	27,000	6,358	20,642
Intergovernmental Payments	7,500	7,500	2,198	5,302
Debt Payment	128,440	128,440	128,726	(286)
Transfers (Inter Fund)	126,110	126,110	114,799	11,311
Write Offs	-	-	177,506	(177,506)
Total Changes to Appropriations	**289,750**	**289,750**	**430,747**	**(140,997)**
Fund Balance At December 31	**56,008**	**56,008**	**6,324,606**	**6,368,598**

TC EDC Fund	**Original Budget**	**Final Budget**	**Actuals**	**Variance**
Fund Balance At January 1	**-**	**-**	**18,009**	**18,009**
Resources (inflows):				
Intergovernmental Revenues	100,000	100,000	25,000	(75,000)
Private Sources	-	-		-
Interest Earnings	10,250	10,250	4,177	(6,073)
Miscellaneous	6,000	6,000	5,280	(720)
Intergovernmental Loan	-	-	200,000	200,000
Amount Available for Appropriation	**116,250**	**116,250**	**234,457**	**118,207**
Changes to Appropriations (outflows):				
Other Services and Charges	1,250	1,250	-	1,250
Transfers (Inter Fund)	100,000	100,000	8,718	91,282
Debt Payment	4,000	4,000	-	4,000
Total Changes to Appropriations	**105,250**	**105,250**	**8,718**	**96,532**
Fund Balance At December 31	**11,000**	**11,000**	**243,748**	**232,748**

The notes to the financial statements are an integral part of this statement.

TRI COUNTY ECONOMIC DEVELOPMENT DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JANUARY 1, 2013 THROUGH DECEMBER 31, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Tri County Economic Development District (TEDD) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described below. TEDD reports in conformity with GASB 34 since 2005.

A. Reporting Entity

TEDD is a governmental agency organized to assist and carry out various community and economic development programs under grants received from various agencies of federal, state and local governments.

TEDD was formed under authority of Washington State law, Chapter 39.34 RCW, known as the Inter-local Cooperative Act. The Acceptance of these grants requires compliance with prescribed grant conditions and other special requirements. As required by the generally accepted accounting principles the financial statements present TEDD as the primary government, and its component unit. The component unit discussed below is included in the District's reporting entity because of the significance of its operational or financial relationship with the TEDD.

Tri County Economic Development District Non Profit Corporation (TC EDC) was formed on August 1, 2011 as a non-profit charitable organization to provide for public agencies to engage in cooperative action to promote planning and economic services. TC EDC is governed by the same 22 public agencies of the TEDD Board. Although it is legally separated from the District, the Corporation is reported as if it were a part of the primary government because it sole purpose is another vehicle to promote economic activities.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component unit. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities which normally are supported by taxes and/or intergovernmental revenue are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Our policy is to allocate indirect costs to a specific function or segment. Program revenues include 1) member dues, charges to clients or applicants who use or directly benefit from services provided by a specific function or segment, rental income derived from the incubator and 2) grants and contributions that are restricted to meeting the operational or capital requirements for a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate fund financial statements are provided for governmental funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. The Loan Fund, which is considered a major fund, and the Corporation Fund, which is presented as “Other Funds”, are reported in separate columns in the fund financial statement.

Grants and interest associated within the current period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available when cash is received by the District.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, TEDD considers revenues to be available if they are collected within 120 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The district reports the following major governmental funds:

- General Fund - this is the general operating fund of TEDD and is used to account for all financial resources of the general government, except those required to be accounted for in another fund.

- Loan Fund - this fund accounts for revenues derived from specific grants, loan interest payments, contract origination and late fees, and investment interest which are designated to finance the loan programs. This fund is reported as a special revenue fund.

The District reports the following non-major governmental fund

- Corporation Fund – this fund accounts for revenues derived from specific grants, loan interest payments, contract origination and late fees, and investment interest which are designated to finance the corporation programs. This fund is reported as a special revenue fund.

D. Budgetary Information

1. Scope of Budget

Annual appropriated budgets are adopted for the General, Loan and Corporation funds with the generally accepted accounting principles (GAAP) basis of accounting. Budgets are adopted at the fund level.

Appropriations for general and special revenue funds lapse at year-end.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservation of fund balances and do not constitute expenditures or liabilities because the commitments will be re-appropriated and honored during the subsequent year.

