

**RAINIER VALLEY COMMUNITY  
DEVELOPMENT FUND**

FINANCIAL STATEMENTS

DECEMBER 31, 2016

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Note: There were no prior year findings or questioned costs, so a schedule of prior findings is not included.

## **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors  
Rainier Valley Community Development Fund  
Seattle, Washington

We have audited the accompanying financial statements of Rainier Valley Community Development Fund, which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

### **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; 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to the 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 entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the 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 Rainier Valley Community Development Fund as of December 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

## **Supplementary Information**

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, 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*, is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

## **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 6, 2017, on our consideration of Rainier Valley Community Development Fund'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 the 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 Rainier Valley Community Development Fund's internal control over financial reporting and compliance.

A handwritten signature in blue ink that reads "Peterson Sullivan LLP". The signature is written in a cursive, flowing style.

March 6, 2017

**RAINIER VALLEY COMMUNITY DEVELOPMENT FUND**

STATEMENTS OF FINANCIAL POSITION

December 31, 2016 and 2015

ASSETS	2016	2015
	<u>                    </u>	<u>                    </u>
Current Assets		
Cash	\$ 2,778,490	\$ 3,855,224
Contracts, grants, and fees receivable	45,048	55,774
Current portion of loan interest receivable	72,975	523,984
Current portion of loans receivable	1,191,174	7,972,811
Prepaid expenses	22,069	16,618
	<u>                    </u>	<u>                    </u>
Total current assets	4,109,756	12,424,411
Loan Interest Receivable, net of current portion	97,824	224,396
Loans Receivable, net of current portion, net of loan loss reserve of \$1,364,611 and \$1,115,266, respectively	21,929,748	12,260,753
Property and Equipment, net of accumulated depreciation of \$71,646 and \$69,933, respectively		1,713
	<u>                    </u>	<u>                    </u>
Total assets	<u>\$ 26,137,328</u>	<u>\$ 24,911,273</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	\$ 6,677	\$ 3,644
Accrued wages and other	16,079	15,885
	<u>                    </u>	<u>                    </u>
Total current liabilities	22,756	19,529
Unrestricted Net Assets	26,114,572	24,891,744
	<u>                    </u>	<u>                    </u>
Total liabilities and net assets	<u>\$ 26,137,328</u>	<u>\$ 24,911,273</u>

See Notes to Financial Statements

## RAINIER VALLEY COMMUNITY DEVELOPMENT FUND

### STATEMENTS OF ACTIVITIES

For the Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Revenue		
Loan interest	\$ 915,806	\$ 796,149
Loan fees	102,521	60,255
Grants	7,161	33,018
City of Seattle loan program	1,050,000	
Other income	33,836	6,824
Release from temporarily restricted net assets		10,000
Total revenue	<u>2,109,324</u>	<u>906,246</u>
Expenses		
Program services	709,570	1,540,458
Management and general	176,926	232,809
Total expenses	<u>886,496</u>	<u>1,773,267</u>
Change in unrestricted net assets	1,222,828	(867,021)
Changes in Temporarily Restricted Net Assets		
Release to unrestricted net assets		<u>(10,000)</u>
Total change in net assets	1,222,828	(877,021)
Net Assets, beginning of year	<u>24,891,744</u>	<u>25,768,765</u>
Net Assets, end of year	<u>\$ 26,114,572</u>	<u>\$ 24,891,744</u>

See Notes to Financial Statements

**RAINIER VALLEY COMMUNITY DEVELOPMENT FUND**

STATEMENTS OF FUNCTIONAL EXPENSES  
For the Years Ended December 31, 2016 and 2015

