



Office of the Washington State Auditor
Pat McCarthy

Financial Statements and Federal Single Audit Report

Tacoma Community Redevelopment Authority

For the period January 1, 2018 through December 31, 2018

Published September 30, 2019

Report No. 1024631





**Office of the Washington State Auditor
Pat McCarthy**

September 30, 2019

Board of Directors
Tacoma Community Redevelopment Authority
Tacoma, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on the Tacoma Community Redevelopment Authority's financial statements and compliance with federal laws and regulations.

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

Sincerely,

Pat McCarthy
State Auditor
Olympia, WA

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Tacoma Community Redevelopment Authority January 1, 2018 through December 31, 2018

SECTION I – SUMMARY OF AUDITOR’S RESULTS

The results of our audit of the Tacoma Community Redevelopment Authority are summarized below in accordance with Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Financial Statements

We issued an unmodified opinion on the fair presentation of the basic financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP).

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 Authority.

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 deficiencies that we consider to be material weaknesses.

We issued an unmodified opinion on the Authority's compliance with requirements applicable to each of its major federal programs.

We reported findings that are required to be disclosed in accordance with 2 CFR 200.516(a).

Identification of Major Federal Programs

The following programs were selected as major programs in our audit of compliance in accordance with the Uniform Guidance.

<u>CFDA No.</u>	<u>Program or Cluster Title</u>
14.218	CDBG – Entitlement Grants Cluster – Community Development Block Grants/Entitlement Grants
14.239	Home Investment Partnerships Program

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by the Uniform Guidance, was \$750,000.

The Authority did not qualify as a low-risk auditee under the Uniform Guidance.

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

See finding 2018-001 and 2018-002.

SCHEDULE OF FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Tacoma Community Redevelopment Authority January 1, 2018 through December 31, 2018

2018-001 **The Authority did not have adequate internal controls to ensure compliance with federal requirements regarding matching and housing quality standards.**

CFDA Number and Title:	14.239 – Home Investment Partnerships Program
Federal Grantor Name:	Department of Housing & Urban Development
Federal Award/Contract Number:	N/A
Pass-through Entity Name:	City of Tacoma
Pass-through Award/Contract Number:	M-14-DC-53-0206 M-15-DC-53-0206 M-16-DC-53-0206 M-17-DC-53-0206
Questioned Cost Amount:	\$0

Background

The Tacoma Community Redevelopment Authority administers the federal HOME Investment Partnerships (“HOME”) Program and spent \$1,018,870 during fiscal year 2018. One of the main objectives of HOME is to expand the supply of decent and affordable housing, particularly for low- and very-low-income households. The Program supports construction, acquisition or rehabilitation of affordable housing units and creates rental and home ownership opportunities.

Federal regulations require recipients of federal grant funding to establish and follow internal controls to ensure compliance with program requirements. These controls include understanding grant requirements and monitoring the effectiveness of program compliance.

Description of Condition

Matching

The Authority must provide eligible matching contributions of 25 percent of Program funds spent during the fiscal year. The match must be provided by the end of the fiscal year and must not include administrative costs. To demonstrate compliance with matching requirements, the Authority must maintain records, including individual project records and a running log of match obligations and match credits as they are generated.

The Authority did not have a process in place to identify, calculate or report its compliance with HOME Program matching requirements.

We consider this internal control deficiency to be a material weakness.

The issue was reported as a finding in the prior audit as finding 2017-002.

Housing Quality Standards

Federal regulations require the Authority to perform periodic onsite inspections of housing projects funded by the program to ensure compliance with property standards. The Authority did not have internal controls to ensure compliance with the HOME Investment Partnerships Program's Housing Quality Standards (HQS) requirement.

We consider this internal control deficiency to be a material weakness.

The issue was not reported as a finding in the prior audit.

Cause of Condition

Matching

The Authority experienced staffing turnover in 2017 and did not assign the responsibilities necessary to ensure compliance in matching to new staff members. The Authority has drafted changes to policies and procedures to ensure matching requirements are met, but did not implement them until after the audit period.

Housing Quality Standards

The Authority contracted with a third party to complete the inspections and did not have processes to monitor or track if inspections were completed.

Effect of Condition and Questioned Costs

Matching

The Authority spent Program funds without confirming it would meet the 25 percent matching funds requirement by the end of the year. The Authority spent Program funds without confirming it would meet the 25 percent matching funds requirement by the end of the year. The contractor used a report from the federal *Integrated Disbursement and Information System (IDIS)* website to show the Authority complied with the matching funds requirement. However, neither contractor nor Authority staff had knowledge of how the amounts reported in the system were determined.

Housing Quality Standards

The Authority could not provide documentation demonstrating properties received an HQS inspection for five of the 10 properties. Failure to comply with inspection requirements could result in HUD withholding future annual allocations of HOME Investment Partnership Program funding from the Authority.

Recommendations

We recommend the Authority implement processes and procedures to ensure:

- Staff are cross-trained to cover compliance requirements when there is turnover or staff are on leave. Also, the Authority should ensure staff are adequately trained and monitor to ensure the Authority complies with program requirements.
- The amount of eligible matching funds toward each project is correctly identified
- HQS inspections performed by third parties are completed as required

Authority's Response

TCRA holds their responsibility for establishing internal controls to ensure compliance with federal requirements in the highest regard. Management is committed to ensuring TCRA has internal controls and procedures in place to achieve compliance with all requirements governing the administration of federal grant programs. To achieve this, TCRA will take the following actions in each of the areas listed below:

Matching

As a recipient of HOME grant funds, TCRA must have a process in place to identify, calculate, monitor and report eligible matching contributions of 25% of HOME funds spent each year. To ensure compliance with this requirement, TCRA will create procedures to appropriately track and monitor matching funds. This will include working with grantees, when applicable, to ensure they submit confirmation of matching funds utilized in a funded project.

Housing Quality Standards

Federal requirements require TCRA to ensure compliance with Housing Quality Standards. To ensure all projects receive inspections, the TCRA will review its third party agreement with the Washington State Department of Commerce and the Washington State Housing Finance Commission. If necessary, the TCRA will seek to amend the agreement to include a timeline by which each party will share their inspections and findings with the other parties.

Auditor's Remarks

We appreciate the Authority's commitment to improving their processes to resolve these issues. We will review the new process in the next audit.

Applicable Laws and Regulations

Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), section 516, Audit findings, establishes reporting requirements for audit findings.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its Codification of Statements on Auditing Standards, section 935, Compliance Audits, paragraph 11.

Title 2 CFR Part 200, Uniform Guidance, section 303 Internal controls, describes the requirements for auditees to maintain internal controls over federal programs and comply with federal program requirements.

Title 24 CFR Part 92, HOME Investment Partnerships Program, sections 92.218-.222, Matching Contribution Requirement and 92.508, Recordkeeping, describe the program-specific requirements for matching and the records that must be maintained, including individual project records and a running log to demonstrate compliance with matching requirements.

Title 24 CFR Part 92, Home Investment Partnerships Program, sections 92.209(i), 92.251(f), and 92.504(d), Housing Quality Inspection requirements, describe the program specific requirements for performing on-site inspections and determining compliance with quality standards.

SCHEDULE OF FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Tacoma Community Redevelopment Authority January 1, 2018 through December 31, 2018

2018-002 The Authority lacked adequate internal controls to ensure compliance with subrecipient monitoring requirements.

CFDA Number and Title:	14.218, Community Development Block Grants/Entitlement Grants
Federal Grantor Name:	U.S. Department of Housing and Urban Development
Federal Award/Contract Number:	N/A
Pass-through Entity Name:	City of Tacoma
Pass-through Award/Contract Number:	B-14-MC-53-0007 B-15-MC-53-0007 B-16-MC-53-0007
Questioned Cost Amount:	\$0

Description of Condition

The objective of the Community Development Block Grant program is to develop viable urban communities by providing decent housing and a suitable living environment, and expanding economic opportunities, principally for persons of low and moderate income. The Authority spent \$977,200 in grant funds during fiscal year 2018, which includes \$172,351 passed through to one subrecipient.

Federal regulations require recipients of federal grant funding to establish and follow internal controls to ensure compliance with program requirements. These controls include understanding grant requirements and monitoring the effectiveness of Program controls.

Federal regulations also require the Authority to do the following for every subaward it issues:

- Clearly identify to the subrecipient 1) the award as a subaward by providing the information described in criteria noted below; 2) all requirements imposed by the Authority on the subrecipient so the award is used in accordance with federal statutes, regulations, and the terms and conditions of the award; and 3) any additional requirements that the

Authority imposes on the subrecipient for the Authority to meet its own responsibility for the award.

- Evaluate the subrecipient's risk of noncompliance for purposes of determining the appropriate subrecipient monitoring related to the subaward.
- Monitor the activities of the subrecipient as necessary to ensure the subaward is used for authorized purposes, complies with the terms and conditions of the subaward, and achieves performance goals. In addition to the monitoring identified as necessary from the risk evaluation, this includes 1) reviewing required reports, 2) following-up and ensuring the subrecipient takes timely action on all deficiencies detected through audits, on-site reviews, or other means, and 3) issuing a management decision for audit findings pertaining to the award provided to the subrecipient from the Authority.

The Authority did not have internal controls in place, such as policies and procedures, to ensure it complied with the requirements to subaward federal funds. The issue was not reported as a finding in the prior audit. We consider these deficiencies in internal controls to be material weaknesses.