2. Amending the Budget

The budget is adopted by TEDD's Governing Board, any revisions that alter the total expenditures of a fund, or that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the governing board.

When the Board determines that it is in the best interest of the district to increase or decrease the appropriation for a particular fund it may do so by resolution according to the by-laws which require a public meeting.

The budget amounts shown in the financial statements are the final authorized amounts as revised during the year.

The financial statements contain the original/final budget information. The original budget is the first complete appropriated budget. The final budget is the original budget adjusted by all reserves, transfers, allocations, supplemental appropriations, and other legally authorized changes applicable for the fiscal year.

In 2013, the TEDD Board approved four budget revisions.

In the General Fund, the District adjusted the budget for salary and personnel benefit line changes and for changes as a result of obtaining new grant funding and reorganization after the death of the finance Manager. The District budgets for Intrafund transfers but they are not reflected on the fund statements. The Loan Fund adjusted its budget to cover cost for maintenance of foreclosed property and the processing of an additional foreclosure. There were no adjustments made to the TCEDC budget.

E. Assets, Liabilities, Fund Balance, Net Position

1. Cash and Equivalents

TEDD deposits all receipts with the Stevens County Treasurer. It is TEDD's policy to invest all temporary cash surpluses. On December 31, 2013, the Stevens County Treasurer held $2,355,221 in short-term residual investments of surplus cash. A portion of this is used as a restricted asset for the bad debt expense.

There was also cash on December 31, 2013 of $54,531.

The General fund and the Loan fund have $3,000 and $1,000 in petty cash/advance travel checking accounts respectively.

2. Temporary Investments

See Deposits and Investments Note 4.

3. Receivables

Customer accounts receivable consist of amounts owed from private individuals or organizations for dues or services including amounts owed for which billings have not been prepared.

4. Amounts Due To and From other Funds and Governmental Units

These accounts include amounts due to or from other governments for grants, entitlements, dues, interest earned on investments, and charges for services. Amounts due to and from other funds are representative of tracking activities between funds. A separate schedule of Inter-fund receivables and payables are furnished in Interfund Balances and Transfers Note 11. Any expenditure not directly related to a specific loan is paid by the general fund and charged back to the loan fund.

5. Inventories

Inventories in governmental funds consist of expendable supplies held for consumption. The cost is recorded as expenditure at the time individual inventory items are purchased. Ending inventories of materials and supplies were not sufficient in the governmental funds to be material and were not recorded.

6. Restricted Assets and Liabilities

These accounts contain the resources for the bad debt reserve for the loan program excluding the EDA portion. The restricted asset of the Loan Fund balance is in the amount of $242,291 and TCEDC reserve for bad debt of $20,000. The current portion of related liabilities is shown as Payables from Current Restricted Assets. Specific debt service reserve requirements are described in Long-Term Debt Note 8.

At December 31, 2013, the District was holding foreclosure property estimated at a fair market value of $157,500. The District anticipates the sale of these properties and equipment in 2014.

Damage deposits are collected from clients at the beginning of leases and released upon termination of lease agreements.

7. Capital Assets

See Capital Assets Note 5.

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the district as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased and constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Costs for additions or improvements to capital assets are capitalized when they increase the effectiveness or efficiency of the asset.

The cost for normal maintenance and repairs are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the primary government is depreciated using the straight line method over the following estimated useful lives:

ASSETS	**YEARS**
Buildings	40
Improvements	7
Equipment	5

8. Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation and sick leave. All vacation and sick pay is accrued when incurred in the government-wide financial statements.

Vacation pay, which may be accumulated up to 30 days, is payable upon resignation, retirement or death. Upon retirement or death up to 24 days of sick leave will be paid. The compensated absences liability consists of $7,874 and $13,601 of vacation and sick leave respectively.

9. Other Accrued Liabilities

These consist of accrued wages and accrued employee benefits.

10. Long-Term Debt

See Long-Term Note 8.

11. Deferred Revenues

This account includes amounts recognized as receivables but not revenues in governmental funds because the revenue recognition criterion has not been met.

12. Fund Balance Classifications

The Governmental Accounting Standards Board (GASB) Statement 54 requires local governments to focus on the constraints imposed upon resources when reporting fund balance in governmental funds. The new fund balance classifications will indicate the level of constraints placed upon how resources can be spent and identify the sources of those restraints.

