



Washington State Auditor's Office

Troy Kelley

Integrity • Respect • Independence

**Financial Statements and Federal Single Audit
Report**

**Pierce County Community
Development Corporation**

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

Published September 25, 2014

Report No. 1012688





Washington State Auditor Troy Kelley

September 25, 2014

Board of Directors
Pierce County Community Development Corporation
Tacoma, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on the Pierce County Community Development Corporation's financial statements and compliance with federal laws and regulations.

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

Sincerely,

TROY KELLEY
STATE AUDITOR

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Federal Summary

Pierce County Community Development Corporation January 1, 2013 through December 31, 2013

The results of our audit of the Pierce County Community Development Corporation 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 business-type activities 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 Corporation.

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 Corporation'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:

<u>CFDA No.</u>	<u>Program Title</u>
14.239	HOME Investment Partnerships Program

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

The Corporation 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*

Pierce County Community Development Corporation January 1, 2013 through December 31, 2013

Board of Directors
Pierce County Community Development Corporation
Tacoma, 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 business-type activities and the aggregate remaining fund information of the Pierce County Community Development Corporation, Pierce County, Washington, as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, and have issued our report thereon dated September 17, 2014.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audits of the financial statements, we considered the Corporation'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 Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation'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 Corporation'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.

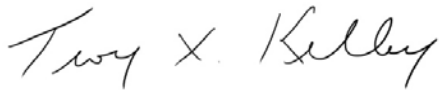
COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Corporation's financial statements are free from material misstatement, we performed tests of the Corporation'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 Corporation'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 Corporation'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 KELLEY
STATE AUDITOR

September 17, 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

Pierce County Community Development Corporation January 1, 2013 through December 31, 2013

Board of Directors
Pierce County Community Development Corporation
Tacoma, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited the compliance of the Pierce County Community Development Corporation, Pierce 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 Corporation'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 Corporation'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 Corporation'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 Corporation's compliance.

Opinion on Each Major Federal Program

In our opinion, the Corporation 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 Corporation 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 Corporation'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 Corporation'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.

A handwritten signature in cursive script that reads "Troy X. Kelley".

TROY KELLEY
STATE AUDITOR

September 17, 2014

Independent Auditor's Report on Financial Statements

Pierce County Community Development Corporation January 1, 2013 through December 31, 2013

Board of Directors
Pierce County Community Development Corporation
Tacoma, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the business-type activities and the aggregate remaining fund information of the Pierce County Community Development Corporation, Pierce County, Washington, as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Corporation'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 audits. We conducted our audits 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 Corporation'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 Corporation'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 business-type activities and the aggregate remaining fund information of the Pierce County Community Development Corporation, as of December 31, 2013 and 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

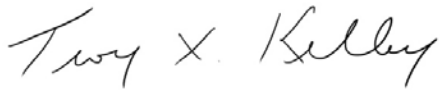
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 37 through 3: be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the 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 audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Corporation'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 17, 2014 on our consideration of the Corporation'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 Corporation's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Troy X. Kelley".

TROY KELLEY
STATE AUDITOR

September 17, 2014

Financial Section

Pierce County Community Development Corporation January 1, 2013 through December 31, 2013

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2013 and 2012

BASIC FINANCIAL STATEMENTS

Statement of Net Position – Proprietary Funds – 2013 and 2012

Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds
– 2013 and 2012

Statement of Cash Flows – Proprietary Funds – 2013 and 2012

Statement of Fiduciary Net Position – 2013 and 2012

Notes to the Financial Statements – 2013 and 2012

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2013

Notes to the Schedule of Expenditures of Federal Awards – 2013

Pierce County Community Development Corporation
Management's Discussion and Analysis
For the Years Ended December 31, 2013 and 2012

The management's discussion and analysis is intended to serve as an introduction to the basic financial statements of the Pierce County Community Development Corporation (CDC). The financial statements provide an overview of financial activities for the fiscal year ended December 31, 2013 and 2012. It should be read in conjunction with the accompanying financial statements, schedules and notes, which follow this section.