	2016			2015		
	Program Services	Management and General	Total	Program Services	Management and General	Total
Salaries and benefits	\$ 329,697	\$ 132,241	\$ 461,938	\$ 357,127	\$ 166,546	\$ 523,673
Loan loss expense	249,345		249,345	1,070,936		1,070,936
Professional fees	10,675	18,544	29,219	4,467	31,906	36,373
Occupancy	21,183	8,035	29,218	19,743	8,381	28,124
Contractor services	16,827	4,973	21,800	16,410	4,165	20,575
Grant program costs	15,858		15,858	13,713		13,713
Insurance	9,711	3,655	13,366	9,283	3,941	13,224
Hosting and meetings	11,987	221	12,208	9,149		9,149
Software licensing fees	11,575		11,575	11,301	161	11,462
Telephone and internet	8,239	2,210	10,449	6,926	2,998	9,924
Dues and subscriptions	7,800		7,800	4,736	19	4,755
Equipment maintenance	4,562	1,796	6,358	3,802	6,567	10,369
Travel and conferences	4,668	194	4,862	3,405	463	3,868
Miscellaneous	2,622	1,706	4,328	1,775	1,363	3,138
Advertising and marketing	3,322	387	3,709	3,934	149	4,083
Office supplies	1,499	1,251	2,750	3,751	2,204	5,955
Depreciation		1,713	1,713		3,946	3,946
<b>Total expenses</b>	<b>\$ 709,570</b>	<b>\$ 176,926</b>	<b>\$ 886,496</b>	<b>\$ 1,540,458</b>	<b>\$ 232,809</b>	<b>\$ 1,773,267</b>

See Notes to Financial Statements

**RAINIER VALLEY COMMUNITY DEVELOPMENT FUND**

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash Flows from Operating Activities		
Cash received from City of Seattle	\$ 1,050,000	\$ 7,767
Cash received from grantors	11,935	80,266
Cash received from loan interest, fees, and other	1,635,696	586,063
Cash paid for salaries and benefits	(249,151)	(531,448)
Loan advances	(16,121,557)	(3,676,451)
Loan repayments	12,984,854	2,620,068
Cash paid to other vendors	<u>(388,511)</u>	<u>(214,317)</u>
Net cash flows from operating activities	(1,076,734)	(1,128,052)
Cash, beginning of year	<u>3,855,224</u>	<u>4,983,276</u>
Cash, end of year	<u><u>\$ 2,778,490</u></u>	<u><u>\$ 3,855,224</u></u>
Reconciliation of Change in Net Assets to		
Net Cash Flows from Operating Activities		
Change in net assets	\$ 1,222,828	\$ (877,021)
Loan loss expense	249,345	1,070,936
Depreciation	1,713	3,946
Changes in operating assets and liabilities		
Contracts, grants, and fees receivable	10,726	49,015
Loan interest receivable	577,581	(271,165)
Loans receivable	(3,136,703)	(1,056,383)
Prepaid expenses	(5,451)	(2,960)
Accounts payable and accrued expenses	3,033	(36,645)
Accrued wages and other	<u>194</u>	<u>(7,775)</u>
Net cash flows from operating activities	<u><u>\$ (1,076,734)</u></u>	<u><u>\$ (1,128,052)</u></u>

See Notes to Financial Statements



## NOTES TO FINANCIAL STATEMENTS

### Note 1. Organization and Summary of Significant Accounting Policies

#### Organization

Rainier Valley Community Development Fund ("Rainier Valley CDF") is a nonprofit community development organization that was established to serve as a catalyst for economic development that promotes the diversity and livability of the Rainier Valley area of Southeast Seattle, Washington. Rainier Valley CDF had initially focused on assisting businesses impacted by the Sound Transit Link Light Rail project ("the Rail Project"), including businesses that had to relocate and those immediately adjacent to the Rail Project impacted by the construction.

The primary sponsors of Rainier Valley CDF are the Rainier Valley community, the City of Seattle ("the City"), Sound Transit, and King County (collectively, "the Sponsors"). The Sponsors committed to establish a \$50,000,000 fund ("the Community Development Fund") to be used to mitigate the effects of the Rail Project on the Rainier Valley and to support long-term community development and transit-oriented development projects in the Rainier Valley. The funding commitment spanned the period from 2003 to 2016. As of December 31, 2016, all the original grant funds have been disbursed and Rainier Valley CDF now focuses on assisting businesses and supporting development in the geographic boundaries within the Rainier Valley area under the revolving loan fund.

To achieve its mission, Rainier Valley CDF leverages its capital to increase community economic development opportunities for low- and moderate-income Rainier Valley residents, to stimulate or retain businesses or permanent jobs, and to create affordable housing. Its long-term goals are to invest in businesses and other organizations that are responsive to community needs and encourage economic opportunities for local residents.

Rainier Valley CDF offers a variety of financial and community development programs geared towards assisting businesses, residents, and community organizations. These programs include real estate development loans, business loans for working capital, expansion, or equipment, and technical assistance to emerging business owners. The majority of loans include terms and conditions that serve as incentives for recipients to support Rainier Valley CDF's social and community development goals, and to remain in the Rainier Valley community.