Constraints are broken down into five different classifications:

- Non-spendable – consists of resources that are not spendable in form. For example, prepaid expenses or the corpus of an endowment.

- Restricted – consists of amounts that are restricted by an external source. For example, federal or state grants, Gas Tax, Impact fees, REET or Hotel Motel Tax.

- Committed – consists of amounts that have a constraint placed by the governing body. For example, property tax committed to street fund by specific resolution or ordinance.

- Assigned – consists of amounts that are decisions by management to use for a specific purpose. For example, the residual amount in special revenue, debt service and capital project funds.

- Unassigned - represents the residual amount for the government's general fund.

13. Fund Balance Details

The following fund balance details are available to show how the District is bound to honor the constraints for specific fund balance purposes as of December 31, 2013.

- Restricted – The District's restricted funds consist of the entire Loan Fund and Corporation Fund balances. These funds are special revenue funds and the use of its resources is contractually limited for the sole purpose of operating the Rural Opportunities Loan Fund program and the Non Profit Corporation.

- Unassigned – This represents the residual amount of the District's general fund.

NOTE 2 - RECONCILIATION OF GOVERNMENT WIDE & FUND FINANCIAL STATEMENTS

A. Explanation of Certain Differences between the Governmental Funds Balance Sheet and the Government-Wide Statement of Net Position:

The governmental funds' balance sheet includes reconciliation between fund balance - total governmental funds and net position - governmental activities as reported in the government-wide statement of net position.

Loans receivable on the balance sheet are listed as Customer accounts (Net of allowance for doubtful accounts).

B. Explanation of Certain Differences between the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances and the Government Wide Statement of Activities:

The governmental funds' statement of revenues, expenditures, and changes in fund balances includes reconciliation between net changes in fund balances - total governmental funds and changes in net position of governmental activities as reported in the government wide statement of activities.

NOTE 3 – VIOLATIONS OF FINANCE RELATED LEGAL AND CONTRACTUAL PROVISIONS

There have been no material violations of finance-related legal or contractual provisions, and there have been no expenditures exceeding legal appropriations.

NOTE 4 - DEPOSITS AND INVESTMENTS

The District deposits are made with the Stevens County Treasurer who complies with Washington State laws. They are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

As of December 31, 2013, the Stevens County Treasurer held the following fair value investments at no custodial credit risk for TEDD:

GENERAL FUND	LOAN FUND	TC EDC FUND	TOTAL
$99,815	$2,164,449	90,957	$2,355,221

On December 31, 2013, there was additional cash held at the Treasurer's office in the amount of $54,531.

NOTE 5 - CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2013 is as follows:

GOVERNMENTAL ACTIVITIES	BEGINNING BALANCE 01/01/2013	INCREASES	DECREASES	ENDING BALANCE 12/31/2013
Capital Assets, not being depreciated:				
Land	$249,028			$249,028
Capital Assets, being depreciated:				
Buildings	$1,362,910			$1,362,910
Improvements (not buildings)	$53,619			$53,619
Equipment	$8,079			$8,079
Total Capital Assets being depreciated	$1,424,608			$1,424,608
Less Accumulated Depreciation for:				
Buildings	$376,411	$34,073		$410,484
Improvements (not buildings)	$53,619			$53,619
Equipment	$8,079			$8,079
Total Accumulated Depreciation	$ 438,109	$34,073		$472,182
Total Capital Assets, being depreciated, Net	$986,499	($34,073)		$952,426
Governmental Activities Capital Assets, Net	$1,235,527	($34,073)		$1,201,454

The District does not have any intangible assets to report.

NOTE 6 - PENSION PLANS

Substantially all of TEDD's full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380; or it may be downloaded from the DRS website at www.drs.wa.gov. The following disclosures are made pursuant to GASB Statements 27, *Accounting for Pensions by State and Local Government Employers* and 50, *Pension Disclosures, an Amendment of GASB Statements 25 and 27*.

Public Employees' Retirement System (PERS) Plans 1, 2, and 3

Plan Description

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts; employees of legislative committees; employees of district and municipal courts; and employees of local governments. Membership also includes higher education employees not participating in higher education retirement programs. Approximately 49 percent of PERS salaries are accounted for by state employment. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a defined benefit plan with a defined contribution component.