Cause of Condition

Key staff responsible for subrecipient monitoring were not aware of the federal requirements and relied on the subrecipient to monitor itself based on the subrecipient's expertise related to the program.

Effect of Condition

The Authority did not identify program expenditures passed through to one subrecipient, totaling \$172,351, on the Schedule of Expenditures for Federal Awards (SEFA).

The Authority did not include all of the required information in the subrecipient's contract. Without this information, there is an increased risk that the subrecipient is not complying with federal regulations or spending funds for unallowed purposes. The required elements missing from the contract are:

- The subrecipient's unique entity identifier
- Federal award identification number
- Federal award date
- CFDA number and name
- Identification of whether the award is for research and development (R&D)

The Authority did not evaluate the subrecipient's risk of noncompliance. Further, it did not perform the following subrecipient monitoring activities:

- Verify if the subrecipient received a single audit (if required)
- Ensure corrective actions were taken on any deficiencies identified; and issue a management decision within six months of audit report issuance.

Recommendation

We recommend the Authority establish procedures to ensure organizations are correctly identified as sub-recipients or contractors and the appropriate monitoring activities are performed.

Authority's Response

TCRA holds their responsibility for establishing internal controls to ensure compliance with federal requirements in the highest regard. Management is committed to ensuring TCRA has internal controls and procedures in place to achieve compliance with all requirements governing the administration of federal grant programs. To achieve this, TCRA will take the following actions listed below:

Subrecipient Monitoring

Federal regulations require TCRA to identify sub-recipients and conduct appropriate monitoring activities. To ensure sub-recipients are appropriately identified and monitored,

The TCRA will review its current procedures to ensure that contracts are labeled appropriately and all applicable requirements are included. It will also complete the appropriate monitoring.

Auditor's Remarks

We appreciate the Authority's commitment to improving their processes to resolve these issues. We will review the new process in the next audit.

Applicable Laws and Regulations

Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), section 516, Audit findings, establishes reporting requirements for audit findings.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its Codification of Statements on Auditing Standards, section 935, Compliance Audits, paragraph 11.

Title 2 CFR Part 200, Uniform Guidance, section 303 Internal controls, establishes internal control requirements for management of Federal awards.

Title 2 CFR Part 200, Uniform Guidance, section 200.331 Requirements for pass-through entities, establishes subrecipient monitoring requirements.

Title 24 CFR Part 570, section 503 Agreements with Subrecipients



SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

**Tacoma Community Redevelopment Authority
January 1, 2018 through December 31, 2018**

This schedule presents the status of findings reported in prior audit periods.

Audit Period: 2017	Report Ref. No.: 1022123	Finding Ref. No.: 2017-001
Finding Caption: Tacoma Community Redevelopment Authority's internal controls over financial statement and schedule of expenditures of federal awards preparation were inadequate to ensure accurate reporting.		
Background: Our audit identified the following deficiencies in internal controls over financial reporting, which, when taken together, represent a material weakness: <ul style="list-style-type: none">• Management's preparation and review of the Schedule of Expenditures of Federal Awards (SEFA) was not effective to properly identify nonfederal funds reported on the SEFA.• Management over-reported contractor payments and under-reported Housing Development Loan funds.• Management misclassified the Valhalla Hall project expenses as depreciable assets.• Management overstated depreciation.		
Status of Corrective Action: (check one) <input checked="checked" type="checkbox"/> Fully Corrected <input type="checkbox"/> Partially Corrected <input type="checkbox"/> Not Corrected <input type="checkbox"/> Finding is considered no longer valid		
Corrective Action Taken: <i>Tacoma Community Redevelopment Authority (TCRA) holds their responsibility for enabling internal controls to ensure accurate financial statement and schedule of expenditures of federal awards (SEFA) reporting at the highest regard. The errors, which occurred in the preparation of the financial statements and SEFA for the fiscal year ended December 31, 2017 were corrected.</i> <i>TCRA recognizes the importance of establishing safeguards to minimize these types of errors occurring in the future and has taken steps to strengthen internal controls. Stronger oversight and</i>		

educational opportunities have been established to address these issues. In addition, the accounting staff and manager supporting TCRA is working closely to maintain a strong relationship with the program coordinators to better understand the nature of transactions being recorded and the status of their projects and programs. To achieve this, the TCRA accounting staff has:

- *Holds regular meetings with TCRA program staff to gain a better understanding of the transactions being recorded and to learn about the status of the projects and programs.*
- *Strengthen oversight, mentoring and educational opportunities for staff. This has been accomplished through:*
 - *More frequent financial management representation of TCRA meetings. This increases management's understanding of the transactions being recorded and opportunities to provide guidance and mentoring to staff.*
 - *Regular meetings are held with accounting staff to discuss all transactions and its supporting documentation. The manager also uses this opportunity to provide mentoring.*
 - *In addition to the review of the financial statements and SEFA, finance management reviews and approvals all transactions for TCRA.*
 - *Opportunities for internal and external training has been made available to staff including:*
 - *Budgeting, Accounting, and Reporting System (BARS) training.*
 - *Internal training on:*
 - *Guidelines for the preparation of the SEFA*
 - *Financial Statements and Financial Statement Review*

Audit Period: 2017	Report Ref. No.: 1022123	Finding Ref. No.: 2017-002	CFDA Number(s): 14.239
Federal Program Name and Granting Agency: HOME Investment Partnerships Program - Department of Housing and Urban Development		Pass-Through Agency Name: City of Tacoma	
Finding Caption: The Authority did not have adequate internal controls to ensure compliance with federal requirements regarding matching			
Background: The Tacoma Community Redevelopment Authority administers the federal HOME Investment Partnerships (“HOME”) Program and spent \$1,244,964 during fiscal year 2017. One of the main			

objectives of HOME is to expand the supply of decent and affordable housing, particularly for low- and very-low-income households. The Program supports construction, acquisition or rehabilitation of affordable housing units and creates rental and home ownership opportunities.

Federal regulations require recipients of federal grant funding to establish and follow internal controls to ensure program funds are spent in accordance with the program's requirements. These controls include knowledge of grant requirements and monitoring of program compliance.

The Authority must provide eligible matching contributions of 25 percent of Program funds spent during the fiscal year. The match must be provided by the end of the fiscal year and must not include administrative costs. To demonstrate compliance with matching requirements, the Authority is required to maintain records, including individual project records and a running log of match obligations and match credits as they are generated.

The Authority did not have a process in place to identify, calculate or report its compliance with HOME Program matching requirements.

Status of Corrective Action: (check one)

☐ Fully
Corrected

☒ Partially
Corrected

☐ Not Corrected

☐ Finding is considered no
longer valid

Corrective Action Taken:

Tacoma Community Redevelopment Authority (TCRA) holds their responsibility for enabling internal controls to ensure compliance with federal requirements at the highest regard. Management is committed to ensuring TCRA has policies and procedures in place designed to ensure that it complies with all requirements governing the administration of federal grant programs.

As a subrecipient of HOME grant funds, the Authority must have a process in place to identify, calculate, monitor and report eligible matching contributions of 25% of HOME funds spent each year. To ensure compliance with this requirement, the Authority is in the process of creating policies and procedures to appropriately track matching funds. This will include working with grantees, when applicable, to ensure they submit confirmation of matching funds utilized in a funded project.

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*

Tacoma Community Redevelopment Authority January 1, 2018 through December 31, 2018

Board of Directors
Tacoma Community Redevelopment Authority
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 Tacoma Community Redevelopment Authority, a component unit of the City of Tacoma, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated September 25, 2019.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or 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 Authority's financial statements are free from material misstatement, we performed tests of the Authority'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 Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. 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.



Pat McCarthy
State Auditor
Olympia, WA

September 25, 2019

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE UNIFORM GUIDANCE

Tacoma Community Redevelopment Authority January 1, 2018 through December 31, 2018

Board of Directors
Tacoma Community Redevelopment Authority
Tacoma, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited the compliance of the Tacoma Community Redevelopment Authority, a component unit of the City of Tacoma, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended December 31, 2018. The Authority's major federal programs are identified in the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain

reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as 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 Authority's compliance.

Opinion on Each Major Federal Program

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2018.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance with those requirements which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Federal Award Findings and Questioned Costs as Findings 2018-001 and 2018-002. Our opinion on each major federal program is not modified with respect to these matters.

City's Response to Findings

The City's response to the noncompliance findings identified in our audit is described in the accompanying Schedule of Federal Award Findings and Questioned Costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program 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 the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or 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 over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Federal Award Findings and Questioned Costs as Findings 2018-001 and 2018-002 to be material weaknesses.

Authority's Response to Findings

The Authority's response to the internal control over compliance findings identified in our audit is described in the accompanying Schedule of Federal Award Findings and Questioned Costs. The Authority's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 the Uniform Guidance. 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 black ink that reads "Pat McCarthy". The signature is written in a cursive style with a large, stylized "P" and "M".

Pat McCarthy

State Auditor

Olympia, WA

September 25, 2019

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Tacoma Community Redevelopment Authority January 1, 2018 through December 31, 2018

Board of Directors
Tacoma Community Redevelopment Authority
Tacoma, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Tacoma Community Redevelopment Authority, a component unit of the City of Tacoma, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed on page 27.

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 Authority'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 Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tacoma Community Redevelopment Authority, as of December 31, 2018, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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 an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). 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 25, 2019 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts 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 Authority's internal control over financial reporting and compliance.