Rainier Valley CDF's revolving loan fund is managed under a trust agreement with the City that restricts the use of the funds to community development activities within a certain geographic area. If Rainier Valley CDF fails to meet the performance criteria under the trust agreement, the City may terminate the trust agreement with Rainier Valley CDF and could appoint an alternate trustee.

During 2016, Rainier Valley CDF applied for certification by the Community Development Financial Institution ("CDFI") Fund, which is a program of the United States Treasury Department. In January 2017, Rainier Valley CDF was notified that in November 2016, its application was approved and it became a certified CDFI fund. Management expects that this certification will give Rainier Valley CDF access to additional grant and loan funds.

## **Financial Statement Presentation**

Rainier Valley CDF reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Rainier Valley CDF has no permanently restricted net assets, so this class of net assets is not shown on the financial statements. Temporarily restricted net assets consist of unexpended grants and contributions restricted for particular purposes or time periods. Temporarily restricted net assets are transferred to unrestricted net assets as expenditures are incurred for the restricted purpose or as time restrictions are met.

## **Temporarily Restricted Net Assets**

When a temporarily restricted contribution is received and the restriction is met in the same year, the contribution is recorded as unrestricted revenue. There were no temporarily restricted net assets as of December 31, 2016 or 2015.

## **Cash**

Cash represents cash in checking and savings accounts. Rainier Valley CDF has cash balances in excess of federally insured limits.

## **Loans Receivable**

Rainier Valley CDF's loans receivable are stated at their outstanding principal balances, less an allowance for credit losses. Rainier Valley CDF's loans receivable are generally collateralized by security positions on real and personal property, and personal guarantees by the business owners. Rainier Valley CDF attempts to maintain collateral that has a value at a level equal to or in excess of the related loan receivable balance.

A loan is placed on non-accrual status when it is specifically determined to be impaired and when, in the opinion of management, there is an indication that the borrower may be unable to make payments as they become due. Interest income generally is not recognized on impaired loans. Interest payments received on such loans are applied as a reduction of the loan principal balance. Loans are placed back into accrual status after management has reviewed appropriate documents and has received approval by its loan committee.

The allowances for loan losses are maintained at a level which, in management's judgment, is adequate to absorb credit losses inherent in the loan portfolio when considering the nature of the portfolio, credit concentrations, trends in historical loss experience, specific impaired loans, and economic conditions. Allowances for impaired loans are generally determined after considering collateral values. An increase to the allowance also increases the provision for loan losses, which is charged to expense. The allowance is reduced by loan charge-offs, net of recoveries.

## **Credit Quality and Allowance for Credit Losses**

The key to Rainier Valley CDF's credit risk management is its loan risk rating system. Rainier Valley CDF's credit quality rating system looks at: actual operations and repayment performance, strength of collateral (especially loan to value), strength of repayment capacity (current ratios, debt coverage ratios, etc.), and management capacity (if a business incentive loan) or development team capacity (if a real estate loan). Loan approvals are made based upon the amount of inherent credit risk specific to the transaction and are reviewed for appropriateness by Rainier Valley CDF's loan committee. Loans are monitored by loan officers and the loan committee for deterioration in a borrower's financial condition, which would impact the ability of the borrower to perform under the contract. Risk ratings are adjusted as necessary.

Loans are rated by risk into the following categories (Credit Quality Indicators):

Acceptable (risk rating of 1 – 3) – These loans range from minimal credit risk to lower than average, but still acceptable, credit risk. Loans with a risk rating of 1, 2, and 3 have minimum allowances of 3%, 5%, and 10%, respectively.

Watch List (risk rating of 4) – Watch List loans usually require more than normal management attention. Loans that qualify for the Watch List may involve borrowers with adverse financial trends, higher debt/equity ratios, or weaker liquidity positions, but not to the degree of being considered a Doubtful or Loss loan (see below), where risk of loss may be apparent. Additionally, loans are placed on the Watch List if they are regularly on the 30-day past due list. Loans with a risk rating of 4 have a minimum allowance of 25%.