PERS members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercised an option to transfer their membership to Plan 3. PERS members joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or Plan 3. The option must be exercised within 90 days of employment. Employees who fail to choose within 90 days default to Plan 3.

PERS is comprised of and reported as three separate plans for accounting purposes: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members, and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

PERS Plan 1 and Plan 2 retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2013, the rate was five and one-half percent compounded quarterly. Members in PERS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon, in lieu of any retirement benefit, upon separation from PERS-covered employment.

PERS Plan 1 members are vested after the completion of five years of eligible service.

PERS Plan 1 members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with 25 years of service, or at age 60 with at least 5 years of service. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits.

The monthly benefit is 2 percent of the average final compensation (AFC) per year of service, but the benefit may not exceed 60 percent of the AFC. The AFC is the monthly average of the 24 consecutive highest-paid service credit months.

PERS Plan 1 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity. The benefit amount is $350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60, at which time the benefit is converted to the member's service retirement amount.

A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the benefit amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. Plan 1 members may elect to receive an optional COLA amount (based on the Consumer Price Index), capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is 2 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

PERS Plan 2 members who have at least 20 years of service credit, and are 55 years of age or older, are eligible for early retirement with a reduced benefit. The benefit is reduced by an early retirement factor (ERF) that varies according to age, for each year before age 65.

PERS Plan 2 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions, if hired prior to May 1, 2013:

- With a benefit that is reduced by 3 percent for each year before age 65; or
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of 5 percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service.

PERS Plan 2 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. As established by Chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 percent to 15 percent of salaries, based on member choice. Members who do not choose a contribution rate default to a 5 percent rate. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

PERS Plan 3 defined contribution retirement benefits are dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member's self-direction, PERS Plan 3 contributions are invested in the Retirement Strategy Fund that assumes the member will retire at age 65.

For DRS' Fiscal Year 2013, PERS Plan 3 employee contributions were $99.0 million, and plan refunds paid out were $69.4 million.

The defined benefit portion of PERS Plan 3 provides members a monthly benefit that is 1 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit, and Plan 3 provides the same cost-of-living allowance as Plan 2.

Effective June 7, 2006, PERS Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service, if twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 by June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan.

Vested Plan 3 members are eligible for normal retirement at age 65, or they may retire early with the following conditions and benefits:

- If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65.

- If they have 30 service credit years and are at least 55 years old, and were hired before May 1, 2013, they have the choice of a benefit that is reduced by 3 percent for each year before age 65; or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.

- If they have 30 service credit years, are at least 55 years old, and were hired after May 1, 2013, they have the option to retire early by accepting a reduction of 5 percent for each year before age 65.

PERS Plan 3 benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is 2 percent of the AFC per year of service. For Plan 3, the monthly benefit amount is 1 percent of the AFC per year of service. These disability benefit amounts are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option. There is no cap on years of service credit, and a cost-of-living allowance is granted (based on the Consumer Price Index) capped at 3 percent annually.

PERS members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.

A one-time duty-related death benefit is provided to the beneficiary or the estate of a PERS member who dies as a result of injuries sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

From January 1, 2007 through December 31, 2007, judicial members of PERS were given the choice to elect participation in the Judicial Benefit Multiplier (JBM) Program enacted in 2006. Justices and judges in PERS Plan 1 and Plan 2 were able to make an irrevocable election to pay increased contributions that would fund a retirement benefit with a 3.5 percent multiplier. The benefit would be capped at 75 percent of AFC. Judges in PERS Plan 3 could elect a 1.6 percent of pay per year of service benefit, capped at 37.5 percent of AFC.

Newly elected or appointed justices and judges who chose to become PERS members on or after January 1, 2007, or who had not previously opted into PERS membership, were required to participate in the JBM Program.

There are 1,176 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2012:

Retirees and Beneficiaries Receiving Benefits	82,242
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	30,515
Active Plan Members Vested	106,317
Active Plan Members Nonvested	44,273
Total	**263,347**

Funding Policy

Each biennium, the state Pension Funding Council adopts PERS Plan 1 employer contribution rates, PERS Plan 2 employer and employee contribution rates, and PERS Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. Under PERS

Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion. The Plan 3 employee contribution rates range from 5 percent to 15 percent.