Pat McCarthy

State Auditor

Olympia, WA

September 25, 2019

FINANCIAL SECTION

Tacoma Community Redevelopment Authority January 1, 2018 through December 31, 2018

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2018

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2018

Statement of Revenues, Expenses and Changes in Net Position – 2018

Statement of Cash Flows – 2018

Notes to Financial Statements – 2018

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2018

Notes to the Schedule of Expenditures of Federal Awards – 2018

**Tacoma Community Redevelopment Authority
Management's Discussion and Analysis
For the Year Ended December 31, 2018**

The following is a narrative overview and analysis of the financial activities of Tacoma Community Redevelopment Authority (TCRA) for the year ended December 31, 2018. This discussion and analysis is designed to assist the reader in focusing on significant financial issues and activities, and identify any changes in financial position. The information presented here should be read in conjunction with Financial Statements and Notes to the Financial Statements, which follow.

TCRA is considered a component unit of the City of Tacoma and its financial information is discretely presented in the City's Comprehensive Annual Financial Report.

FINANCIAL HIGHLIGHTS

- Assets of TCRA exceeded liabilities at the close of calendar year 2018 by \$54 million. Of this amount, \$5.7 million is net investment in capital assets and \$48.3 million is restricted net position. Net position totaled \$55.3 million at the end of year 2017, with \$51.1 million restricted net position.
- In 2018, TCRA's net position decreased by nearly \$1.3 million, net of prior period adjustment, compared to a \$0.3 million increase in 2017, net of prior period adjustment.

Overview of Financial Statements

The financial section of this annual report is designed to provide readers with a broad overview of TCRA's finances and consists of: (1) Statement of Net Position, (2) Statement of Revenues, Expenses, and Changes in Net Position, (3) Statement of Cash Flows and (4) Notes to the Financial Statements.

Statement of Net Position provides information about assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position.

Statement of Revenues, Expenses and Changes in Net Position reports all the revenues and expenses during the time indicated.

Statement of Cash Flows provides information on cash receipts and disbursements during the year and reports the changes in cash resulting from: 1) operating activities, 2) non-capital financial activities, 3) capital related financing activities and 4) investing activities.

The Notes to the Financial Statements contain more detail on the information presented that is necessary to acquire a full understanding of the data provided in the financial statements.

FINANCIAL ANALYSIS

Statement of Net Position

The net changes in current and other assets decrease by \$2.7 million from 2017 to 2018. These net changes are driven by a decrease of \$1.6 million in miscellaneous receivable due to development cost of Homeownership of Tacoma projects were reclassified to expense and a decrease of 1.1 million in notes receivable due to loan payoffs. The net changes of \$3.1 million in capital assets are due to additional capital cost for the Valhalla Hall project.

The total liabilities increased from 2017 to 2018 by \$1.7 million mainly due to the \$1.5 million construction loan for the Valhalla Hall project.

A portion (69.5%) of net position is noncurrent note receivable. The net position decreased by 2.31% from the last year.

The following table shows the Condensed Statement of Net Position for December 31, 2018 compared to 2017.

Condensed Statement of Net Position		
	<u>2018</u>	<u>2017</u>
Assets		
Current and Other Assets	\$ 49,813,036	\$52,522,439
Capital Assets	<u>10,261,854</u>	<u>7,172,645</u>
Total Assets	<u>60,074,890</u>	<u>59,695,084</u>
Deferred outflows of resources	-	-
Liabilities		
Other Liabilities	1,046,260	914,933
Long term Liabilities	<u>5,026,162</u>	<u>3,499,977</u>
Total Liabilities	<u>6,072,422</u>	<u>4,414,910</u>
Deferred inflows of resources	-	-
Net Position	<u>\$ 54,002,468</u>	<u>\$ 55,280,174</u>

Statement of Revenues, Expenses and Changes in Net Position

Operating revenues decreased by \$0.6 million in 2018. For 2017, grants were the primary source of revenue used for the construction of the Valhalla Hall. In 2018, a loan was taken out to cover the construction costs for that year.

Operating expenses increased by \$1.5 million due to the reclassification of miscellaneous receivable related to the development cost of Homeownership of Tacoma projects to housing development expense.

TCRA's overall financial position decreased \$1.3 million in 2018. The following table reflects a condensed Statement of Revenues, Expenses, and Changes in Net Position for TCRA.

Condensed Statement of Revenues, Expenses and Changes in Net Position For the Years ended December 31

	2018	2017
Operating revenues	\$ 1,440,351	\$ 1,996,447
Operating expenses	(2,593,799)	(1,057,170)
Depreciation expense	(173,197)	(121,422)
Total Revenue and Expenses	(1,326,645)	817,855
Non operating revenues expenses	(40,834)	(42,627)
Change in Net Position	(1,367,479)	775,228
Beginning of year	55,280,174	54,958,287
Prior period adjustments	89,773	(453,341)
Beginning of year- restated	55,369,947	54,504,946
Net Position - ending	\$ 54,002,468	\$ 55,280,174

Capital Assets

The capital assets (net of accumulated depreciation) for TCRA as of December 31, 2018 and 2017 are outlined in the table below.

	2018	2017
Capital Assets		
Land	\$ 1,462,283	\$ 1,462,283
Buildings	8,798,678	1,922,273
Intangible	893	1,399
Construction in Progress	-	3,786,690
Total Capital Assets	\$ 10,261,854	\$ 7,172,645

During 2018, there was an increase of \$6.9 million in building assets (net of accumulated depreciation) due to completion of the Valhalla Hall project.

Long-Term Debt

On March 6, 2018, TCRA entered in a modification agreement with the bank for the Valhalla construction loan to reduce the amount of the loan from \$2,828,846 to \$1,997,000. TCRA started withdrawing against this construction loan starting June 2018. The amount withdrawn as of the end of this year includes the interest is stated below.

	<u>2018</u>	<u>2017</u>
WA CTED	\$499,977	\$499,977
CITY Loan	\$3,000,000	\$3,000,000
Bank Loan	\$1,526,185	\$ -

For additional information on long-term debt, see the Notes to the Financial Statements.

ECONOMIC FACTORS

Tacoma has an unemployment rate of 5.5% compare to 5.4% in 2017. Future job growth over the next ten years is predicted to be 39.9% which is higher than the US average of 33.5%. The per capita income is expected to go slower for 2019 compare with the previous two years. In housing, Tacoma is expected to rise faster than other cities in 2019 and predicts it rise to 10.3% within the next year compare to 8.3% last year. The current real estate conditions suggest that Tacoma could experience higher than average home price gains in 2019.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the TCRA's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Tacoma Community Redevelopment Authority; Finance Department; 747 Market Street, Room 132; Tacoma, WA 98402-3701.

Tacoma Community Redevelopment Authority
Statement of Net Position
December 31, 2018

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 7,964,323
Notes Receivable	1,906,070
Other Receivable	710,261
Due from Other Governmental Units	140,896
Interest Receivable	4,364
Prepays	19,770
Total Current Assets	<u>10,745,684</u>

Noncurrent Assets:

Notes Receivable	37,522,166
Assets Held for Resale	1,545,186
Capital Assets: not being depreciated	
Land	1,462,283
Capital Assets being depreciated	
Buildings	13,072,911
Intangible	18,266
Less Accumulated Depreciation	<u>(4,291,606)</u>
Total Capital Assets	<u>10,261,854</u>
 Total Noncurrent Assets	 <u>49,329,206</u>
 Total Assets	 <u>60,074,890</u>

DEFERRED OUTFLOWS OF RESOURCES

\$ -

The accompanying notes are an integral part of this statement.

Tacoma Community Redevelopment Authority
Statement of Net Position
December 31, 2018

LIABILITIES

Current Liabilities

Accounts Payable	\$ 739,438
Rehab Payable	32,515
Construction Payable	179,771
Other Payable	94,536
Total Current Liabilities	<u>1,046,260</u>

Noncurrent Liabilities

WACTED	499,977
Bank Loan	1,526,185
City Loan	3,000,000
Total Noncurrent Liabilities	<u>5,026,162</u>

Total Liabilities	<u>6,072,422</u>
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DEFERRED INFLOWS OF RESOURCES

\$ -

NET POSITION

Net Investment in Capital Assets	5,735,669
Restricted	48,266,799
Total Net Position	<u>\$ 54,002,468</u>

The accompanying notes are an integral part of this statement.

Tacoma Community Redevelopment Authority
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended December 31, 2018

Operating Revenues

Program Income	\$ 106,001
Grant Revenues	1,315,704
Other Income	18,646
Total Operating Revenues	<u>1,440,351</u>

Operating Expenses

Salaries and Benefits	137,394
Housing Development	1,504,223
Professional Fees	169,640
Loss on Notes Receivable	551,906
Lakewood Expense	89,391
Home Repair Admin Fees	53,430
Other Services and Supplies	87,815
Depreciation Expense	173,197
Total Operating Expenses	<u>2,766,996</u>

Operating Income (Loss)	<u>(1,326,645)</u>
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Nonoperating Revenues (Expenses)

Interest Income	27,806
Loss on Sale of Property	(68,640)
Total Nonoperating Revenues (Expenses)	<u>(40,834)</u>

Change in Net Position	(1,367,479)
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Net Position

Beginning of year	55,280,174
Prior period adjustment	89,773
Beginning of year - restated	<u>55,369,947</u>
Net position - ending	<u>\$ 54,002,468</u>

The accompanying notes are an integral part of this statement.