FINANCIAL HIGHLIGHTS

- The CDC's overall financial position improved during 2013.
- Net position as of December 31, 2013, totaled \$36.7 million.
- In 2013, the CDC received \$0.95 million in grant revenues.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements presented include all of the activities of the CDC as prescribed by the Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments. The report is comprised of three components: proprietary fund financial statements, fiduciary fund financial statements and notes to the financial statements. Notes to the financial statements provide additional information that is essential to a full understanding of the data presented. The report also includes other supplementary information designed to enable the reader to gain maximum understanding of the CDC's financial activities.

Fund financial statements are designed to report information about groupings of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The CDC, like other governmental agencies, uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. All of the funds of the CDC are classified as proprietary or fiduciary funds.

Proprietary funds are used to report business-type activities. For financial statement purposes, all proprietary funds have been aggregated. Individual fund data for each proprietary fund is provided in supplementary schedules included after the basic financial information.

Resources held for the benefit of parties outside the CDC are accounted for in a fiduciary fund. Because the resources of those funds are not available to support CDC programs, fiduciary funds are not reflected in the proprietary fund statements. The accounting used for the fiduciary funds is the same as that used for the proprietary funds.

Pierce County Community Development Corporation
Management's Discussion and Analysis
For the Years Ended December 31, 2013 and 2012

CONDENSED COMPARATIVE FINANCIAL DATA

Shown below are condensed versions of the Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Fund Net Assets for proprietary operations.

A. STATEMENT OF NET POSITION

The following table shows the changes in assets, liabilities and net position from 2013 to 2011. The Statement of Net Position, presented in the following section, depicts the financial standing of the CDC as of December 31, 2013, 2012 and 2011, and includes the results of all activities presented in the Statement of Revenues, Expenses and Changes in Fund Net Position.

	<u>2013</u>	<u>2012</u>	<u>2011</u>
ASSETS			
Current Assets	\$ 4,309,819	\$ 3,090,755	\$ 4,406,215
Noncurrent Assets	<u>33,675,590</u>	<u>34,053,562</u>	<u>31,712,746</u>
TOTAL ASSETS	<u>\$ 37,985,409</u>	<u>\$ 37,144,317</u>	<u>\$ 36,118,961</u>
LIABILITIES			
Current Liabilities	\$ 698,586	\$ 194,239	\$ 737,054
Noncurrent Liabilities	<u>586,788</u>	<u>621,839</u>	<u>649,767</u>
TOTAL LIABILITIES	1,285,374	816,078	1,386,821
TOTAL NET POSITION			
Unrestricted	<u>36,700,035</u>	<u>36,328,239</u>	<u>34,732,141</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 37,985,409</u>	<u>\$ 37,144,317</u>	<u>\$ 36,118,961</u>

B. STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

This table summarizes the Statement of Revenues, Expenses and Changes in Fund Net Position presented in detail in the following section:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
REVENUES			
Operating:			
Loan Interest Income	\$ 384,486	\$ 429,229	\$ 465,221
Gain (Loss) on Sales	715	(13,940)	-
Other Operating Revenue	97,241	30,222	37,310
Nonoperating:			
Grant Income	<u>954,590</u>	<u>1,751,827</u>	<u>1,128,136</u>
TOTAL REVENUES	1,437,032	2,197,338	1,630,667
TOTAL OPERATING EXPENSES	<u>(1,065,236)</u>	<u>(601,240)</u>	<u>(597,147)</u>
CHANGE IN NET POSITION	371,796	1,596,098	1,033,520
NET POSITION, January 1	<u>36,328,239</u>	<u>34,732,141</u>	<u>33,698,621</u>
NET POSITION, December 31	<u>\$ 36,700,035</u>	<u>\$ 36,328,239</u>	<u>\$ 34,732,141</u>

Pierce County Community Development Corporation
Management's Discussion and Analysis
For the Years Ended December 31, 2013 and 2012

ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS

Current assets increased from 2012 to 2013 by 39% or \$1.2 million. The change is driven by both an increase in cash and an increase in current loan receivables. This increase in current loan receivables is slightly offset by a decrease in the noncurrent assets loan receivables. Due to an increase in the loans receivable held as current which are loans due to mature in the coming year. The decrease in noncurrent assets from 2012 to 2013 was only 1%, respectively.