As a result of the implementation of the Judicial Benefit Multiplier Program in January 2007, a second tier of employer and employee rates was developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program

The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2013, are as follows:

Members Not Participating in JBM:

	PERS Plan 1	**PERS Plan 2**	**PERS Plan 3**
Employer*	9.21%**	9.21%**	9.21%***
Employee	6.00%****	4.92%****	*****

* The employer rates include the employer administrative expense fee currently set at 0.18%.
** The employer rate for state elected officials is 13.73% for Plan 1 and 9.21% for Plan 2 and Plan 3.
*** Plan 3 defined benefit portion only.
**** The employee rate for state elected officials is 7.50% for Plan 1 and 4.92% for Plan 2.
***** Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

Members Participating in JBM:

	PERS Plan 1	**PERS Plan 2**	**PERS Plan 3**
Employer-State Agency*	11.71%	11.71%	11.71%**
Employer-Local Gov't Units*	9.21%	9.21%	9.21%**
Employee-State Agency	9.76%	9.80%	7.50%***
Employee-Local Gov't Units	12.26%	12.30%	7.50%***

* The employer rates include the employer administrative expense fee currently set at 0.18%.
** Plan 3 defined benefit portion only.
***Minimum rate.

Both TEDD and the employees made the required contributions. The District's required contributions for the years ended December 31st were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2013	$	$16,279	$0
2012	$	$13,385	$0
2011	$	$12,688	$4,544

NOTE 7 - RISK MANAGEMENT

The district maintains a relationship with insurance agent, Moloney & O'Neill for assistance in obtaining the best coverage and rates for Commercial Fire, Liability, Property, Crime and Auto coverage. This policy has a set maximum limit of insurance for $3,167,510. The district also carries a "Directors and Officers" liability policy with RSUI Indemnity Company. The policy is written on an annual basis and provides $1,000,000 aggregate liability insurance with a retention clause of $7,500. The district does not have any outstanding claims or losses to report on either policy in the past three years.

NOTE 8 - LONG-TERM DEBT

Utilizing a loan and matching grant, the District purchased two incubator buildings in 2001. The loan term was for ten years at an adjustable interest rate (7.98% on January 1, 2011) and with a scheduled balloon payment at the end of the contract in August 2011. In 2011, the District successfully refinanced the remaining balloon payment with a modest modification fee through Key Bank. The loan modification was for $128,984.20 for a ten (10) year period at an annual APR of 4.254%. On December 31, 2013 the principal balance left on this loan was $100,717.

In addition to the above mentioned EDA incubator grant with matching funds, the District's Rural Opportunities Loan Fund had 5 outstanding loans at the beginning of 2013.

All five 30 year loans with a 1% interest rate are for the Rural Opportunity Loan Fund and were obtained from the U.S. Department of Agriculture / Rural Development. They now range in size from $184,000 to $1,000,000 with maturity dates set from 2021 to 2041. The balance for all five loans at the end of 2013 was $1,589,968.

The Corporation was awarded a $100,000/$400,000 grant/loan from the U.S. Department of Agriculture / Rural Development but these funds were not accessed until 2013. $200,000 was drawn in 2013 but the entire debt is $400,000. The $200,000 is reflected in the statements. The annual maturity reflects the entire $400,000 on the following page.

Loans currently Outstanding are as follows:

LOAN DESCRIPTION	MATURITY DATE	INTEREST RATE	ORIGINAL AMOUNT	ANNUAL
IRP Revolving Loan Proceeds #2	2021	1%	$300,000	$12,735
IRP Revolving Loan Proceeds #3	2023	1%	$1,000,000	$41,700
IRP Revolving Loan Proceeds #5	2026	1%	$1,000,000	$42,450
IRP Revolving Loan Proceeds #7	2028	1%	$700,000	$29,715
IRP Revolving Loan Proceeds #22	2041	1%	$184,000	$7,810
Key Bank Loan (Incubator Buildings)	2021	4.254%	$128,984	$15,857
EDC Loan USDA RMAP	2032	2%	$400,000	$26,480

The Annual debt service requirements to maturity for loans are as follows:

YEAR	PRINCIPAL	INTEREST
2014	$ 138,170	$ 25,987
2015	$ 150,803	$ 25,944
2016	$ 152,917	$ 23,829
2017	$ 155,074	$ 21,672
2018	$ 157,276	$ 19,471
2019-2023	$ 738,576	$ 64,758
2024-2028	$ 420,192	$ 27,029
2029-2041	$ 177,356	$ 9,570
TOTALS	**$2,090,684**	**$218,260**

NOTE The EDC loan is shown as the $400,000 in the preceding schedule but is shown as the $200,000 that was accessed in 2013 in the statements.