Tacoma Community Redevelopment Authority
Statement of Cash Flows
For the Year Ended December 31, 2018

Cash Flows from Operating Activities:

Receipts from Customers	\$ 2,760,175
Receipts from Grants	1,389,858
Receipts from Other Income	103,891
Payments to Suppliers for Goods and Services	(232,556)
Payments to Employees	(114,985)
Payments to Programs	(1,441,216)
Net Cash Provided by Operating Activities	2,465,167

Cash Flows from Non-Capital Financing Activities:

-

Cash Flows from Capital and Related Financing Activities:

Construction Loan for Valhalla Hall	1,526,185
Payments for Valhalla Hall	(3,102,959)
Net Cash Used for Capital and Related Financing Activities	(1,576,774)

Cash Flows from Investing Activities:

Sold Asset Held for Resale	172,551
Purchase of Asset Held for Resale	(87,747)
Interest on Investments	27,806
Net Cash Used in Investing Activities	112,610

Net Increase in Cash and Cash Equivalents	1,001,003
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Cash and Cash Equivalents at 1/01/18	6,581,840
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Adjustment to Beginning Cash	381,480
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Cash and Cash Equivalents at 12/31/18	\$ 7,964,323
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The accompanying notes are an integral part of this statement.

Tacoma Community Redevelopment Authority
Statement of Cash Flows
For the Year Ended December 31, 2018

Reconciliation of Operating Income (Loss) to Net Cash

Operating Activities:

Net Operating Income (Loss)	\$ (1,326,645)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation Expense	173,197
Reclass CWIP and Other Receivable	(143,526)
Reclass Cash and Other Receivable	(381,480)
Prior Period Adjustment	43,441
Change in Assets and Liabilities:	
Notes Receivable	1,929,654
Prepays	(8,536)
Interest Receivable	325,952
Other Receivable and Due from Other Governmental Units	1,704,307
Construction Payable	(29,787)
Rehab Payable	(17,063)
Accounts Payable	176,834
Other Payable	18,819
Total Adjustments	3,791,812
Net Cash Provided by Operating Activities	2,465,167
Cash and Cash Equivalents at 1/01/18	6,581,840
Cash and Cash Equivalents at 12/31/18	7,964,323
Change in Cash and Cash Equivalents	\$ 1,382,483

The accompanying notes are an integral part of this statement.

TACOMA COMMUNITY REDEVELOPMENT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Tacoma Community Redevelopment Authority (TCRA) have been prepared in the conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body or establishing governmental accounting and financial reporting principles. Effective for fiscal year 2018, GASB has issued for implementation, if applicable the following accounting and reporting standards.

GASB Statement No. 75: *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* The objective of this statement is to improve accounting and financial reporting for postemployment benefits other than pensions. It replaces the requirement of GASB statements No. 45 and No. 57. There is no material impact to TCRA in implementing this standard.

GASB Statement No. 85: GASB Statement No. 85 – *Omnibus 2017*. The objective of this statement is to address practice issues that have been identified during implementation and application of certain GASB statements. There is no material impact to TCRA in implementing this standard.

GASB Statement No. 86: *Certain Debt Extinguishment Issues.* The objective of this statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which existing resources are placed into an irrevocable trust for the sole purpose of extinguishing debt. There is no material impact to TCRA in implementing this standard.

A. Reporting Entity

TCRA was incorporated on February 27, 1973 by Ordinance 19762 of the City of Tacoma. The name change and amended charter were adopted on May 24, 1994 by Resolution 32626 of the city of Tacoma, becoming effective on June 1, 1994. TCRA operates under the laws of the State of Washington applicable to a public development corporation.

TCRA is governed by a 10-member board appointed by the Tacoma City Council. Although it is legally separated from the City, TCRA is a component unit of the City of Tacoma who exercises oversight responsibility for administration and contract approval. TCRA is reported as a component unit of the city because its sole purpose is to finance and provide housing rehabilitation and community & economic development loans to residents and business in the City of Tacoma.

For financial reporting purposes, in conformance with GASB No. 14, *The Financial Reporting Entity*, as amended by GASB No. 34 and GASB No. 61, TCRA is considered a component unit of the City. The City includes in its financial statements all governmental activities, organizations and functions, whether they are structured as funds, account groups, departments, agencies, institutions, boards, commissions, districts, authorities, or in other ways for which Tacoma City Council is financially accountable. TCRA financial information is presented as discretely presented component unit in the City's financial statements.

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

TCRA reports one major proprietary fund.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing housing rehabilitation, community & economic development and servicing the loans that originate from these services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of TCRA are program income and grant revenue. Operating expenses of TCRA include the cost of loans, services, and administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

C. Budgetary Information

TCRA's biennial administration budget, January 1 – December 31, is presented to their board requesting their endorsement. After the budget is passed by TCRA, it is forwarded to the Tacoma City Council for final approval.

D. Assets, Liabilities and Net Position

1. Cash and Cash Equivalents

The amounts reported as cash and cash equivalents are deposits with our banks or invested through the City of Tacoma.

a. Investments

It is TCRA's policy to invest all temporary cash surpluses. The City Treasurer holds equity in pooled cash and investments includes certain short-term investments. These highly liquid investments are readily convertible to cash and carried at fair value. The change in fair value is included in investment income in the accompanying financial statements. Equity in pooled cash and investment as of December 31, 2018 is \$1,591,018.

For additional information see Note 3.

b. Cash

The daily cash received and deposited with Heritage Bank.

For purposes of the statement of cash flows, TCRA considers all highly liquid investments with a maturity of three month or less when purchased to be cash equivalents.

2. Receivables

a. Installment Loans

Installment loans represent loans to borrowers for which TCRA 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.

b. Delayed Loans

Delayed loans (Noncurrent Notes Receivable) have maturity dates of 20 years or more and have no payments due until their maturity dates and carry an interest rate between zero and one percent. Interest on delayed loans is accrued annually as deferred accrued interest. Upon maturity, accrued interest is collected. Delayed 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.

3. Payables

Current payables represent resources legally due to other entities for goods or services rendered which have not been paid as of December 31, 2018.

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.

Capital assets, which consist of real property, are reported in the financial statements. When a loan defaults, any real property that was used as collateral is foreclosed. Until sold, the property is capitalized without being depreciated and the loan is written off. Such assets are recorded at the current appraised fair market value at the time the asset was capitalized. Since TCRA is not in the real estate business, they attempt to sell this property once a reasonable offer is received.

For additional information see Note 4.

5. Long-Term Debt

Long-term debt and other long-term obligation are reported as liabilities on the Statement of Net Position.

For additional information see Note 8.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

There have been no material violations of finance-related legal or contractual provisions or expenditures exceeding legal appropriations in any of the funds of TCRA.

NOTE 3 – DEPOSITS AND INVESTMENTS

A. Deposits

TCRA's deposits are entirely covered by federal depository insurance (FDIC) and by collateral held in a multiple financial institution collateral pool administered by the Washington State Public Deposit Protection Commission (WSPDPC) invested by the City of Tacoma.

B. Investments Measured at Fair Value

The City categorizes its fair value measurements within the fair value hierarchy established by GAAP. TCRA participated in pooled investments with the City and receives interest based on a pro-rata share of its cash balance to the total cash invested. Portfolio earnings are distributed monthly based on average daily cash balance of the participating funds. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

TCRA share of the city investment shown below is 0.20% in 2018.

As of 12/31/2018

Equity in pooled investments:	2018	Level 1	Level 2	Level 3
TCRA Cash in City Pool	\$ 1,591,018	\$ -	\$ 1,591,018	\$ -
Total City Pooled Investments	\$ 810,007,826	-	\$ 810,007,826	-
TCRA Share of City Investments	0.20%	-	0.20%	-

Custodial credit risk is the risk that in event of a failure of the City of Tacoma to an investment transaction, TCRA would not be able to recover the value of the investment or collateral securities. Of TCRA's total position of \$1,591,018 in the City of Tacoma's investment pool, \$0.00 is exposed to custodial credit risk. The City of Tacoma's investments are insured by FDIC up to \$250,000 and by the WSPDPC for amounts over \$250,000.

Total Cash	\$ 6,373,305
Total Pooled Investment	\$ 1,591,018
Total Cash & Investment	\$ 7,964,323

NOTE 4 – CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2018 was as follows:

Business-Type Activities:	Beginning Balances 01/01/2018	Increases	Decreases	Ending Balances 12/31/2018
Capital assets - not being depreciated:				
Land	1,462,283	-	-	1,462,283
Construction in Progress	3,786,690	3,262,407	7,049,097	-
Total capital assets, not being depreciated	5,248,973	3,262,407	7,049,097	1,462,283
Capital assets - being depreciated				
Building	6,023,814	7,049,097	-	13,072,911
Intangible	18,266	-	-	18,266
Total capital assets, being depreciated	6,042,080	7,049,097	-	13,091,177
Less - accumulated depreciation for				
Building	(4,101,542)	(172,691)	-	(4,274,233)
Intangible	(16,867)	(506)	-	(17,373)
Total accumulated depreciation	(4,118,409)	(173,197)	-	(4,291,606)
Total business-type activities capital assets, net	7,172,644	10,138,307	7,049,097	10,261,854

In 2014, Valhalla Hall was purchased for \$275,000 with Community Development Block Grant (CDBG) funds and \$31,343 in Urban Development Action Grant (UDAG) funds. An additional \$7,049,097 was spent and the project was completed in 2018 with occupancy beginning in October.