Current liabilities increased from 2012 to 2013 by \$504,347 or 260%. This large increase is due to the change in the borrowers clearing accounts. Borrowers' clearings represent funds obligated to be paid out for rehabilitation projects, and can fluctuate dramatically from year to year depending on the amount and type of projects in progress at the end of the reporting period. The increase from 2012 to 2013 was largely attributed to the number of active HOME projects outstanding as of December 31, 2013. The most significant is a multiple family housing project that as of December 31, 2013 had a clearing balance of \$316,027, respectively.

Loan interest income, the primary source of operating revenue, decreased slightly by, 10.4% from 2012 to 2013. A new revenue source, Northwest Housing Development Income, was added in 2013, adding operating revenue of \$78,458, respectively. Northwest Housing Development Income is fee income generated through completing loan projects in identified need areas through a partnership with the U.S.D.A. Program income and fee income funded all operating cash expenses for the years ending December 31, 2012 and 2013.

Nonoperating revenues, which consist entirely of grant funds, decreased by approximately 45.4% from 2012 to 2013. In the prior year grant funds had increased by approximately 55.3% from 2011 to 2012. This increase is the result of additional Community Development Block Grant (CDBG) funding received during 2012 for the Special Needs Housing (SNH) program. The SNH program acquired and performed rehabilitation of affordable single-family rental housing for very low-income individuals with disabilities. The SNH program was provided by grant funds and if all conditions continue to be met the loan will be amortized over 30 years, and then the loan will be forgiven.

Total expenses increase from 2012 to 2013 by 77.2%. This increase was driven by the increase in bad debt from 2012 to 2013. During 2013 the full allowance for doubtful accounts for HOME funds was exhausted and some additional funds were charged directly to bad debt expense. This was primarily from one large loan that was written-off to bad debt at the end of the year. The high loan balance that was written-off is unusual for the Community Development Corporation and similar events are not anticipated in the coming year.

Overall, revenues continue to exceed expenses and therefore the CDC's financial position continues to improve.

FUND ANALYSIS

Total fund net position increased by \$371,797 in 2013. This is the sixth consecutive year net position has increased, due to increased funding from grant sources. Net growth ensures that the CDC will be able to continue its mission even if grants funds diminish in the future. There are no restrictions, commitments or other limitations that will significantly affect the availability of fund resources for future use.

Pierce County Community Development Corporation
Management's Discussion and Analysis
For the Years Ended December 31, 2013 and 2012

BUDGET VARIANCES

The CDC's managers, directors and fiscal personnel considered many factors when setting the 2013 budget. The preliminary budget was evaluated by management and reviewed by board members. Actual operating revenues of \$482,442 were slightly more than anticipated, due primarily to an increase in interest revenue. Total appropriations were lower than expected at \$891,545; the primary expense that was lower was salaries and benefits. The CDC introduced changes in salary and benefit expense during 2012. It was determined the CDC had not been receiving full cost from the County for operations. As the full cost was implemented in 2012 it was not fully budgeted and seen during that year. It was fully budgeted for in the 2013 budget; however during 2013, due to the ability to direct bill costs, it ended up lower than originally anticipated. The offset was an increase seen on the Bad Debt line. During 2013 an unusually large balance was written to bad debt at the end of the year. There were no other variances between the final budget and actual expenditures which would significantly affect either future services or liquidity.

LONG-TERM DEBT ACTIVITY

Total long-term debt at December 31, 2013, was \$586,788, consisting entirely of funds due to Pierce County Public Works for septic repair loans. This is a slight decrease from the previous year-end balance of \$621,839. These funds represent loans administered by the CDC in a cooperative agreement with Pierce County Public Works & Utilities, the Tacoma Pierce County Health Department and the Washington State Department of Ecology. For more detailed information, please see the notes to the financial statements.

CONTACTING MANAGEMENT

This financial report is designed to provide citizens, housing assistance clients, businesses and creditors with a general overview of the CDC's finances and to show accountability for the money it receives. Questions concerning any of the information provided in this report, or requests for additional financial information, should be directed to the accounting department at Pierce County Community Development Corporation, 1305 Tacoma Avenue S., Suite 104, Tacoma, WA, 98402.