Doubtful or Loss (risk rating of 5 – 6) – Loans are classified as Doubtful or Loss loans when the borrower's primary source of repayment capacity is impaired to the point that the borrower's payments do not cover principal payments on a reasonable amortization rate, a voluntary liquidation plan has been negotiated, or the loan is more than 60 days past due. Loans with a risk rating of 5 and 6 have minimum allowances of 50% and 100%, respectively.

Loans are charged against the allowance for credit losses when the ability to collect is not reasonably assured. The allowances represent an amount, which, in management's judgment, will be adequate to absorb losses from existing loans that may become uncollectible. Because of inherent uncertainties in estimating an allowance for credit losses, it is at least reasonably possible that the estimates will change in the near term. During 2015, four loans totaling \$1,341,369 were written off against the allowance as management did not believe these loans were collectible. There were no loans written off against the allowance in 2016.

When Rainier Valley CDF forecloses on a loan, the collateral assumed is recorded at the lower of the outstanding loan balance (plus unpaid interest, late fees, and other foreclosure costs) or the fair value of the collateral assumed. If the fair value of the collateral assumed is less than the outstanding loan balance, a loss is recognized. There were no loan foreclosures in 2016 or 2015.

Rainier Valley CDF's loan impairment indicators include restructuring requests and modifications, deteriorated collateral margins, financial statements of entities reflecting deteriorating trends, and Rainier Valley CDF's ability (or lack of ability) to receive financial information from borrowers.

Management periodically reviews its loan portfolio to determine if any loans are impaired. Impaired loans, if any, are adjusted to estimated net realized value through the loan loss reserve.

### **Revenue Recognition – Contract Revenue**

Grant revenue is recorded when the qualified expenditure is incurred or the milestone is met.

Loan program contract revenue from the City is earned when the loan is approved and disbursed to the borrower.

### **Revenue Recognition – Loan Interest/Fees**

Interest on loans is recognized when earned over the loan term. Interest on non-accruing or past due loans is not recognized. Loan fees are recognized as revenue when the loans are closed. At December 31, 2016 and 2015, there were no impaired loans or loans placed on non-accrual status.

### **Property and Equipment**

Equipment, furniture, and leasehold improvements are recorded at cost. Depreciation is computed on the straight-line basis over the estimated useful lives of the assets. Leasehold improvements are amortized on the straight-line basis over the shorter of the improvements' estimated useful lives or the anticipated lease term. Property and equipment are capitalized if the cost is at least \$5,000 and the life is at least three years.

### **Functional Allocation of Expenses**

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

### **Federal Income Taxes**

Rainier Valley CDF has been granted exemption from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

### **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from estimated amounts.

### **Reclassifications**

Certain items from the 2015 financial statements have been reclassified to conform to the current year presentation.

### **Subsequent Events**

Rainier Valley CDF has evaluated subsequent events through the date these financial statements were available to be issued, which was March 6, 2017.

## Note 2. Loans Receivable

At December 31, 2016, loans to one borrower (through two separate loans) made up 33% of total loans outstanding. At December 31, 2015, loans to one borrower (through three separate loans) made up 35% of total loans outstanding. At December 31, 2016 and 2015, outstanding separate loans were as large as \$7,450,000 and \$2,675,000, respectively. At both December 31, 2016 and 2015, loans yielded interest rates from 0% to 6%. Loans yielding an interest rate of 0% incur an annual loan fee of 5% of the loan balance.

The following table represents the approximate number of loans by category at December 31:

	2016			2015		
	Number of Loans	Balance	Percentage of Total	Number of Loans	Balance	Percentage of Total
Real estate						
Affordable housing	6	\$ 11,025,076	45%	8	\$ 10,636,924	50%
Community facilities	5	5,007,378	20%	5	5,161,733	24%
Commercial real estate	3	1,804,271	7%	3	1,733,204	8%
Small businesses	7	4,310,888	18%	4	1,484,034	7%
Operations						
Community facilities			0%	1	5,033	0%
Small businesses	29	2,337,920	10%	26	2,327,902	11%
Totals	<u>50</u>	<u>24,485,533</u>	<u>100%</u>	<u>47</u>	<u>21,348,830</u>	<u>100%</u>
Reserve for loan losses		<u>(1,364,611)</u>			<u>(1,115,266)</u>	
		<u>\$ 23,120,922</u>			<u>\$ 20,233,564</u>	