NOTE 9 – CHANGES IN LONG-TERM LIABILITIES

During the year ended December 31, 2013, the following changes occurred in long-term liabilities:

GOVERNMENTAL ACTIVITIES	BEGINNING BALANCE 01/01/2013	ADDITIONS	REDUCTIONS	ENDING BALANCE 12/31/2013	DUE WITHIN 1 YEAR
Loans	$1,813,529	$200,000	$122,845	$1,890,684	$124,217
Compensated Absences	$21,151	$324		$21,475	
TOTALS	**$1,834,680**	**$200,324**	**$122,845**	**$1,912,159**	**$124,217**

NOTE 10 - CONTINGENCIES AND LITIGATION

TEDD has recorded in its financial statements all material liabilities. There are no material contingent liabilities to record.

TEDD participates in a number of federal and state assisted programs. These grants are subject to audit by the grantors or their representatives. Such audits could result in requests for reimbursement to grantor agencies for expenditures disallowed under the terms of the grants. The District's Management believes that such disallowances, if any, will be immaterial.

NOTE 11 - INTERFUND BALANCES AND TRANSFERS

Intrafund transactions involve movement of dollars between programs within a fund for managerial purposes only as a way of tracking costs and revenues between programs. This is not reflected in the financial statements.

Interfund transactions are the administrative costs for the loan fund paid out of the general fund and reflected in the fund financial statements as operating transfers in and out. The use of Interfund transfers allows the District to track general costs associated with the loan fund separate from loan specific costs approved by granting agencies.

A. Interfund Balances

Interfund balances at December 31, 2013 were as follows:

DUE TO	DUE FROM	DUE FROM
General Fund	Loan Fund	EDC
$39,559	$37,017	$2,542

B. Interfund Transfers

Interfund transfers at December 31, 2013 were as follows:

TRANSFER TO	TRANSFER FROM	TRANSFERS FROM
General Fund	Loan Fund	EDC
$123,518	$114,800	$8,718

NOTE 12 - RECEIVABLE AND PAYABLE BALANCES

A. Receivables:

Receivables at December 31, 2013 were as follows:

	CUSTOMER ACCOUNTS	DUE FROM OTHER GOVERNMENTS	LOANS	TOTAL
Governmental Activities	$0	$63,339	$423,509	$486,848
Amounts not scheduled for collection during the subsequent year			$3,771,668	$3,771,668

The amount reflected in the table above for loans is the amount of long term receivables shown in the loan fund. TEDD operates a revolving loan program, which has been funded by three federal agencies. They are the U.S. Department of Commerce/Economic Development Administration, the U.S. Department of Agriculture/Rural Development, and the U.S. Department of Housing and Development.

Financial Statements – Money received from these agencies is recorded as loan proceeds when received. When a loan is made, it is recorded on the Balance Sheet as a long-term loan receivable and is reported on the Statement of Net Position as a long-term receivable.

New Loans, Loan Restructuring and Cancellations/Write Offs – The loan advisory committee approves the loans to be made, restructured and/or written off. Beginning in 2008, the loan officer was charged with presenting the monthly activity to the full Board of Directors. In October of each year, the Committee Chair gives a yearly review to the Board and requests approval by resolution to recertify the loan fund.

Bad Debt – restricted Cash and Investments. This amount is in reserve to replace loan principal including any expenditure that may be needed for the loan to be written off. This allows the District to maintain a constant money supply (cash flow) to make new loans. This is set at 6% of loans outstanding an all loan funds with the exception of the EDA revolving loan fund which does not allow the reservation of cash. In the EDA program TEDD reserves/restricts fund balance only.

A. Payables:

Payables at December 31, 2013 were as follows:

	VENDORS	**SALARIES & BENEFITS**	**TOTAL**
Governmental Activities	$15,322	$17,498	$32,820

NOTE 13 – OTHER DISCLOSURES

Extraordinary or Special Items:

The Finance Manager was diagnosed in June of 2013 with a major medical condition. She went on an extended medical leave until she passed away in November and was paid through November and partial December to her estate. This caused the District to hire an interim finance manager while continuing to pay accrued leave earned. The District also hired a temporary employee in October and changed to full time status in December.