Pierce County Community Development Corporation
Statement of Net Position
Proprietary Funds
As of December 31

	2013	2012
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 1,608,090	\$ 1,034,026
Loans Receivable (net of accum. amortization)	2,658,552	1,696,149
Allowance for Uncollectible Accounts	(341,000)	(339,000)
Interest Receivable - Installment	22,751	21,180
Pending Project Costs	43,181	36,027
Prepaid Expenses	425	425
Grants Receivable	317,820	641,948
Other Receivables	-	-
Total Current Assets	4,309,819	3,090,755
Noncurrent Assets:		
Loans Receivable (net of accum. amortization)	32,015,226	32,535,569
Interest Receivable - Other	1,530,364	1,488,825
Real Property	130,000	29,168
Total Noncurrent Assets	33,675,590	34,053,562
TOTAL ASSETS	\$ 37,985,409	\$ 37,144,317
DEFERRED OUTFLOWS OF RESOURCES	\$ -	\$ -
LIABILITIES		
Current Liabilities:		
Borrowers' Clearings	\$ 559,569	\$ 132,602
Accrued Payroll Liabilities	126,375	61,151
Accrued Other Liabilities	11,541	
Other Current Liabilities	1,070	467
Interest due HUD	31	19
Total Current Liabilities	698,586	194,239
Noncurrent Liabilities:		
Due to Public Works	586,788	621,839
TOTAL LIABILITIES	\$ 1,285,374	\$ 816,078
DEFERRED INFLOWS OF RESOURCES	\$ -	\$ -
NET POSITION		
Unrestricted	\$ 36,700,035	\$ 36,328,239
TOTAL LIABILITIES AND NET POSITION	\$ 37,985,409	\$ 37,144,317

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

Pierce County Community Development Corporation
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds
For the Years Ended December 31

	2013	2012
OPERATING REVENUES		
Sales:		
Gross Sales - Housing Projects	\$ 173,250	\$ 80,000
Cost of Sales	(172,535)	(93,940)
	<u>715</u>	<u>(13,940)</u>
Gain (Loss) on Sales - Housing Projects		
Other Operating Revenues:		
Loan Interest	384,486	429,229
NW Housing Development Income	78,458	-
Loan Fees	3,752	10,315
Other Revenues	15,031	19,907
	<u>481,727</u>	<u>459,451</u>
Total Other Operating Revenues		
Total Operating Revenues	482,442	445,511
OPERATING EXPENSES		
Salaries and Benefits	457,230	217,280
Professional Services	41,339	60,505
Grants	15,768	30,750
Rent	13,362	8,919
Conferences and Training	2,541	701
Insurance	4,787	4,438
Board Stipends	-	2,310
Amortization	50,116	30,620
Bad Debt	445,646	225,130
Other Operating Expenses	30,827	15,611
Other Program Expenses	3,620	4,976
	<u>1,065,236</u>	<u>601,240</u>
Total Operating Expenses		
OPERATING LOSS	(582,794)	(155,729)
NONOPERATING REVENUES		
Grants	954,590	1,751,827
	<u>954,590</u>	<u>1,751,827</u>
Total Nonoperating Revenues		
CHANGE IN NET POSITION	371,796	1,596,098
NET POSITION, January 1	36,328,239	34,732,141
NET POSITION, December 31	<u>\$ 36,700,035</u>	<u>\$ 36,328,239</u>

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

Pierce County Community Development Corporation
Statement of Cash Flows
Proprietary Funds
For the Years Ended December 31