Loan balances are included as follows in the statements of financial position at December 31:

	2016	2015
Current portion	\$ 1,191,174	\$ 7,972,811
Long-term portion, net of allowance	<u>21,929,748</u>	<u>12,260,753</u>
	<u>\$ 23,120,922</u>	<u>\$ 20,233,564</u>

Future principal payments to be received on loans receivable are as follows for the years ending December 31:

2017	\$ 1,191,174
2018	2,906,758
2019	3,290,311
2020	4,579,268
2021	961,941
Thereafter	<u>11,556,081</u>
	24,485,533
Less: allowance for doubtful accounts	<u>(1,364,611)</u>
Loans receivable, net of allowance	<u>\$ 23,120,922</u>

Activity in the total loan loss reserve is as follows during the years ended December 31:

	2016	2015
Loan loss reserve, beginning of year	\$ 1,115,266	\$ 1,267,591
Loans charged off against reserve, net of recoveries		(1,223,261)
Loan loss expense	249,345	1,070,936
Loan loss reserve, end of year	<u>\$ 1,364,611</u>	<u>\$ 1,115,266</u>

The loan loss reserve is considered a general reserve and is derived based on risk ratings (as described in Note 1) as follows at December 31:

	2016		2015	
	Loan Amount	Allowance	Loan Amount	Allowance
Acceptable	\$ 24,175,513	\$ 1,287,106	\$ 21,251,540	\$ 1,090,944
Watch list	310,020	77,505	97,290	24,322
	<u>\$ 24,485,533</u>	<u>\$ 1,364,611</u>	<u>\$ 21,348,830</u>	<u>\$ 1,115,266</u>

There were no specific loan loss reserves based on an analysis of individual loans at December 31, 2016 or 2015. Because of inherent uncertainties in estimating the reserve for loan losses, it is at least reasonable that the estimates used will change in the near term.

### Note 3. Credit Quality and Allowance for Credit Losses

The following tables show the loan portfolio allocation by Rainier Valley CDF's internal risk ratings at December 31:

	2016		
	Acceptable	Watch List	Total Loans
Real estate			
Affordable housing	\$ 11,025,076	\$ -	\$ 11,025,076
Community facilities	5,007,378		5,007,378
Commercial real estate	1,804,271		1,804,271
Small businesses	4,310,888		4,310,888
Operations			
Community facilities			
Small businesses	2,027,900	310,020	2,337,920
Totals	<u>\$ 24,175,513</u>	<u>\$ 310,020</u>	<u>\$ 24,485,533</u>
	2015		
	Acceptable	Watch List	Total Loans
Real estate			
Affordable housing	\$ 10,636,924	\$ -	\$ 10,636,924
Community facilities	5,161,733		5,161,733
Commercial real estate	1,733,204		1,733,204
Small businesses	1,484,034		1,484,034
Operations			
Community facilities		5,032	5,032
Small businesses	2,235,645	92,258	2,327,903
Totals	<u>\$ 21,251,540</u>	<u>\$ 97,290</u>	<u>\$ 21,348,830</u>

The following table shows an aging analysis of the loan portfolio by the time past due at December 31:

	2016			Total Loans
	Current	31 - 60 Days Past Due	61+ Days Past Due	
	Real estate			
Affordable housing	\$ 11,025,076	\$ -	\$ -	\$ 11,025,076
Community facilities	5,007,378			5,007,378
Commercial real estate	1,804,271			1,804,271
Small businesses	4,310,888			4,310,888
Operations				
Community facilities				
Small businesses	2,290,365	6,500	41,055	2,337,920
Totals	<u>\$ 24,437,978</u>	<u>\$ 6,500</u>	<u>\$ 41,055</u>	<u>\$ 24,485,533</u>
	2015			
	Current	31 - 60 Days Past Due	61+ Days Past Due	Total Loans
Real estate				
Affordable housing	\$ 10,636,924	\$ -	\$ -	\$ 10,636,924
Community facilities	5,161,733			5,161,733
Commercial real estate	1,733,204			1,733,204
Small businesses	1,484,034			1,484,034
Operations				
Community facilities	5,032			5,032
Small businesses	2,325,077		2,826	2,327,903
Totals	<u>\$ 21,346,004</u>	<u>\$ -</u>	<u>\$ 2,826</u>	<u>\$ 21,348,830</u>

**Note 4. Loan Commitments**

During 2016, Rainier Valley CDF entered into loan commitments totaling \$1,483,000. These commitments remain outstanding, although they are conditional upon certain performance requirements of the borrowers.