Subsequent Event:

- Three loans were cross collateralized by one property and equipment. The District sold the equipment in 2013 but the property is anticipated to be sold in 2014.
- A vacant lot held as collateral did not sell as anticipated in 2013 and continues to be listed for sale.

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Tri County Economic Development District
Schedule of Expeneditures of Federal Awards
For the year ended December 31, 2013

Federal Agency Name/ Pass-Through Agency Name	Federal Program Name/Title	CFDA Number	Other Identification Number/Information	Expenditures From Pass-Through Awards	Expenditures From Direct Awards	Expenditures Total	Notes
US Dept of Agriculture - Rural Business Cooperative Service	Rural Business Enterprise Grants	10.769	56-033-877270500		18,911	18,911	2
US Dept of Agriculture - Rural Business Cooperative Service	Rural Microentrepreneur Assistance Progam	10.870	RMAP Loan/Grant		170,218	170,218	6
US Dept of Commerce - Economic Development Administration	Economic Development Support for Planning Organizations	11.302	07-83-06839-01 EDA		60,000	60,000	2
US Dept of Commerce - Economic Development Administration	Economic Adjustment Assistance	11.307	07-39-02713 EDA RLF		1,121,274	1,121,274	4
US Dept of Commerce- Pass Through from WA State Department of Commerce	ARRA State Broadband Data & Development Grant Program	11.558	#13-55100-0004	2,952		2,952	5
US Dept of Housing & Urban Development- Pass Through from WA State Department of Commerce	Community Development Block Grant	14.228	01-97-733-001 &96-745-091 Micro & Business Loans	120,457		120,457	3
TOTAL OF FEDERAL AWARDS EXPENDED				$ 123,409	$ 1,370,403	$ 1,493,812	

The accompanying notes to the Schedule of Expenditures of Federal Awards are an integral part of this Schedule.

TRI COUNTY ECONOMIC DEVELOPMENT DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR YEAR ENDED DECEMBER 31, 2013

NOTE 1 - BASIS OF ACCOUNTING

The Schedule of Expenditures of Federal awards is prepared on the same basis of accounting as the District's financial statements. TEDD uses Governmental Accepted Accounting Principles (GAAP) for all funds represented on this schedule.

NOTE 2 - PROGRAM COSTS

The amounts shown as current year expenditures represent only the federal portion of program costs. Entire program costs, including the District's portion, are more than shown.

NOTE 3 – COMMUNITY DEVELOPMENT BLOCK GRANT REVOLVING LOAN-PROGRAM INCOME

The District has a revolving loan program for business and micro loans. Under this federal program, repayments to the District are considered program revenues (income) and loans of such funds to eligible recipients and administration costs are considered expenditures. The amount of loan funds disbursed to program participants for the year was $100,000 and the administrative expense was $24,057 totaling $120,457 and is presented in this schedule. The amount of principal and interest received in loan repayments for the year was $74,626.

NOTE 4 – ECONOMIC ADJUSTMENT ASSISTANCE REVOLVING LOAN-PROGRAM INCOME

The District received $600,000 from prior year's Economic Development Administration grants and provided its own matched funds in the amount of $200,000 for a total of $800,000. These moneys were the basis for a revolving loan fund. The amount presented in this schedule is the 75% of the amount of outstanding loans, administrative expenses, current year write offs and the cash and investments held at year end. The amount of loans funds disbursed to program participants was $115,000. This total is included in the schedule. The amount of principal and interest received in loan repayments for the year was $330,961.

NOTE 5 – AMERICAN RECOVERY AND REINVESTMENT ACT (ARRA) OF 2009

Expenditures for this program were funded by ARRA.

NOTE 6 – RURAL MICROENTREPRENEUR ASSISTANCE PROGRAM

The Tri County Economic Development Non Profit Corporation (TCEDC), a component unit of TEDD, received $200,000 of the available $400,000 loan in 2013. Loans totaling $161,500 were funded in 2013. TCEDC also received $25,000 of a $100,000 grant of which $8,718 was spent on administration expenses.

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as fraud, state whistleblower and citizen hotline investigations.

The results of our work are widely distributed through a variety of reports, which are available on our website and through our free, electronic subscription service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

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