	2013	2012
Cash Flows from Operating Activities:		
Receipts from Loan Principal Repayments	\$ 1,386,025	\$ 819,511
Receipts from Loan Interest	341,378	302,085
Receipts from Loan Fees	3,752	10,315
Receipts from Other Revenues	13,960	19,440
Receipts for Interest due HUD	53	105
Payments for Interest due HUD	(41)	(318)
Payments for Development Projects	(1,729,308)	(2,965,759)
Payments for Employee Services	(597,928)	(192,995)
Payments for Professional Services	(54,091)	(69,839)
Payments for Administrative Expenses	(33,403)	(32,810)
Net Cash Used by Operating Activities	(669,603)	(2,110,265)
Cash Flows from Noncapital Financing Activities:		
Grant Revenues	1,278,718	1,228,859
Loan Proceeds	(35,051)	(27,928)
Net Cash Provided by Noncapital Financing Activities	1,243,667	1,200,931
Net Increase (Decrease) in Cash and Cash Equivalents	574,064	(909,334)
Cash and Cash Equivalents, January 1	1,034,026	1,943,360
Cash and Cash Equivalents, December 31	\$ 1,608,090	\$ 1,034,026
Reconciliation of Operating Loss to		
Net Cash Used by Operating Activities:		
Operating Loss	\$ (582,794)	\$ (155,729)
Adjustments to Reconcile Operating Loss		
to Net Cash Used by Operating Activities		
Change in Assets and Liabilities:		
Loans Receivable (net of accumulated amortization)	(442,060)	(1,333,490)
Allowance for Uncollectible Accounts	2,000	11,000
Interest Receivable - Installment	(1,571)	1,054
Pending Project Costs	(7,154)	14,537
Prepaid Expenses	-	(197)
Other Receivables	-	-
Real Property	(100,832)	30,880
Interest Receivable - Other	(41,539)	(135,505)
Borrowers' Clearings	426,967	(604,220)
Accrued Payroll Liabilities	65,224	61,151
Accrued Other Liabilities	11,541	-
Other Current Liabilities	603	467
Interest due HUD	12	(213)
Total Adjustments	(86,809)	(1,954,536)
Net Cash Used by Operating Activities	\$ (669,603)	\$ (2,110,265)

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

Pierce County Community Development Corporation
Statement of Fiduciary Net Position
Fiduciary Fund
As of December 31, 2013

	<u>2013</u>	<u>2012</u>
ASSETS		
Current Assets:		
Cash and Cash Equivalents	<u>\$ 53,924</u>	<u>\$ 41,344</u>
Total Current Assets	<u>53,924</u>	<u>41,344</u>
TOTAL ASSETS	<u>\$ 53,924</u>	<u>\$ 41,344</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>\$ -</u>	<u>\$ -</u>
LIABILITIES		
Current Liabilities:		
Escrow Funds	<u>\$ 53,924</u>	<u>\$ 41,344</u>
Total Current Liabilities	<u>53,924</u>	<u>41,344</u>
TOTAL LIABILITIES	<u>\$ 53,924</u>	<u>\$ 41,344</u>
DEFERRED INFLOWS OF RESOURCES	<u>\$ -</u>	<u>\$ -</u>
TOTAL LIABILITIES AND NET POSITION		
Held in Trust for Escrow	<u>\$ 53,924</u>	<u>\$ 41,344</u>

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

Pierce County Community Development Corporation
Notes to Financial Statements
For the Years Ended December 31, 2013 and 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Pierce County Community Development Corporation 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 policies are described below.

A. REPORTING ENTITY

The Pierce County Council, by Ordinance No. 85-151 and as amended by Ordinance No. 89-41S, created the Pierce County Community Development Corporation (CDC). The CDC, a separate but related unit of Pierce County, was incorporated on September 24, 1985, and operates under the laws of the state of Washington applicable to a public development corporation. The CDC is exempt from federal income tax under section 501(a) of the Internal Revenue Code as a 501(c)(3) exempt organization. The accounting and reporting policies of the CDC conform to GAAP. Government-wide financial statements for Pierce County are available for review at 615 South 9th Street, Tacoma, WA, 98405.

The CDC implements and manages housing repair and business loan programs to provide services to the low-income residents of unincorporated Pierce County and the sixteen towns and cities that participate in the Urban Consortium. The CDC's financial statements include the financial position and results of operations of all programs that are controlled by or dependent on the CDC. An eight-member board of community members reviews and approves all significant program related activities and expenditures. The Pierce County Department of Community Connections exercises oversight responsibility for administration and contract approval.

B. FUND FINANCIAL STATEMENTS

The financial statements (i.e., the Statement of Net Position and the Statement of Revenues, Expenses and Changes in Fund Net Position) report information on all of the activities of the CDC. Separate financial statements are provided for proprietary and fiduciary funds. Pierce County, the primary government, is reported separately from the CDC, a legally separate but related unit for which the primary government is financially accountable.