NOTE 5 - PENSION PLAN (TACOMA EMPLOYEES' RETIREMENT SYSTEM)

TCRA does not provide its own pension plan but it does contribute to the City of Tacoma's pension plan. Employees of the City of Tacoma are covered by the *Tacoma Employee's Retirement System* (TERS), an actuarially funded system operated by the City. As stated in RCW 35.21.745 and included with NPP Agreement Amendment #91, TCRA's administrative policies, employees will be included in the city's retirement system.

- A. Administration of the System: TERS is a cost-sharing, multiple-employer, defined benefit retirement plan covering substantially all employees of the City of Tacoma. The TERS Board of Administration administers the plan and derives its authority in accordance with Chapter 41.28 Revised Code of Washington and Chapter 1.30 of the Tacoma City Code.
- B. Benefits: The pension received upon retirement is a product of the member's average monthly salary for the highest consecutive 24-month period, the number of years of membership credit, and a percentage factor (2% maximum) which is determined based on the member's age and years of service. The system also provides death and disability benefits.
- C. Contribution Rates: Covered employees are required by Chapter 1.30 of the Tacoma Municipal Code to contribute 9.66% of their gross wages to the System and the employer contributes 11.34% equaling 21% of gross wages contributed.

NOTE 6 – RISK MANAGEMENT

TCRA has recorded in its financial statements all material liabilities on which management believes that TCRA will have to make payment. In the opinion of management, TCRA's insurance is adequate to pay all known or pending claims.

TCRA carries Business Liability, Employer Liability, and Employee Dishonesty Insurance with a maximum single occurrence limit of \$1,000,000 each with \$5,000 deductible per occurrence. TCRA also carries Public Officials Liability Insurance for a maximum single occurrence limit of \$2,000,000 with a \$5,000 deductible. As of December 31, 2018, there are no claims of liability.

During the past 3 years, TCRA has not had any claims that exceeded the insurance coverage.

NOTE 7 – CONTINGENCIES AND LITIGATION

TCRA participates in a number of federally assisted programs. These programs are subject to audit by the grantors or their representatives. Such audits could result in requests for reimbursements to grantor agencies for expenditures disallowed under the terms of the grants. TCRA's management believes that such disallowance, if any, will be immaterial.

NOTE 8 – LONG –TERM DEBT

Long-Term Debt

A. Washington State Department of Community, Trade, and Economic Development

TCRA borrowed \$499,977 at 0% interest from the State of Washington Department of Community, Trade, and Economic Development to help fund the Down Payment Assistance Program.

B. City Loan

In December 19, 2016, TCRA borrowed funds from the City \$3,000,000 to provide financing the Valhalla Hall project.

C. Bank Construction Loan

In March 6, 2018, TCRA and Umpqua Bank entered in a modification agreement of the Valhalla construction loan to reduce the amount of the loan from \$2,828,846 to \$1,997,000.

The debt currently outstanding is as follows:

Contract Number	Commencement Date	Due Date	Amount
98-49300-449	March 1, 1998	March 1, 2024	\$ 249,977
01-49300-582	January 1, 2002	December 31, 2051	\$ 250,000
201612230715	December 19, 2016	September 30, 2046	\$ 3,000,000
110191-0040/ 143055316.2	March 6, 2018	September 1, 2019	\$ 1,526,185
Total			<u>\$ 5,026,162</u>

NOTE 9 – PRIOR PERIOD ADJUSTMENTS

Prior Period Adjustments are used for the correction of an error or the implementation of new authoritative standard. Subsequent to the issuance of the December 31, 2017 financial statements, prior period adjustments were made.

Description	Effect to Net Position	Amount
Misclassification of CIP from Expense	Understated	\$ 46,332
Repayment of WSHF-recaptured funds	Understated	43,441
		<u>\$ 89,773</u>

NOTE 10 – NOTES RECEIVABLE - DESCRIPTION OF PROGRAMS

A. Single Family Residence Rehabilitation Loan Program (RLP)

After receiving endorsement from the Tacoma City Council to proceed with the RLP, TCRA approved implementation at the October 10, 2013 Board Meeting. The Neighborhood Preservation Program and Major Home Repair were combined into this new loan program.

These properties must still be owner occupied, single family dwellings where the rehabilitation focuses on safety, health, and energy repairs with the capacity of bringing the property into compliance with HUD Housing Quality Standards.

The minimum rehabilitation loan amount is \$5,000 with the maximum amount not to exceed \$30,000. The interest rate is 0% with two different repayment plans:

1. Deferred/Delayed – no monthly payment with one payment due at maturity. The loans are given a term up to 20 years;
2. Repayment – a fix monthly payment of at least 10% of a homeowner's discretionary income until loan is paid off.

TCRA is no longer acting in the capacity of contractor. We have prescreened companies that perform the construction and administrative functions for these loans. Our function in this process is to service the loan and perform contractor and site inspections of the property. Presently, this program is funded with CDBG funds.

B. Down Payment Assistance Program (DPA)

Beginning July 1, 2014, TCRA transferred the operation of the current DPA program to the State of Washington Housing Trust Program. The current loans being serviced remained with TCRA.

Under the provisions of an agreement with the City of Tacoma, TCRA operates the DPA for first time, low-income and other qualified homebuyers. The DPA program is a revolving loan fund using repayment funds to make other down payment assistance loans.

The DPA program's delayed notes receivable were funded with CDBG, HOME Investment Partnership (HOME), American Dream Down Payment Assistance (ADDI), Special Purpose Grant (SPG), UDAG, and Neighborhood Stabilization Program (NSP) funds that bear no interest. The interest bearing notes receivable are funded by Special Purpose Repayment Grant (SPGR) funds and have a stated interest rate. These loans can start repayment immediately or deferred up to 10 years. The Washington State Community, Trade, and Economic Development Department (WACTED) loans are at 0% interest rate and delayed for 5 years before repayments are scheduled to start. The other state program is funded with Attorney General (AG) funds for loans also at 0% interest but delayed for 30 years.

The total estimated uncollectible amount for all DPA loans for 2018 is \$200,000.

C. Affordable Housing Fund Program (AHF)

The AHF notes receivables were generated from UDAG repayments and interest income. These funds are to be used as a revolving loan fund for affordable housing projects.

Resources received by the City of Tacoma and transferred to TCRA from UDAG are accounted for in this program. Under the provisions of an agreement with the City of Tacoma, TCRA will use funds generated from UDAG repayments and interest for funding affordable housing projects.

D. JA Colonial Court Project (formerly Colonial Court Project)

On October 02, 2014, the Colonial Court Projects were refinanced and acquired by JA Colonial Court.

These loans earn interest of one percent (1%) and loans are payable at the end of 30 years (Oct 2043). Interest accrues on these loans but no payments of principal and interest are due until maturity of the loans.

E. Title IX Loan Program (TIX)

The United States Economic Development Administration (EDA) Title IX loans were made to local businesses for use in creating urban employment opportunities. These loans vary in interest rate and repayment schedules, but usually secured by second lien positions on the business structures and property. The total estimated uncollectible amount for 2018 is \$350,000.

Grant revenues received from EDA used for supplemental financing for new or rehabilitated buildings and for creating employment opportunities are accounted for in this program.

F. Business Revolving Loan Fund Program

The City of Tacoma Resolution #29407 established this program in 1986 to help eliminate blight or create employment. Funds are provided by CDBG money passed through from the City of Tacoma. As approved by the Tacoma City Council, the Community Development Revolving Loan Fund Program has now been combined with this program.

These loans vary in interest rate and repayment schedule, but usually secured by second lien positions on the business structures and property.

G. Scattered Site Housing Program

Under the provisions of an agreement with the City of Tacoma, TCRA has made loans to the Martin Luther King Housing Development Association to rehabilitate scattered site housing units for use as permanent housing for low income families.

CDBG, HOME, and/or SPG funds finance these notes receivable. Some loans bear no interest but other loans either make interest bearing payments monthly, annually, or at the end of the loan period. There are several types of notes receivable and are either repaid or forgiven according to the terms of the notes.

H. Metropolitan Development Council (MDC)

On September 13, 1994, by resolution #32753, adopted by the City of Tacoma City Council authorized TCRA to enter in to an agreement with MDC to rehabilitate the Campbell Court Apartments at 1210 S. Yakima Avenue using \$143,000 in federal HOME funds and has a zero percent (0%) interest rate. The loan was increased \$22,605 with CDBG. At the end of thirty years (October 2024), the principal balance of the note (\$165,605) will be forgiven.

On February 14, 1996, the City of Tacoma City Council authorized TCRA to enter into another agreement with MDC for a \$13,000 loan funded with CDBG for allowable costs relating to the rehabilitation of 621 S. Yakima Avenue. This is a one percent (1%) interest loan with annual interest payments of \$130.00 due each February 14th. At the end of twenty years (February 2016), the principal balance is to be repaid. Then on April 30, 2007, TCRA approved an additional rehabilitation loan of \$70,371. This is at zero percent (0%) interest loan to be forgiven at the end of forty years (April 2047). On April 4, 2013, the loan again was increased with \$22,605 in CDBG funds bringing the forgivable amount to \$92,976 which will all be forgiven April 2047.

TCRA approved a loan on March 28, 2002 using \$218,563 in CDBG funds and \$569,437 in federal HOME funds for property acquisition and allowable costs for Pacific Courtyard located at 8606 Pacific Avenue. This loan has an interest rate of one-half percent (½%) with monthly payments if cash flow allows. The principal balance and accrued interest are due on November 1, 2032. On September 21, 2007, an additional \$297,119 CDBG loan for rehabilitation costs was approved. This is a zero percent (0%) interest loan to be forgiven at the end of thirty years (September 2037).