S U P P L E M E N T A R Y R E P O R T S A N D  
S C H E D U L E S I N A C C O R D A N C E W I T H  
G O V E R N M E N T A U D I T I N G S T A N D A R D S  
A N D T H E U N I F O R M G U I D A N C E



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN  
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

To the Board of Directors  
Rainier Valley Community Development Fund  
Seattle, Washington

We have audited, in accordance with the auditing standards generally accepted in the United States 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 Rainier Valley Community Development Fund ("Rainier Valley CDF"), which comprise the statement of financial position as of December 31, 2016, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 6, 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Rainier Valley CDF'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 Rainier Valley CDF's internal control. Accordingly, we do not express an opinion on the effectiveness of Rainier Valley CDF'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 Rainier Valley CDF'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 Rainier Valley CDF's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance 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 Rainier Valley CDF's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Rainier Valley CDF's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Peterson Sullivan LLP*

March 6, 2017

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

To the Board of Directors  
Rainier Valley Community Development Fund  
Seattle, Washington

**Report on Compliance for Each Major Federal Program**

We have audited Rainier Valley Community Development Fund's ("Rainier Valley CDF") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Rainier Valley CDF's major federal programs for the year ended December 31, 2016. Rainier Valley CDF's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

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

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of Rainier Valley CDF'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; 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 Rainier Valley CDF's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

## **Opinion on Each Major Federal Program**

In our opinion, Rainier Valley CDF 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, 2016.

## **Report on Internal Control Over Compliance**

Management of Rainier Valley CDF 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 Rainier Valley CDF's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program 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 purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Rainier Valley CDF's internal control over compliance.

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

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

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.

*Peterson Sullivan LLP*

March 6, 2017

**RAINIER VALLEY COMMUNITY DEVELOPMENT FUND**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended December 31, 2016

<u>Federal Grantor/Pass-Through Grantor Program Title</u>	<u>Federal CFDA Number</u>	<u>Contract Number</u>	<u>Expenditures</u>
U.S. Department of Housing and Urban Development Passed through City of Seattle Office of Economic Development CDBG - Entitlement Grants Cluster Community Development Block Grants/Entitlement Grants Loans	14.218	DA142101	\$ 1,050,000 *
Total U.S. Department of Housing and Urban Development			<u>1,050,000</u>
Total expenditures			<u><u>\$ 1,050,000</u></u>

\* Denotes major program

See Notes to Schedule of Expenditures of Federal Awards

## NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

### **Note 1. Basis of Presentation**

The accompanying schedule of expenditures of federal awards ("the Schedule") includes the federal grant activity of Rainier Valley Community Development Fund ("Rainier Valley CDF") under programs of the federal government for the year ended December 31, 2016. The information in the Schedule is presented in accordance with the requirements of the Uniform Guidance. Because the Schedule presents only a selected portion of the operations of Rainier Valley CDF, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Rainier Valley CDF.

### **Note 2. Summary of Significant Accounting Policies**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles of Non-Profit Organizations*, wherein certain types of expenditures are not allowed or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

**RAINIER VALLEY COMMUNITY DEVELOPMENT FUND**

**SUMMARY SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

For the Year Ended December 31, 2016

A. Summary of Audit Results

**Financial Statements:**

Type of auditors' report issued: Unmodified

**Internal Control Over Financial Reporting:**

Material weaknesses identified: None  
Significant deficiencies identified not considered to be material weaknesses: None reported  
Noncompliance material to financial statements noted: None

**Federal Awards:**

Material weaknesses identified: None  
Significant deficiencies identified not considered to be material weaknesses: None reported  
Type of auditors' report issued on compliance for major programs: Unmodified  
Any audit findings disclosed that are required to be reported: None

**Identification of major programs:**

<u>CFDA Number</u>	<u>Name of Federal Program</u>
14.218	Community Development Block Grant

**Dollar threshold used to distinguish between Type A and B programs:** \$ 300,000

Auditee qualified as low-risk auditee: No

B. Findings - Financial Statement Audit None

C. Findings and Questioned Costs - Major Federal Award Programs Audit None