The Statement of Revenues, Expenses and Changes in Fund Net Position 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) charges to customers or applicants who use, or directly benefit from, services provided by a given function or segment and 2) grants that are restricted to meeting the operational requirements of a particular function or segment. Other items not properly included among program revenues are reported as administrative revenues.

Pierce County Community Development Corporation
Notes to Financial Statements
For the Years Ended December 31, 2013 and 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The proprietary fund and fiduciary fund 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 are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the proprietary and fiduciary fund financial statements to the extent that those standards do not conflict with or contradict guidance of GASB. Governments also have the option of following subsequent private-sector guidance for the business-type activities, subject to this same limitation. The CDC has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The primary operating revenues of the CDC include principal loan payments, interest, loan fees and sales from housing projects. Operating expenses for proprietary funds include the cost of services, administrative expenses and amortization. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses, including grant funds.

D. BUDGETARY INFORMATION

The CDC's annual budget is determined by an analysis of available funding and projected expenses. The budget is approved annually at an official board meeting. Amendments, if any, are approved by the Board of Directors. An annual appropriated budget is adopted for the proprietary funds on the accrual basis of accounting. The budget is adopted on the combined total of all funds for each account and all appropriations lapse at year-end.

E. ASSETS, LIABILITIES AND EQUITIES

1. Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and demand deposits. For purposes of the Statement of Cash Flows, the CDC considers cash equivalents to be all highly liquid investments, including restricted assets, with original maturities of three months or less from the date of acquisition.

2. Installment Loans

Installment loans represent loans to borrowers for which the CDC currently receives monthly or annual payments. They are recorded at face value with all amounts due within one year classified as current assets and the remainder classified as noncurrent assets.

Pierce County Community Development Corporation
Notes to Financial Statements
For the Years Ended December 31, 2013 and 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Deferred Loans

Deferred loans are 20-year loans not due until their maturity date that carry an interest rate between zero and seven percent. Interest on deferred loans is accrued annually as interest receivable - other. Upon maturity, accrued interest is collected. Deferred loans are also recorded at face value with those loans coming due within one year classified as current assets and those with maturity dates greater than one year classified as noncurrent assets.

4. Forgiven Loans

Forgiven loans are amortized, or forgiven, on a straight-line basis over a period of seven, ten or fourteen years. The amortization is recorded monthly or annually as an expense. An accumulated amortization total is offset against the face amount of active forgiven loans on the Statement of Net Position. A forgiven loan becomes due upon transfer of title of the property or by death of the borrower. In the event the borrower succumbs, the unamortized balance is collected from the deceased borrower's estate.

5. Grants Receivable

Grants receivable represent amounts due from proprietary fund sources for expenses incurred prior to the year-end. The amount has been drawn down from grant income sources and not yet received by the financial statement date.

6. Borrowers' Clearings

Borrowers' clearings consist of loan proceeds obligated to be paid out for construction costs and loan processing expenses related to a specific development project.

7. Net Position

Net position is reported in categories based on source and available use. The CDC's net position is unrestricted.

F. CHANGE IN ACCOUNTING PRINCIPLE

In June 2011, the Governmental Accounting Standard Board (GASB) issued Statement No. 63, "Financial Reporting of Deferred Outflows or Resources, Deferred Inflows of Resources, and Net Position". This Statement amends the net asset reporting requirements in GASB Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments", and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets as the residual of all other elements presented in a statement of financial position. The provisions of this Statement are effective for financial statements beginning after December 15, 2011. The CDC implemented the change in the financial statements as of December 31, 2012; however, this implementation had no effect on beginning net position/fund balance.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

There have been no material violations of finance related legal or contractual provisions.

Pierce County Community Development Corporation
Notes to Financial Statements
For the Years Ended December 31, 2013 and 2012

NOTE 3 – DEPOSITS

All deposits of the CDC are insured either by federal depository insurance (FDIC) or by the Washington Public Deposit Protection Commission (WPDPC). At December 31, 2013, deposits insured by federal depository and WPDPC insurance amounted to \$100,000 and \$1,508,079, respectively. For the year ending December 31, 2012, FDIC and WPDPC insured deposits were \$100,000 and \$934,026, respectively.