On March 15, 2005, TCRA approved a loan using \$284,983 in federal HOME funds and \$343,477 in SPG funds for costs relating to construction/rehabilitation of the Avenue Apartments located at 721 S. Fawcett Avenue. This is a zero percent (0%) interest loan to be forgiven at the end of thirty years (March 2035). On January 27, 2010, a detoxification center loan was funded. This center is below the Avenue Apartments. TCRA funded this \$149,056 loan with Community Development Block Recovery Grant (CDBG-R) funds. This is a zero percent (0%) interest loan to be forgiven at the end of ten years (January 2020).

On April 7, 2006, TCRA approved a \$60,000 loan using federal HOME funds for costs relating to construction/rehabilitation of 615 S. "G" Street to provide single-room occupancy housing for the homeless. On April 4, 2012, the loan was increased \$22,605 with CDBG funds to bring the forgivable amount to \$82,605. This is a zero percent (0%) interest loan to be forgiven at the end of forty years (April 2046).

I. Fire Safety Revolving Loan Fund (FSLF)

On January 17, 1995, by resolution #32885, adopted by the City of Tacoma City Council authorized the execution of an agreement to lend UDAG repayment funds received from the City of Tacoma for the FSLF. This program was established to assist business and property owners with modifications to existing commercial structures in order to meet the requirements of the fire safety code.

This program is funded with UDAG funds. At the time loan terms are agreed upon, an interest rate will be determined. Principal and interest payments are due monthly for a period of ten (10) years.

J. Habitat for Humanity (HFH)

On October 10, 1995, the City of Tacoma allocated federal CDBG funds for the HFH Loan Program. Under the provisions of this agreement with the City of Tacoma, TCRA made a loan to HFH for the acquisition and site improvement for construction of single-family homes for low-income families. Families in need of decent housing who are unable to purchase housing on the open market will purchase these homes.

This note receivable was funded by CDBG funds and has a zero percent (0%) interest rate. Beginning with the third year anniversary of sale, five percent (5%) of the original principal balance will be forgiven. At the end of twenty years from the date of occupancy, any remaining principal balance of the note will be forgiven. Since there are no payments required, an uncollectible amount was not estimated.

During 2018, \$78,701 was forgiven and recorded as an expense.

K. Crown Assisted Living Development

On February 23, 1999, by Resolution #34353, the City of Tacoma allocated federal HOME funds towards the acquisition and construction of 56 assisted care units for elderly renters. This notes receivable has a zero percent (0%) interest rate. At the end of twenty years (March 31, 2019), the principal balance of the note (\$48,000) will be forgiven.

L. Catholic Community Services (CCS)

On June 8, 1999, by Resolution 34422, the City of Tacoma allocated federal CDBG funds for the rehabilitation of a building having permanent housing units for homeless and low income persons.

This note receivable has a zero percent (0%) interest rate. Principal shall be payable annually based on available net cash flow as defined in the promissory note. Total principal is due for repayment on or before thirty years (August 2, 2029).

On May 27, 2010, CCS and Nativity House merged. The Nativity House project is still operating as originally established with only the administrative oversight being done by CCS. The original note receivable with the same terms was assumed by CCS. The project was funded with SPG funds and has an interest rate of zero percent (0%). At the end of twenty (20) years (September 30, 2022), the principal balance of the note (\$350,000) will be forgiven.

On April 29, 2013, the City of Tacoma allocated federal CDBG funds for land acquisition and soft costs for the development of a homeless shelter. This note receivable has a zero percent (0%) interest rate. At the end of forty (40) years (April 29, 2053), the principal balance of the note (\$789,900) will be forgiven.

On September 26, 2013, TCRA approved transfer of the \$200,000 Alesek Bridges Village loan for the acquisition of real property located at 1801 - 1812 E. 31st Street to be used as permanent, supportive housing for low-income individuals.

Also on September 26, 2013, TCRA approved transfer of a second loan from the Alesek Bridges Village for the rehabilitation of this acquired real property. The loan was approved for a write-off of \$31,584 prior to transfer with the remaining loan balance split between 2 funding sources: 1) \$7,366 in UDAG funds and 2) \$11,049 in United Way Housing Trust Funds (UWPC). The loan has an interest rate of zero percent (0%). At the end of thirty (30) years (October 26, 2038), the principal balance of the note (\$18,416) will be forgiven.

On March 18, 2014, the City of Tacoma allocated \$360,000 federal CDBG funds for the development of Phoenix Housing located at 5050 South Tacoma Way. This note receivable has a zero percent (0%) interest rate and payable at the end of forty (30) years (March 18, 2034).

M. Tacoma Rescue Mission (TRM)

TRM was loaned funds for three (3) separate projects:

1. On September 27, 2000, the TRM was loaned funds of \$1,155,394 at zero (0%) interest for the acquisition and site improvements for the real estate located at 425 S. Tacoma Way. The note receivable was also funded with CDBG funds with a forgivable date of November 3, 2020.
2. On August 28, 2003, TCRA made a zero (0%) interest loan of \$500,130.20 to TRM for the cost of construction and improvements to real estate located at 3202 S. Tyler Street. This note receivable was funded with CDBG funds and forgivable on August 28, 2033.
3. On December 31, 2007, TCRA made a zero (0%) interest loan of \$1,093,945 to TRM – Adams Square Family Center for the construction and development of real estate located at 2911 South Adams Street. This note receivable was funded with CDBG funds.

N. Annobee Apartments (AAP)

On August 3, 1999 by Resolution #34473, funding was made available to the Fourth and “I” Street Investors for rehabilitation of the AAP from AHF for \$750,000 and CDBG for \$165,000.

The first note receivable was funded with UDAG funds and has an interest rate of six percent (6%). Principal and interest payments are due monthly based on a predetermined amount. During July 2013, the balance was re-amortized and a new payment amount of \$3,099 was determined. Payments will continue based on note terms until principal is repaid. The second note receivable was funded with CDBG and has an interest rate of zero (0%) percent. Principal payments of \$917 are due monthly. Any principal balance remaining on February 1, 2025 is due.

On January 05, 2017 the first UDAG fund was repaid in the amount of \$759,196. Of this amount, \$303,401 was interest.

O. Homeownership Center of Tacoma (HCT)

On November 9, 1993, by Resolution #32396, the City of Tacoma approved the allocation of HOME funds for the development and implementation of the Hilltop Homeownership Program for construction of new housing.

This program is made up of a number of small loans funded by HOME and ADDI funds at zero percent (0%) interest rate. The principal balance of the notes will be forgiven at the rate of twenty percent (20%) at the end of each year until the full principal balance has been forgiven. During 2006, new terms of the notes were added to include deferred notes at 0% with a 30 year term.

During 2018, \$18,817 was forgiven and recorded as an expense.

P. MLK New Look Senior Housing, LLC (NLSH)

On April 23, 2000, TCRA approved a loan for the cost of acquisition of real property located at 1102 S. 11th Street using \$110,000 of CDBG funds with a deferred interest rate of 1% with payments of \$934 beginning on April 1, 2015. This loan was written off with the loan assumption approved by board of directors on August 27, 2015 minutes. The \$370,650 loan funded by HOME was repaid on February 27, 2018.

Q. Network Services, Inc. – Network-Tacoma

TCRA approved two loans for the acquisition and costs of acquisition relating to units located at: 1) 5311 Chicago Avenue SW, Lakewood made on January 31, 2005 to be forgiven on February 1, 2025, and 2) 5435 S. “M” Street made on November 27, 2002 to be forgiven on November 1, 2032. HOME funds were used to fund both projects.

R. Intercommunity Housing – Mercy Housing (ICH)

During November 2001, Hillside Gardens (S. 17th & “G” Streets) and Eliza McCabe Townhouses (S. 23rd Street and Yakima Avenue) were funded with HOME funds. Each bears an interest rate of zero percent (0%). Annual principal payments are due on June 1st of each year beginning June 1, 2004 using the available net cash flow from the preceding calendar year. There has not been any available net cash flow to make payments and the loans are not considered delinquent.

On May 24, 2002, TCRA approved two loans for the acquisition of real property and predevelopment fees and costs at S. 23rd Street & Yakima Avenue and at S. 17th Street & “G” Street. These loans were funded with HOME funds.

During October 2005, ICH acquired property for development located at 1616 and 1717 S. Yakima Street for the Catalina Apartments. This project was funded with CDBG. Beginning July 1, 2007, monthly payments of \$1,250 at 0% interest began. The loan maturity date is October 1, 2045.

S. International Place Council

On March 13, 2006, the Korean Women's Association acquired property located at 1701 E. 44th Street. The project was funded with CDBG. At the end of thirty years (30) years (September 30, 2036), the principal balance of the note (\$232,000) will be forgiven.

T. Olympus Hotel of Tacoma, Inc.

On October 26, 2010, the Korean Women's Association acquired property located at 815 Pacific Avenue. The project was funded with CDBG and HOME funds. Total principal balance is due on or before forty (40) years (October 26, 2050).

U. City of Lakewood (LKW)

On May 18, 1999, by Resolution #34400, the City of Tacoma and LKW formed the Tacoma-Lakewood Consortium. This allowed TCRA to receive federal HOME and ADDI funds on behalf of LKW. TCRA is to provide loan review and approval services and its accounting staff will maintain the financial records.