NOTE 4 – CAPITAL ASSETS

All equipment purchases of \$5,000 or less are expensed upon acquisition. Equipment purchases in excess of \$5,000 are capitalized and depreciated over their estimated useful life. There was no capital asset activity during 2013.

NOTE 5 – RISK MANAGEMENT

The CDC is exposed to various risks of loss related to torts, errors and omissions. CDC staff and property are covered by Pierce County's self-insurance funds. Pierce County accounts for general risk management losses with the Self-Insurance Fund and the Workers Compensation Fund covers injuries to employees.

Pierce County's general risk management is financed through a program of self-insurance supplemented by several purchased insurance policies. All county departments participate in the program and pay premiums. Individual department claims experience is evaluated annually to determine premium rates sufficient to pay prior and current year claims.

Workers compensation benefits are provided to all Pierce County departments through a self-insured program certified under the Industrial Insurance Act, Title 51, Revised Code of Washington and is supplemented by an excess loss insurance policy. Benefits are financed by premiums paid to the Workers Compensation Fund. The excess loss workers compensation self-insured liability insurance provides stop-loss coverage (\$1 million limit) in excess of a statutory self-insured retention limit of \$750,000 per occurrence.

The CDC also carries a Non-Profit Directors and Officers Professional Liability insurance policy as well as a General Liability policy, each with an aggregate limit of \$2,000,000. Brown and Brown Insurance, the Chubb Group of Insurance Companies, brokers both policies. In each of the past three years, insurance coverage has exceeded insurance settlements.

Pierce County Community Development Corporation
Notes to Financial Statements
For the Years Ended December 31, 2013 and 2012

NOTE 6 – CHANGES IN SHORT AND LONG-TERM DEBT

All liabilities classified as current represent debt expected to be settled within one year. Borrowers' clearings represent funds currently obligated for rehabilitation projects. Project expenditures for rehabilitation reduce this liability as expended. Interest due HUD represents interest collected on certain cash funds to be remitted to HUD every fiscal year ending June 30th. Other current liabilities consist of owner contributions collected for certain development projects, funds collected for reconveyance fees and fees due for tax monitoring services. Long-term liabilities include funds due to Pierce County Public Works for program income received through the Septic Repair Loan/Grant program. Following are account increases and decreases for the years ending December 31, 2013 and 2012.

	<u>2012</u>	<u>Increases</u>	<u>Decreases</u>	<u>2013</u>
Borrowers' Clearings	\$ 132,602	\$ 2,117,409	\$ (1,690,442)	\$ 559,569
Due to Public Works	621,839	49,325	(84,376)	586,788
Accrued Payroll Liabilities	61,151	300,068	(234,844)	126,375
Accrued Other Liabilities	-	11,541	-	11,541
Other Current Liabilities	467	9,767	(9,164)	1,070
Interest due HUD	19	53	(41)	31
	<u>\$ 816,078</u>	<u>\$ 2,488,163</u>	<u>\$ (2,018,867)</u>	<u>\$ 1,285,374</u>

	<u>2011</u>	<u>Increases</u>	<u>Decreases</u>	<u>2012</u>
Borrowers' Clearings	\$ 736,821	\$ 2,359,200	\$ (2,963,419)	\$ 132,602
Due to Public Works	649,767	82,500	(110,428)	621,839
Accrued Payroll Liabilities	-	61,151	-	61,151
Other Current Liabilities	-	6,966	(6,499)	467
Interest due HUD	233	105	(319)	19
	<u>\$ 1,386,821</u>	<u>\$ 2,509,922</u>	<u>\$ (3,080,665)</u>	<u>\$ 816,078</u>

NOTE 7 – CONTINGENCIES AND LITIGATIONS

The CDC's financial statements include all material liabilities and there are no contingent liabilities to record. The CDC is not currently involved in any lawsuits or other legal actions nor is it aware of any pending litigation.

The CDC 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. CDC management believes that such disallowances, if any, will be immaterial.