These notes receivable are made up of housing programs (rehabilitation and down payment assistance loans) funded by HOME and ADDI funds and bear no interest. At the end of twenty (20) years or as otherwise approved, the full principal balance is due and payable.

On June 02, 2014, Tacoma Housing Authority in behalf of the LKW promises to pay TCRA \$250,000 for the development of Prairie Oaks Apartments located at 8954-8960 Gravelly Lake Dr SW, Lakewood. This property is a 15-unit permanent housing development with supportive services for homeless families.

V. AIDS Housing Association of Tacoma (AHA)

On April 10, 2002, TCRA agreed to loan the AHA \$258,602 to acquire and rehab property located at 301 N. "L" Street. On December 8, 2005, the loan was modified to increase the loan amount to \$269,883. The loan was funded with CDBG funds with an interest rate of zero percent (0%). At the end of thirty (30) years (April 10, 2032), the principal balance of the note (\$269,883) will be forgiven.

On January 31, 2005, TCRA loaned \$80,000 to the AHA to acquire and rehab property located at 1602 S. Stevens Street. The loan was funded with CDBG funds with an interest rate of zero percent (0%). At the end of forty (40) years (January 31, 2045), the principal balance of the note (\$78,763) will be forgiven.

W. Tacoma Housing Authority (THA)

On December 18, 2002, TCRA entered into an agreement with the THA for the Hillside Terrace rehabilitation and revitalization of vacant housing units located in the 2300 block of S. "G" Street. This notes receivable was funded with \$176,050 in CDBG funds and has an interest rate of zero percent (0%). The term of the loan is forty (40) years with annual payments beginning June 30, 2004 using the available net cash flow from the preceding calendar year. The final payment is to be made no later than December 1, 2042 when the full principal balance is due and payable.

On April 03, 2013, TCRA approved a rehabilitation loan to Hillside Terrace Apartments located at 2520 South “G” Street. This project received \$1,065,342 of HOME funds. This notes receivable has an interest rate of zero percent (0%).

X. Salishan Project

On June 28, 2007, TCRA loaned THA \$1,000,000 of HOME funds for the Salishan Four project located at 1728 S. 44th Street. This notes receivable has an interest rate of zero percent (0%). At the end of forty (40) years (June 28, 2047), the principal balance of the Note (\$1,000,000) will be forgiven.

On June 26, 2008, TCRA loaned THA \$114,000 of UWPC and \$76,000 of UDAG funds for the Salishan Five project located at 3900 E. Roosevelt Street. This notes receivable has an interest rate of zero percent (0%). At the end of forty (40) years (June 28, 2048), the principal balance of the note (\$190,000) will be forgiven.

On October 15, 2008, TCRA loaned THA \$500,000 of HOME \$6,000 of UWPC, and \$4,000 of UDAG funds for the Salishan Six project located on E. 44th Street. This notes receivable has an interest rate of zero percent (0%). At the end of forty (40) years (October 15, 2048), the principal balance of the note (\$510,000) will be forgiven.

Y. Lakewood Area Shelter Association (LASA)

On August 29, 2003, TCRA approved two loans. Both loans are serviced by TCRA but one of the loans is funded by the LKW. These funds were used to acquire the property located at 4408 S. 74th Street for transitional housing to serve Lakewood residents.

The loan is being funded by two separate funding sources: CDBG for \$25,000 and HOME for an additional \$150,000. The LKW loan is being funded solely with HOME in the amount of \$168,000. On August 29, 2023, the loan for the LKW matures. The forgivable portion of the loan (\$103,000) will be forgiven and the repayable portion (\$65,000) will be due and payable. On August 29, 2033, the entire TCRA loan will be forgiven (\$175,000). The interest rate on these notes is zero percent (0%).

During November 2008, property located at 8416 S. Ainsworth Avenue and previously owned and operated by Faith Homes, was transferred to the LASA to manage. The terms of the loan have been transferred to LASA. This notes receivable has an interest rate of zero percent (0%). At the end of twenty-five (25) years (September 5, 2033), the principal balance of the note (\$899,978) will be forgiven.

Z. Fern Hill Terrace, Inc.

On June 8, 2006, TCRA approved a loan to Multi Service Center for project costs in connection with the acquisition, rehabilitation, and/or construction for property located at 210 S. 80th Street. For all approved costs associated with this project, CDBG funds were allocated for use.

This notes receivable has a one percent (1%) interest rate. Annual interest only payments are payable on November 1st of each year commencing of November 1, 2008. Annual interest payments due each November 1st are \$4,680. Total principal is due on or before forty years (November 1, 2046).

AA. Inland Empire Residential Resources (IER)

On June 8, 2006, TCRA entered into an agreement with IER of \$141,266 for the acquisition of property located at 7516 19th Street W. to be developed as permanent rental housing for individuals with disabilities. This also includes construction of a new community center and laundry room at the same location.

This notes receivable was funded with CDBG funds and has an interest rate of zero percent (0%). At the end of thirty (30) years (October 22, 2037), the principal balance of the note (\$141,266) will be forgiven.

AB. Joseph Foundation Project (JFP)

On May 21, 2008, TCRA approved a \$40,000 loan to the JFP for project costs in connection with the acquisition, rehabilitation, and/or construction for property located at 3340 48th Avenue Ct. NE. For all approved costs associated with this project, CDBG funds were allocated for use.

This note receivable has a zero percent (0%) interest rate and the principal balance of the note (\$40,000) will be forgiven at the end of thirty (30) years (May 21, 2038).

AC. Tacoma “G” Street Family Housing

On July 25, 2008, TCRA approved a \$1,020,139 loan for the acquisition, construction, development and soft costs for the development of a multi-family apartment development, known as Guadalupe Vista, consisting of 51 residential units located at 1305 S. “G” Street for low-income individuals.

These notes receivable was funded with \$820,139 of HOME, \$80,000 of UDAG, and \$120,000 in UWPC funds and has an interest rate of zero percent (0%). At the end of forty (40) years (December 31, 2050), the principal balance of the note (\$1,020,139) will be due and payable.

AD. Salishan Senior Housing

On October 16, 2009, TCRA approved a loan with for the project costs in connection with the acquisition, rehabilitation, and/or construction of not less than 54-units on the property located at 4401 E. “R” Street. TCRA loaned \$672,674 in CDBG, \$327,326 in HOME, \$120,000 of UWPC and \$80,000 of UDAG funds for the Salishan Senior Housing project.

This notes receivable will have an interest rate of zero percent (0%) with no monthly payments. At the end of thirty (30) years (October 16, 2039), the principal balance of the UDAG and UWPC funds of the note will be forgiven. On October 16, 2049, the principal balance of the CDBG and HOME funds of the note (\$1,200,000) will be forgiven.

AE. Young Women's Christian Association of Tacoma (YWCA)

On December 16, 2009, TCRA approved a \$150,000 loan to YWCA for rehabilitation of the Wilsonian Building located at 401 St. Helens Avenue. For all approved costs associated with this project, TCRA loaned \$142,242 in CDBG, \$507,758 in American Recovery and Reinvestment Act (ARRA) CDBG-R, and \$300,000 in ARRA Lead Based Paint Grant funds were allocated for use.

These note receivables carry a zero percent (0%) interest rate and the principal balance of the ARRA Lead Based Paint Grant will be forgiven at the end of five (5) years (April 15, 2015) and the principal balance of the CDBG notes (\$650,000) will be forgiven at the end of twenty (20) years (December 19, 2029).

AF. New Tacoma Senior Housing

On December 23, 2009, TCRA entered into an agreement with New Tacoma Phase I Owner LP for the project costs in connection with the acquisition, rehabilitation, and/or construction of six-units on the property located at 1709-1717 S. "G" Street. TCRA loaned \$565,000 in HOME, \$120,000 of UWPC and \$80,000 of UDAG funds for the New Tacoma Senior Housing project. This notes receivable has an interest rate of zero percent (0%) with no monthly payments. On December 31, 2051, the principal balance of the note is due and payable.

On December 30, 2014, TCRA entered into an agreement with New Tacoma Phase II Mercy LLC for the development of a property located at 612 – 620 South 17th Street, Tacoma. This note receivable amounting to \$475,000 has an interest rate of zero percent (0%) with no monthly payments and principal balance will be due and payable on December 31, 2055.

AG. The Monroe Apartments

On November 8, 2013, TCRA approved assumption of the Stewart Court Apartments loan from THA by the The Monroe, LLC. It is a rehabilitation loan of rental units for the Monroe Apartments fka the Fircrest Court Apartments located at 3201 S. Tyler Street. This project received \$367,565 of Community Development Block Grant (CDBG) funds and \$1,138,130 of HOME Investment Partnership (HOME) funds. This notes receivable has an interest rate of zero percent (0%). At the end of thirty (30) years (October 11, 2031), the principal balance of the note (\$1,505,695) will be forgiven.

AH. Facade Loan Program

This program is designed to remove blight, beautify storefronts, and improve older neighborhood business districts. Loans are available on a reimbursement basis up to 50% of approved project costs. The minimum loan is \$5,000 and the maximum is \$50,000. Loans carry a fixed 3% interest rate with principal and interest payments due monthly for a maximum term or 10 years.

AI. Foundation for the Challenged (FFC)

On March 05, 2014, TCRA granted a \$25,000 loan with the FFC to renovate Single Family Home Rehab for the developmentally disabled located at 1209 South Huson, Tacoma. This notes receivable has an interest rate of zero percent (0%).

AJ. Multi - Family Rental

On July 11, 2014, TCRA entered into an agreement with McKinley 3502 LLC to develop property located at 3502 McKinley Avenue, Tacoma. This note receivable funded by HOME funds, \$595,500 has an interest rate of zero percent and has a maturity date of June 15, 2030.

NOTE 11 – LOSS ON NOTES RECEIVABLE

The total loss in 2018 was \$551,906 summarized below:

TCRA has loans with terms to write off the remaining balance when matured if the loan is not in default.

Program/Funding Source	Loss Amount
TIX-EDA	\$ 8,711
DPA-HOME	1,551
NLSH-CDBG	110,000
NLSH-HOME	323,689
HCT - HOME	9,124
HCT - AGS	6,518
HCT - NSP	3,176
HFH - CDBG	12,504
HFH - UDAG	2,629
HFH - HOME	39,348
HFH - UWPC	3,943
HFH - NSP	22,109
LKW - HOME	11,160
NPP - CDBG	(2,556)
Total	\$ 551,906

Down Payment Assistance loans that were closed from 2003 to present are non-recourse loans and TCRA cannot collect against the promissory notes of these loans. TCRA estimates that if all potential losses are realized, the notes receivable could still be over-valued by an estimated \$1,035,000.

In May 2014, TCRA Board had approved transferring to a collection agency many of our previously written off loans for possible collection. TCRA has transferred 34 accounts to National Service Bureau, Inc.

Tacoma Community Redevelopment Authority
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2018

Federal Agency (Pass-Through Agency)	Expenditures						
	Federal Program	CFDA Number	Other Award Number	From Pass- Through Awards	From Direct Awards	Passed through to Subrecipients	
							Total
Economic Development Cluster							
ECONOMIC DEVELOPMENT ADMINISTRATION, COMMERCE, DEPARTMENT OF	Economic Adjustment Assistance	11.307	RFL Capital Base	-	2,039,546	-	
ECONOMIC DEVELOPMENT ADMINISTRATION, COMMERCE, DEPARTMENT OF	Economic Adjustment Assistance	11.307	Administrative Expenses	-	63,716	-	
ECONOMIC DEVELOPMENT ADMINISTRATION, COMMERCE, DEPARTMENT OF	Economic Adjustment Assistance	11.307	Loans Written Off	-	8,712	-	
Total Economic Development Cluster:				-	2,111,974	-	
CDBG - Entitlement Grants Cluster							
ASSISTANT SECRETARY FOR COMMUNITY PLANNING AND DEVELOPMENT, HOUSING AND URBAN DEVELOPMENT, DEPARTMENT OF (via City of Tacoma)	Community Development Block Grants/Entitlement Grants	14.218	B-14-MC-53- 0007	192,241	-	-	
ASSISTANT SECRETARY FOR COMMUNITY PLANNING AND DEVELOPMENT, HOUSING AND URBAN DEVELOPMENT, DEPARTMENT OF (via City of Tacoma)	Community Development Block Grants/Entitlement Grants	14.218	B-15-MC-53- 0007	72,393	-	-	
ASSISTANT SECRETARY FOR COMMUNITY PLANNING AND DEVELOPMENT, HOUSING AND URBAN DEVELOPMENT, DEPARTMENT OF (via City of Tacoma)	Community Development Block Grants/Entitlement Grants	14.218	B-16-MC-53- 007	323,656	-	-	

The accompanying notes are an integral part of this schedule.

Tacoma Community Redevelopment Authority
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2018

	Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
					From Pass- Through Awards	From Direct Awards	Total		
	ASSISTANT SECRETARY FOR COMMUNITY PLANNING AND DEVELOPMENT, HOUSING AND URBAN DEVELOPMENT, DEPARTMENT OF (via City of Tacoma)	Community Development Block Grants/Entitlement Grants	14.218	Program Income- Expended	388,910	-	388,910	172,351	2,3
Total CDBG - Entitlement Grants Cluster:					977,200	-	977,200	172,351	
	ASSISTANT SECRETARY FOR COMMUNITY PLANNING AND DEVELOPMENT, HOUSING AND URBAN DEVELOPMENT, DEPARTMENT OF (via City of Tacoma)	Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii	14.228	Program Income Expended	17,386	-	17,386	-	
	ASSISTANT SECRETARY FOR COMMUNITY PLANNING AND DEVELOPMENT, HOUSING AND URBAN DEVELOPMENT, DEPARTMENT OF (via City of Tacoma)	Home Investment Partnerships Program	14.239	M-14-DC-53- 0206	16,752	-	16,752	-	
	ASSISTANT SECRETARY FOR COMMUNITY PLANNING AND DEVELOPMENT, HOUSING AND URBAN DEVELOPMENT, DEPARTMENT OF (via City of Tacoma)	Home Investment Partnerships Program	14.239	M-15-DC-53- 0206	213,545	-	213,545	-	
	ASSISTANT SECRETARY FOR COMMUNITY PLANNING AND DEVELOPMENT, HOUSING AND URBAN DEVELOPMENT, DEPARTMENT OF (via City of Tacoma)	Home Investment Partnerships Program	14.239	M-16-DC-53- 0206	307,941	-	307,941	-	

The accompanying notes are an integral part of this schedule.

Tacoma Community Redevelopment Authority
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2018

	Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
					From Pass- Through Awards	From Direct Awards	Total		
	ASSISTANT SECRETARY FOR COMMUNITY PLANNING AND DEVELOPMENT, HOUSING AND URBAN DEVELOPMENT, DEPARTMENT OF (via City Of Tacoma)	Home Investment Partnerships Program	14.239	M-17-DC-53- 0206	189,176	-	189,176	-	
	ASSISTANT SECRETARY FOR COMMUNITY PLANNING AND DEVELOPMENT, HOUSING AND URBAN DEVELOPMENT, DEPARTMENT OF (via City of Tacoma)	Home Investment Partnerships Program	14.239	Program Income Expended	291,456	-	291,456	-	2
Total CFDA 14.239:					1,018,870	-	1,018,870	-	
Total Federal Awards Expended:					2,013,456	2,111,974	4,125,430	172,351	

The accompanying notes are an integral part of this schedule.

TACOMA COMMUNITY REDEVELOPMENT AUTHORITY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2018

NOTE 1 - BASIS OF ACCOUNTING

This schedule is prepared on the same basis of accounting as the Tacoma Community Redevelopment Authority's financial statements. The Authority uses the full accrual basis of accounting.

NOTE 2 - PROGRAM COSTS

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

NOTE 3 - REVOLVING LOAN – PROGRAM INCOME

The Tacoma Community Redevelopment Authority has several revolving loan programs for disabled and low income housing rehabilitation and low income down payment assistance to assist with purchasing a home. Under these federal programs, repayments to the Authority are considered program revenues (income) and loans of such funds to eligible recipients are considered expenditures. The total amount of loan funds disbursed to program participants for the year for rehabilitation was \$313,515.43 and \$1,225.00 for down payment assistance program. The amount of principal, interest and fees received in loan repayments for the year for rehabilitation was \$319,192.14 and \$155,427.29 for down payment assistance program.

NOTE 4 – INDIRECT RATE ALLOCATION

The Tacoma Community Redevelopment Authority has not elected to use the 10% de minimus indirect cost rate allowed under the uniform guidance. Expenses for 2018 do not include any indirect costs.



**CORRECTIVE ACTION PLAN FOR FINDINGS REPORTED UNDER
UNIFORM GUIDANCE**

**Tacoma Community Redevelopment Authority
January 1, 2018 through December 31, 2018**

This schedule presents the corrective action planned by the Authority for findings reported in this report in accordance with Title 2 *U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Finding ref number: 2018-001	Finding caption: The Authority did not have adequate internal controls to ensure compliance with federal requirements regarding matching and housing quality standards.
Name, address, and telephone of Authority contact person: Daniel Murillo 747 Market Street, Room 808 Tacoma, WA 98402, (253) 591-5238	
Corrective action the auditee plans to take in response to the finding: <i>The Authority developed policies and procedures regarding matching requirements after the 2017 Federal audit. However, they were not in place during the period of this audit (January 2018 – December 2018). The policies and procedures are in place for the Program Year 2018-2019 Consolidated Annual Performance and Evaluation Report (CAPER) and staff will be trained on the policies and procedures.</i> <i>The TCRA has a joint agreement with the Washington State Department of Commerce (Commerce) and the Washington State Housing Finance Commission (WSHFC) to share inspection information on jointly funded projects. The TCRA will review and, if necessary, amend the agreement to insure that both Commerce and WSHFC share their inspection findings in a timely manner. The same would apply to inspections completed by the TCRA.</i>	
Anticipated date to complete the corrective action: December 31, 2019	

Finding ref number: 2018-002	Finding caption: The Authority lacked adequate internal controls to ensure compliance with subrecipient monitoring requirements.
Name, address, and telephone of Authority contact person: Daniel Murillo 747 Market Street, Room 808 Tacoma, WA 98402, (253) 591-5238	
Corrective action the auditee plans to take in response to the finding: <i>The agreement with the Pierce County Community Development Corporation (PCCDC) described the organization as a sub-recipient. However, the staff member managing the contract at that time did not treat the contract as such. As a result, the PCCDC did not undergo an appropriate risk assessment and sub-recipient monitoring. The TCRA will review its current procedures to ensure that contracts are labeled appropriately and all applicable requirements are included. It will also complete the appropriate monitoring of the PCCDC.</i>	
Anticipated date to complete the corrective action: December 31, 2019	

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