Pierce County Community Development Corporation
Notes to Financial Statements
For the Years Ended December 31, 2013 and 2012

NOTE 8 – RECEIVABLE BALANCES

For the years ending December 31, 2013 and 2012, the principal balances of outstanding loans that mature beyond one year are as follows:

	<u>2012</u>	<u>Increases</u>	<u>Decreases</u>	<u>2013</u>
Deferred Loans	\$ 23,503,976	\$ 930,715	\$ (899,193)	\$ 23,535,498
Installment Loans	8,110,003	627,104	(1,085,787)	7,651,320
Forgiven Loans	1,073,676	65,322	(192,388)	946,610
Accum. Amortization	(152,086)	(50,116)	84,000	(118,202)
	<u>\$ 32,535,569</u>	<u>\$ 1,573,025</u>	<u>\$ (2,093,368)</u>	<u>\$ 32,015,226</u>

	<u>2011</u>	<u>Increases</u>	<u>Decreases</u>	<u>2012</u>
Deferred Loans	\$ 22,028,840	\$ 2,104,898	\$ (629,762)	\$ 23,503,976
Installment Loans	7,956,874	597,773	(444,644)	8,110,003
Forgiven Loans	458,630	669,295	(54,249)	1,073,676
Accum. Amortization	(144,966)	(30,620)	23,500	(152,086)
	<u>\$ 30,299,378</u>	<u>\$ 3,341,347</u>	<u>\$ (1,105,156)</u>	<u>\$ 32,535,569</u>

NOTE 9 – OTHER DISCLOSURES

A. RELATED PARTY TRANSACTIONS

As a related organization, the CDC has a significant relationship with Pierce County. All federal, state and local grant funds received by the CDC are passed through Pierce County. In 2013 and 2012, the CDC received \$954,590 and \$1,751,827, respectively, in pass-through grants. All services of the CDC are performed by employees of Pierce County.

The CDC Board of Directors consists of various members of the community including attorneys, contractors and bankers. As a result, board members' employers may be indirectly involved in contracts entered into by the CDC. When this type of transaction occurs, any related board member abstains from any discussion and voting concerning the proposed contract. A notation is made in the minutes concerning the matter. A list of such contracts is available for review at the CDC office upon request.

B. INTERGOVERNMENTAL GRANTS AND ENTITLEMENTS

The accompanying Schedule of Expenditures of Federal Awards provides a summary of the federal assistance programs in which the CDC participates.

Pierce County Community Development Corporation
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2013

Federal Agency					
Pass-Through Agency					
Federal Program Name	CFDA No.	Other ID	Pass-Through Expenditures		
Dept. of Housing and Urban Development					
Pierce County					
Community Development Block					
Grant/Entitlement Grants	14.218	BUSINESS RLF	Program Income	\$	42,317
		SUB REHAB	Program Income		40,239
		SNH	Grant		1,844
			Total 14.218		84,400
Home Investment					
Partnerships Program	14.239	M11-UC-53-0201	Grant		1,063,180
		HOME	Program Income		548,703
			Total 14.239		1,611,883
Wa. State Dept. of Commerce/Pierce County					
Community Development Block					
Grant/State's Program and Non-					
Entitlement Grants in Hawaii	14.228	NSP1	Grant		-
		NSP1	Program Income		272,779
					272,779
TOTAL FEDERAL AWARDS EXPENDED				\$	1,969,062

**Pierce County Community Development Corporation
Notes to Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2013**

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

The information in the Schedule is presented in accordance with OMB Circular A-133.

NOTE 2 – BASIS OF ACCOUNTING

This schedule is prepared on a different basis of accounting as the Pierce County Community Development Corporation's (CDC) financial statements. The CDC financial statements use the accrual basis of accounting, while the SEFA uses the cash basis of accounting. Expenditures represent only the federally funded portions of the program. CDC records should be consulted to determine amounts expended from non-federal sources.

NOTE 3 – PROGRAM COSTS

The amounts shown as current year expenditures represent only the federal grant portion of the program costs. Entire program costs may be more than shown.

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.

Contact information for the State Auditor's Office	
Deputy Director for Communications	Thomas Shapley Thomas.Shapley@sao.wa.gov (360) 902-0367
Public Records requests	(360) 725-5617
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov