METROPOLITAN DEVELOPMENT COUNCIL AND RELATED ENTITIES

Audited Consolidated Financial Statements,
Supplementary Information and
Reports on Internal Control and Compliance

December 31, 2016 and 2015

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JOHNSON STONE & PAGANO, P.S.
CERTIFIED PUBLIC ACCOUNTANTS
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Independent Auditor's Report

Board of Directors
Metropolitan Development Council
Tacoma, Washington

Report on the Financial Statements
We have audited the accompanying consolidated financial statements of Metropolitan Development Council (a nonprofit organization) ("MDC"), which comprise the consolidated statements of financial position as of December 31, 2016 and 2015, and the related consolidated statements of revenues, expenditures and changes in net assets 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 consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Metropolitan Development Council 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 of America.

Other Matters

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary information on pages 28 to 33 as of and for the years ended December 31, 2016 and 2015 is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. The accompanying schedule of expenditures of federal awards for the year ended December 31, 2016 on pages 34 and 35 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 of America. 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 April 20, 2017 on our consideration of Metropolitan Development Council'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 Metropolitan Development Council's internal control over financial reporting and compliance.

Johnson, Stone & Pagano, P.S.

JOHNSON, STONE & PAGANO, P.S.

April 20, 2017

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

METROPOLITAN DEVELOPMENT COUNCIL AND RELATED ENTITIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31, 2016 and 2015

	2016	2015
ASSETS		
Cash	$ 3,482,558	$ 1,878,961
Grants and contracts receivable	1,958,264	2,805,462
Deposits, advances and prepaid expenses	77,876	116,980
Inventory	8,651	9,278
Reserves	1,128,889	1,107,949
Land	3,019,191	3,019,191
Buildings, net of accumulated depreciation	20,333,385	21,069,610
Capitalized costs, net of accumulated amortization	35,418	36,628
Equipment, net of accumulated depreciation	136,694	151,334
TOTAL ASSETS	$ 30,180,926	$ 30,195,393
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	$ 812,377	$ 855,167
Accrued payroll and taxes	510,838	553,032
Funding source advance	534,232	598,855
Rental deposits	66,929	60,817
Accrued annual leave	245,331	253,142
Mortgages payable	4,452,451	4,511,239
Mortgages and loans payable, low income housing	14,690,215	14,916,583
Total Liabilities	21,312,373	21,748,835
NET ASSETS		
Unrestricted		
Asset building	147,251	43,372
Housing	5,410,634	5,532,826
Healthcare	3,072,421	2,861,612
Development	238,247	8,748
Total Unrestricted Net Assets	8,868,553	8,446,558
TOTAL LIABILITIES AND NET ASSETS	$ 30,180,926	$ 30,195,393

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

METROPOLITAN DEVELOPMENT COUNCIL AND RELATED ENTITIES

CONSOLIDATED STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN NET ASSETS

Year Ended December 31, 2016

	Asset Building	Housing	Healthcare	Total Programs	Development	Administration	Total
REVENUE							
Grants and contracts	$ 4,704,975	$ 8,683,569	$ 7,574,915	$ 20,963,459	$ 5,400	$ 9,771	$ 20,978,630
Donations		1,629		1,629	132,030		133,659
Foundation grants					120,875		120,875
Service fees and match			593,680	593,680			593,680
Rent income		1,982,674		1,982,674			1,982,674
Receipts from clients		5,265		5,265			5,265
Interest income		189		189		1,061	1,250
In-kind contributions	715,339			715,339	180,191		895,530
Other income		18,797	342	19,139			19,139
Total Revenue	5,420,314	10,692,123	8,168,937	24,281,374	438,496	10,832	24,730,702
EXPENDITURES							
Personnel	1,433,020	2,387,184	5,187,952	9,008,156	89,584	1,628,438	10,726,178
Travel and transportation	175,857	52,576	17,465	245,898	1,255	12,324	259,477
Facility costs	120,829	696,797	485,625	1,303,251	14,395	121,825	1,439,471
Interest		242,056	1,515	243,571		6,377	249,948
Depreciation and amortization		787,101	6,444	793,545			793,545
Supplies	149,425	236,850	446,221	832,496	18,648	84,507	935,651
Materials and direct payments	2,384,649	5,043,849	18,202	7,446,700			7,446,700
Tools and equipment	12,474	5,064	2,981	20,519	118	3,578	24,215
Other direct costs	47,345	532,034	576,342	1,155,721	80,770	206,305	1,442,796
In-kind	715,339		175,464	890,803	4,227	500	895,530
Indirect and direct administrative	277,497	830,804	1,039,917	2,148,218		(2,053,022)	95,196
Total Expenditures	5,316,435	10,814,315	7,958,128	24,088,878	208,997	10,832	24,308,707
Change in Net Assets	103,879	(122,192)	210,809	192,496	229,499		421,995
Net Assets at Beginning of Year	43,372	5,532,826	2,861,612	8,437,810	8,748		8,446,558
NET ASSETS AT END OF YEAR	$ 147,251	$ 5,410,634	$ 3,072,421	$ 8,630,306	$ 238,247	$	$ 8,868,553

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

METROPOLITAN DEVELOPMENT COUNCIL AND RELATED ENTITIES

CONSOLIDATED STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN NET ASSETS (Continued)

Year Ended December 31, 2015

	Asset Building	Housing	Healthcare	Total Programs	Development	Administration	Total
REVENUE							
Grants and contracts	$ 4,420,314	$ 8,011,386	$ 5,801,590	$ 18,233,290			$ 18,233,290
Donations		7,612		7,612	$ 106,951		114,563
Foundation grants			72,000	72,000	90,250		162,250
Service fees and match			2,343,782	2,343,782			2,343,782
Rent income		1,843,780		1,843,780			1,843,780
Receipts from clients		8,549		8,549			8,549
Interest income		344		344		$ 545	889
In-kind contributions	601,480	1,106	218,686	821,272	8,806		830,078
Other income		6,196	274	6,470	190		6,660
Total Revenue	5,021,794	9,878,973	8,436,332	23,337,099	206,197	545	23,543,841
EXPENDITURES							
Personnel	1,650,129	2,494,730	5,185,096	9,329,955	181,039	1,468,584	10,979,578
Travel and transportation	66,663	77,330	22,422	166,415	897	8,860	176,172
Facility costs	133,749	582,546	523,346	1,239,641	12,185	110,730	1,362,556
Interest		236,624	9,829	246,453	6	5,705	257,585
Depreciation and amortization		792,032	10,421	802,453			797,032
Supplies	216,128	203,572	272,252	691,952	22,970	82,736	797,658
Materials and direct payments	1,801,175	4,463,452	15,643	6,280,270			6,280,270
Tools and equipment	1,246	14,490	9,263	24,999	27	3,590	28,616
Other direct costs	177,881	543,279	591,107	1,312,267	75,951	249,386	1,637,604
In-kind	601,480	1,106	217,436	820,022	8,806		828,828
Indirect and direct administrative	395,139	906,170	1,048,102	2,349,411	(2,965)	(1,929,046)	417,400
Total Expenditures	5,043,590	10,315,331	7,904,917	23,263,838	298,916	545	23,563,299
Change in Net Assets	(21,796)	(436,358)	531,415	73,261	(92,719)		(19,458)
Net Assets at Beginning of Year	65,168	5,969,184	2,330,197	8,364,549	101,467		8,466,016
NET ASSETS AT END OF YEAR	$ 43,372	$ 5,532,826	$ 2,861,612	$ 8,437,810	$ 8,748	$	$ 8,446,558

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

METROPOLITAN DEVELOPMENT COUNCIL AND RELATED ENTITIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 421,995	$ (19,458)
Adjustments to reconcile change in net assets net cash provided by operating activities		
Depreciation	792,335	795,822
Debt issuance costs	5,421	5,421
Amortization	1,210	1,210
Changes in operating assets and liabilities		
(Increase) decrease in grants and contracts receivable	831,363	(569,699)
Decrease in deposits, advances, prepaid expenses and inventory	39,731	245,419
Increase in reserves	(20,940)	(497,873)
Decrease in accounts payable	(42,790)	(214,697)
Decrease in payroll, taxes and accrued annual leave payable	(47,163)	(80,723)
Increase (decrease) in funding source advance	(64,623)	517,893
Increase in rental deposits	6,112	5,646
Net Cash Provided by Operating Activities	1,922,651	188,961
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(25,635)	(21,582)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments of principal on mortgages and loans	(293,419)	(265,394)
Net Cash Used by Financing Activities	(293,419)	(265,394)
NET INCREASE (DECREASE) IN CASH	1,603,597	(98,015)
Cash at Beginning of Year	1,878,961	1,976,976
CASH AT END OF YEAR	$ 3,482,558	$ 1,878,961
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	$ 243,156	$ 252,164

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

NOTE 1 - ORGANIZATIONS

Metropolitan Development Council, doing business as MDC ("MDC"), is a nonprofit organization incorporated in the State of Washington, with administrative offices located in Tacoma, Washington. MDC is a community action agency with the mission to educate our community to change the perception of poverty and deliver innovative services that equip individuals and families to thrive; MDC helps people and changes lives. MDC helps people get through difficult times and become self-reliant members of our community by providing services in housing, healthcare, employment and education. Our promise is to help in times of crisis, to care in times of need and to provide guidance in times of opportunity.

MDC is an acknowledged leader in developing and implementing innovative strategies and services to help low-income families and individuals become more self-sufficient. MDC began in 1964 in Tacoma, Washington. MDC continued to expand in response to the needs of communities in all of Pierce County, adding a wide range of services as the needs of the community have changed. Today MDC is one of the largest private nonprofit human service agencies in the Puget Sound area. MDC's services include:

Asset Building

Employment and Training

MDC offers low-income youth and adults an opportunity to train for jobs identified as in high-demand by business leaders in our community. Services include case-management, barrier reduction, job readiness training, pre-apprentice training, linkage to trade unions and job placement.

The Child and Adult Care Food Program ("CACFP") provides oversight and reimbursement dollars for nutritional meals served to children attending licensed in-home day care centers. Providers receive nutrition education and support services that help them serve nutritious meals and create a positive eating environment for children. The quality of childcare provided in our community is improved due to educational and financial resources available to caregivers through the CACFP, and the cost of that care in lower income neighborhoods stays affordable.

The Educational Opportunity Centers provide free educational navigation support to adults through career advising and exploration, education planning, assistance with financial aid forms and college applications and student loan default advocacy.

NOTE 1 - ORGANIZATIONS (Continued)

Employment and Training (Continued)
MDC helps low-income and first generation college bound 9th through 12th grade students graduate from high school and enroll in college. Intensive academic support including: in classroom academic courses, a six week summer supplemental education program on a college campus, tutoring, assistance in completing financial aid forms, service learning and leadership activities.

The Education Talent Search is an MDC early intervention program for low income and first-generation college bound students, age 11-18, to prepare and plan for a college education. From 6th grade to graduation, students benefit from tutoring, study skills development, education workshops and career exploration such as Career Day, job shadowing, business speakers and campus visits. Parents and students learn about college admissions requirements, financial aid options and financial literacy.

Healthcare

Medical

MDC provides health care services for low-income adults and families experiencing homelessness. Services include primary medical care, psychiatric assessment and treatment, substance use disorder treatment and hygiene services such as showers and laundry facilities.

Acute Medical Detox

MDC provides inpatient acute medical detoxification (withdrawal management) to youth and adults experiencing physical withdrawal from alcohol and other drugs. Sixteen beds are available at any given time.

Outpatient Chemical Dependency

MDC provides assessment, outpatient and intensive outpatient services to individuals who meet medical necessity criteria to recover from addiction to alcohol and other drugs.

Psychiatric Evaluation and Treatment

MDC provides inpatient, voluntary and involuntary psychiatric services to up to 16 individuals at any given time who have been determined to be a danger to themselves or others or determined to be gravely disabled and in need of inpatient treatment to stabilize.

NOTE 1 - ORGANIZATIONS (Continued)

Housing

MDC operates a continuum of affordable housing options for individuals and families who are coming out of homelessness or have lower incomes, many of whom experience disabilities. Apartments, duplexes, group homes and single family dwellings comprise the more than 350 units of rental housing available from MDC, making it possible for 900 individuals to be served each year. MDC provides many specialized services to help stabilize these individuals and families.

MDC's continuum of care provides clients with housing placement and on-going services that best meet their needs. Professional case management services are tailored to fit the needs of each tenant in reducing barriers to permanent housing and self-sufficiency.

Homeless prevention programs include utility assistance through the Low Income Housing Energy and Assistance Program ("LIHEAP") in partnership with the state and local utility companies; conservation of energy use through small repair and weatherization measures added to homes in the City of Tacoma and Emergency Minor Home Repairs completed for seniors and disabled so that they can remain in their homes.

The Landlord Liaison Project contributes to homeless prevention and rapid re-housing of clients in need of help finding and maintaining affordable housing.

MDC Veterans programs provide navigation and temporary financial support (including rent) to Veterans and their families who are experiencing or are at high risk of homelessness.

The Homeless Childcare program pays for childcare for parents seeking housing and employment when connected with case management and who are not eligible for Washington State Department of Social and Health Services ("DSHS").

MDC Housing

MDC Housing acquired an apartment complex that has been renovated and operates as the Randall Townsend Apartments. The land and building were acquired for $2,264,750, and the total cost of the project is $5 million. The project was funded with debt agreements detailed in Note 6.

NOTE 1 - ORGANIZATIONS (Continued)

Fawcett Street Limited Partnership

Fawcett Street Limited Partnership ("Fawcett") is an entity created by MDC to obtain investment capital and long-term subsidized financing for the construction of a 60 unit low income housing complex. The purpose of the project is to provide affordable housing facilities for low income and homeless individuals. Fawcett was formed as a limited partnership under the laws of the State of Washington. MDC is the general partner with a 1% equity interest. Fawcett obtained approximately $2 million in subsidized financing from government units, and equity capital investments of approximately $2.66 million. Construction was begun in May of 1996 and completed in December of 1996.

The Fawcett Street Limited Partnership has reached the dissolution term of the Partnership Agreement. During the year ended December 31, 2016, the limited Partner made the decision to place the project assets for sale per their rights under the Partnership Agreement. The project is currently under a Purchase and Sale Agreement with the potential closure to be in April, 2017, if all extensions are executed.

Parkland Family Vista LLC

Parkland Family Vista LLC ("Parkland") is an entity created by MDC to obtain investment capital and long-term subsidized financing for the construction of a 40 unit low income housing complex. The purpose of the project is to provide affordable housing facilities for low income and homeless individuals. Parkland is a limited liability company under the laws of the State of Washington, and taxable as a partnership. MDC is the general partner with a .01% equity interest.

Parkland obtained an equity investment of $1.997 million dollars from National Equity Fund, $1.050 million in financing from US Bank, $2.550 million in subsidized financing from government agencies and $1.033 million in sponsor loans from MDC. The resources for the sponsor loans were from Pierce County and a private foundation. Construction was completed and placed in service in January 2007.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Metropolitan Development Council

Basis of Presentation and Principles of Consolidation
MDC financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and include the entities identified in Note 1. All material intercompany accounts and transactions have been eliminated in consolidation. The accounts of various contracts are also maintained on the Budgeting, Accounting and Reporting System ("BARS") as prescribed by Pierce County and the State of Washington. All activity is accounted for on the accrual basis of accounting.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenues
Grants and contracts are recorded as revenue as the revenue is earned. In-kind contributions (donations to MDC of materials or services) are recorded as revenue at their estimated fair value when received. A donation bad debt reserve has been established for donations owed to MDC which may not be paid. The bad debt reserve was $3,003 for both years ended December 31, 2016 and 2015. Rents are recorded for un-subsidized rents as paid.

Central Administration Costs
MDC records costs of central administration, planning, personnel and accounting not attributable to specific grants or programs in an administrative cost pool. These costs are allocated directly to grants and contracts by means of an indirect cost rate negotiated with the U.S. Department of Education and other small contracts which are charged at negotiated or flat rates.

Cash
For the purpose of the statements of cash flows, MDC considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. MDC maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. Accounts at the bank are insured by the Federal Deposit Insurance Corporation ("FDIC") with the basic coverage up to $250,000. The cash balances at December 31, 2016 exceeded the insured amount by a total of $2,183,417.

Equipment
Equipment is recorded at cost for purchased equipment and for donated equipment, at the estimated fair value at the date of receipt. Depreciation of equipment purchased with grant funds is not a generally accepted accounting policy for grant accounting, as equipment purchases are reported as grant expenditures in the year of acquisition, and the grantor retains a reversionary interest in equipment purchases over certain dollar amounts. Equipment with a unit cost of $5,000 or more is capitalized.

Equipment purchased by MDC without the use of grant funds is depreciated over estimated useful lives using the straight-line method. Depreciation expense for the years ended December 31, 2016 and 2015 was $24,908 and $15,918, respectively.

Land and Buildings
Land and buildings are recorded at cost. MDC Housing and MDC Buildings are depreciated over their estimated useful lives (generally 40 years) using the straight-line method from the date the properties are placed in service. Depreciation expense for the buildings for the years ended December 31, 2016 and 2015 was $447,763 and $460,242, respectively, and excludes Fawcett and Parkland.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

***Land and Buildings** (Continued)*

MDC reviews its investment in real estate for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the real estate to the future net undiscounted cash flow expected to be generated by the rental property, including the low income housing tax credits and any estimated proceeds from the eventual disposition of the real estate. If the real property is considered impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the real estate exceeds the fair value of such property. There were no impairment losses recognized at December 31, 2016.

New Accounting Pronouncement

On April 7, 2015, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") 2015-03, which changed the accounting and reporting of debt issuance costs. The new standard requires debt issuance costs to be capitalized and reported as a deduction from the carrying amount of the associated debt. Debt issuance costs are charged to interest expense over the term of the debt. The ASU was effective for periods beginning after December 15, 2015 and requires retrospective application. As such, capitalized debt issuance costs previously reported as an asset, in the amount of $10,775 in the 2015 financial statements have been reclassified, resulting in a decrease in total assets and total liabilities. The result of implementing the ASU has no effect on 2015 net assets as previously reported.

Debt Issuance Costs

Debt issuance costs are amortized over the term of the mortgage loan using the straight-line method. Interest expense for MDC Housing for the years ended December 31, 2016 and 2015 was $767.

Inventory

Inventory of weatherization materials is recorded at cost (which approximates market) on the first-in first-out basis.

Federal Income Taxes

MDC has been granted exemption from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code. The federal information returns for the years ended December 31, 2015, 2014 and 2013 remain subject to potential examination.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Unrestricted Net Assets

Unrestricted net assets are those assets and resources over which MDC has discretion for the use in carrying out its programs. All net assets are considered unrestricted unless specifically restricted by donor. There were no restricted assets for the years ended December 31, 2016 and 2015.

Rental Income

Rental income is recognized for apartment rentals as it accrues. Unsubsidized rental income is recognized when paid. MDC contracts provide that tenants cannot be evicted for failure to pay unsubsidized rents in units with subsidized rents. Advance receipts of rental income are deferred and classified as a liability until earned.

Fawcett Street Limited Partnership

The Fawcett financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and are presented on the accrual basis.

Cash

For the purpose of the statements of cash flows, Fawcett considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. Fawcett maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. Fawcett has not experienced any losses in such accounts. Fawcett believes it is not exposed to any significant credit risk on cash and cash equivalents.

Land, Building and Equipment

Land, building and equipment are recorded at cost. Improvements are capitalized and expenditures for maintenance and repairs are expensed as incurred. Depreciation expense for the years ended December 31, 2016 and 2015 was $150,804 calculated using straight-line method over lives ranging from 7 to 27.5 years.

Fawcett reviews its investment in real estate for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the real estate to the future net undiscounted cash flow expected to be generated by the rental property, including the low income housing tax credits and any estimated proceeds from the eventual disposition of the real estate. If the real property is considered impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the real estate exceeds the fair value of such property. There were no impairment losses recognized for the years ended December 31, 2016 and 2015.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Accounting Pronouncement
On April 7, 2015, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") 2015-03, which changed the accounting and reporting of debt issuance costs. The new standard requires debt issuance costs to be capitalized and reported as a deduction from the carrying amount of the associated debt. Debt issuance costs are charged to interest expense over the term of the debt. The ASU was effective for periods beginning after December 15, 2015 and requires retrospective application. As such, capitalized debt issuance costs previously reported as an asset, in the amount of $18,442 in the 2015 financial statements have been reclassified, resulting in a decrease in total assets and total liabilities. The result of implementing the ASU has no effect on 2015 net assets as previously reported.

Debt Issuance Costs
Debt issuance costs are amortized over the term of the loan using the straight-line method. Interest expense for the years ended December 31, 2016 and 2015 was $1,152.

Amortization
Mortgage costs are amortized over the term of the mortgage loan using the straight-line method. Amortization expense for the years ended December 31, 2016 and 2015 was $1,210.

Federal Income Taxes
No provision or benefit for federal income taxes has been included in the financial statements since taxable income passes through to, and is reportable by, the partners individually. Fawcett's returns for the years ended December 31, 2015, 2014 and 2013 remain subject to potential examination.

Rental Income
Rental income is recognized for apartment rentals as it accrues. Advance receipts of rental income are deferred and classified as a liability until earned.

Use of Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Parkland Family Vista LLC

Basis of Presentation
The Parkland financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and are presented on the accrual basis.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash
For the purpose of the statements of cash flows, Parkland considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. Parkland maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. Parkland has not experienced any losses in such accounts. Parkland believes it is not exposed to any significant credit risk on cash and cash equivalents.

Land, Building and Equipment
Land, building, improvements and equipment are recorded at cost. Improvements are capitalized and expenditures for maintenance and repairs are expensed as incurred. Depreciation expense for the years ended December 31, 2016 and 2015 was $168,860 and $168,858, respectively, calculated using the straight-line method over 15 to 40 years.

Parkland reviews its investment in real estate for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the real estate to the future net undiscounted cash flow expected to be generated by the rental property including the low income housing tax credits and any estimated proceeds from the eventual disposition of the real estate. If the real property is considered impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the real estate exceeds the fair value of such property. There were no impairment losses recognized for the years ended December 31, 2016 and 2015.

Grant Revenue
The General Partner awarded a pass-through grant to the Partnership to fund the supporting services at the project. Grant revenue for the years ended December 31, 2016 and 2015 was $56,900 and $70,900, respectively.

New Accounting Pronouncement
On April 7, 2015, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") 2015-03, which changed the accounting and reporting of debt issuance costs. The new standard requires debt issuance costs to be capitalized and reported as a deduction from the carrying amount of the associated debt. Debt issuance costs are charged to interest expense over the term of the debt. The ASU was effective for periods beginning after December 15, 2015 and requires retrospective application. As such, capitalized debt issuance costs previously reported as an asset, in the amount of $89,512 in the 2015 financial statements have been reclassified, resulting in a decrease in total assets and total liabilities. The result of implementing the ASU has no effect on 2015 net assets as previously reported.

Debt Issuance Costs
Debt issuance costs are amortized over the term of the mortgage loan using the straight-line method. Interest expense for the years ended December 31, 2016 and 2015 was $3,502.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Federal Income Taxes
No provision or benefit for federal income taxes has been included in the financial statements since taxable income passes through to, and is reportable by, the partners individually. Parkland's returns for the years ended December 31, 2015, 2014 and 2013 remain subject to potential examination.

Use of Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events
MDC evaluated for subsequent events through April 20, 2017, the date the statements were available to be issued.

NOTE 3 - CONTINGENCIES AND COMMITMENTS

Administrative costs for management of most grants and contracts were charged using a negotiated provisional indirect cost rate established by the U.S. Department of Health and Human Services. This rate is subject to re-negotiation and finalization by the U.S. Department of Health and Human Services. The established provisional rate was 16.0% for the years ended December 31, 2016 and 2015.

NOTE 4 - PENSION PLAN

Metropolitan Development Council provides a 403(b) retirement plan. The retirement plan provides coverage for all employees with no minimum age or service requirements and immediate vesting of employer contributions. MDC contributes 4% of employees' gross wages and matches 100% of any additional employee contributions up to the next 4% of employees' gross wages. Detailed plan provisions are available in the plan trust agreement. Pension plan contributions for the years ended December 31, 2016 and 2015 were $735,350 and $621,635, respectively.

NOTE 5 - RENT AGREEMENTS

MDC rents various properties on a month-to-month basis. Rent expense for the years ended December 31, 2016 and 2015 was $659,343 and $565,675, respectively, for non-MDC owned properties.

Rental income from owned properties totaled $1,125,233 and $1,009,511 for the years ended December 31, 2016 and 2015, respectively.

NOTE 6 - MORTGAGES AND LOANS PAYABLE, LOW INCOME HOUSING

Project loans payable are all secured by deeds of trust on the subject properties, assignment of rents, security agreements and personal property of MDC's located on the premises. MDC is required to comply with certain financial covenants as a condition to certain credit facilities. MDC was in compliance as of the date of the statements. In addition, they all contain covenants requiring the properties be rented to low income persons as determined by the United States Department of Housing and Urban Development for the terms of the loans.

	2016	2015
Washington State Department of Commerce, 50 year loan with interest at 1% payable at $3,428 per year with a balloon payment of $230,409 due December 2046.	$ 314,392	$ 316,944
Tacoma Community Redevelopment Authority, ("TCRA") 30 year no interest loan payable, forgivable if terms and conditions of the loan agreement are met, due in 2024.	143,000	143,000
Pierce County CDC, 20 year no interest loan payable at $400 per month, with a balloon payment due August 2016.	6,400	11,200
Washington State Department of Commerce, 50 year loan with interest at 1.0% payable at $765 each June 12th for 50 years, due December 2044.	18,621	19,194
Washington State Department of Commerce, 50 year no interest loan payable at $3,151 per year, due January 2046.	94,514	97,665
Pierce County CDC, 20 year no interest loan payable at $4,100 per year, due September 2016.		4,100

NOTE 6 - MORTGAGES AND LOANS PAYABLE, LOW INCOME HOUSING
(Continued)

	2016	2015
Washington State Department of Commerce, 50 year no interest loan payable at $1,600 per year commencing in 2002, due January 2048.	$ 51,200	$ 52,800
Pierce County CDC, no interest loan payable at $6,601 per year, due June 2018.	26,404	33,005
Pierce County CDC, 30 year no interest loan payable at $3,865 per year, due August 2029.	50,245	54,110
Washington State Department of Commerce, 50 year no interest loan payable at $2,776 per year, due in 2048.	87,807	90,583
Pierce County CDC, no interest loan payable at $5,000 per year, due December 2031.	70,000	75,000
Pierce County CDC, 20 year no interest loan payable in annual payments of $8,307, due in August 2024.	58,145	66,452
Pierce County CDC, no interest loan payable at $3,491 per year, due September 2017.	73,308	76,799
First Citizens Bank, interest at 8.0% with 120 payments of $2,527 per month, due February 2019.	59,370	83,776
Washington State Department of Commerce, 50 year no interest loan payable at $2,800 per year, due in 2051.	98,000	100,800
Washington State Department of Commerce, 50 year no interest loan, convertible to a grant in 2051.	125,000	125,000
Pierce County CDC, 30 year no interest loan payable at $667 per year, due June 2031.	9,985	10,652
Pierce County CDC, 30 year no interest loan payable at $667 per year, due June 2031.	9,985	10,652
Pierce County CDC, 30 year no interest loan payable at $4,632 per year, due September 2031.	78,738	83,370

NOTE 6 - MORTGAGES AND LOANS PAYABLE, LOW INCOME HOUSING
(Continued)

	2016	2015
Pierce County CDC, 40 year no interest loan payable at $3,333 per year, due July 2042.	$ 86,660	$ 89,993
Pierce County CDC, 40 year no interest loan payable at $3,680 per year, due July 2042.	95,693	99,373
Pierce County CDC, 40 year no interest loan payable at $2,562 per year, due July 2042.	66,451	69,013
Pierce County CDC, 40 year no interest loan payable at $3,949 per year, due July 2042.	102,632	106,581
HTF Home program, 40 year loan with interest at 1%, payable at $3,944 per quarter, due September 2043.	372,871	384,873
HTF Home Program, 40 year loan with interest at 1%, payable at $3,647 per quarter, due September 2043.	344,674	355,773
Note payable with interest at 6.50%, payable at $630 per month, due September 2020, secured by a van.	18,612	24,662
Tacoma Redevelopment Authority, interest at ½% per annum, payable at $2,358 per month, due November 2032.	432,640	458,697
Washington State Department of Commerce, 10 year no interest loan, convertible to a grant in 2024.	1,320,000	1,320,000
	4,215,347	4,364,067

METROPOLITAN DEVELOPMENT COUNCIL AND RELATED ENTITIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE 6 - MORTGAGES AND LOANS PAYABLE, LOW INCOME HOUSING (Continued)

MDC Housing

The debt related to MDC Housing as of December 31, 2016 and 2015.

	2016	2015
The first deed of trust is held by the Washington State Department of Commerce in the original amount of $1,175,000. The note bears interest at 1.5% per annum, commencing on February 1, 1996. Annual principal and interest are payable on February 1st per an amortization schedule included in the note, and was $15,750 in 2010. The loan is collateralized by the subject property and is subject to performance under Housing Assistance Contract Number 5-94-491-11B.	$ 1,162,065	$ 1,175,000
Accrued interest in excess of loan repayment requirements		6,440
Second deeds of trust are as follows:		
The second deed of trust held by TCRA in the original amount of $13,000. The note bears interest at 1% per annum. Interest is payable annually; principal is due in 2017.	13,000	13,000
Pierce County Community Connections, 30 year no interest loan forgivable if terms and conditions are met through June 2043.	703,500	703,500
Pierce County Community Connections, $287,268, 20 year no interest HUD financing, forgivable if terms and conditions are met, due in June 2033.	287,268	287,268
Pierce County Community Connections $1,581,925, 30 year no interest loan, secured by a deed of trust, forgivable if terms and conditions are met through June 2043.	1,581,925	1,581,925

NOTE 6 - MORTGAGES AND LOANS PAYABLE, LOW INCOME HOUSING
(Continued)

	2016	2015
Washington State Department of Commerce Housing Trust, $1,733,000 40 year no interest mortgage secured by a deed of trust, forgivable if terms and conditions are met through June 2053.	$ 1,733,000	$ 1,733,000
Pierce County Community Connections, $341,025, 29 year no interest loan, secured by a deed of trust, forgivable if terms and conditions are met through June 2043.	341,025	341,025
	5,821,783	5,841,158
Less unamortized debt issuance costs	10,008	10,775
Mortgages and loans payable, net of unamortized debt issuance costs	5,811,775	5,830,383

Fawcett Street Limited Partnership

A second deed of trust is held by The Washington State Department of Commerce in the amount of $1,122,500. The deed of trust is collateralized by the subject property, and subject to performance under Housing Assistance Contract Number 96-493-204. When permanent financing was obtained from WCRA, this loan was restructured into two tiers as follows:

	2016	2015
Tier one - initial principal amount of $305,518, payable annually at $11,792 including interest at 1% per annum, due in 2026.	$ 122,784	$ 133,291
Tier two - initial principal amount of $816,982, with interest deferred for thirty years, then payable in annual payments of $45,987 including interest at 1% commencing in 2027, due in 2046.	816,482	816,482
Interest accrued on tier two portion of the loan during the deferral period accumulates to a new principal balance at the end of the deferral period of $901,741.	56,839	53,997
	996,105	1,003,770

NOTE 6 - MORTGAGES AND LOANS PAYABLE, LOW INCOME HOUSING (Continued)

	2016	2015
The Partnership received a multifamily note from the Washington State Community Reinvestment Association ("WSCRA") in the amount of up to $940,200, collateralized by a first deed of trust on the subject property. Proceeds of the loan were used to retire the interim construction loan. Terms of the loan require monthly payments of $6,981 including interest at 8.125%. This loan closed on September 30, 1997, and is due in 2027. This note was sold to a mutual savings bank in 1999.	$ 605,100	$ 638,213
	1,601,205	1,641,983
Less unamortized debt issuance costs	17,290	18,442
Mortgages and loans payable, net of unamortized debt issuance costs	1,583,915	1,623,541
Parkland Family Vista LLC		
Promissory note, Tacoma Housing Authority for $1,050,000 in care of US Bank. Interest is at 5.2%. This is the permanent portion of long-term bond financing. Principal and interest payments are due in monthly installments that are necessary to amortize the outstanding principal balance as of June 30, 2007 and interest thereon, with final payment due June 2037. Monthly required payments are $5,815.	874,035	896,951
A second deed of trust is held by Washington State Department of Commerce, in the original amount of $1,500,000. The note is without interest, due in November 2046 and requires quarterly payments of $9,615. The Partnership has requested deferral of the payment since 2012.	1,346,153	1,346,153
Pierce County Community Redevelopment Authority in the original amount of $1,050,000. The note is without interest, due in 2046 and payable at $26,250 annually. The 2016 and 2015 payments were deferred by the lender.	945,000	945,000
	3,165,188	3,188,104

NOTE 6 - MORTGAGES AND LOANS PAYABLE, LOW INCOME HOUSING
(Continued)

	2016	2015
Less unamortized debt issuance costs	$ 86,010	$ 89,512
Mortgages and loans payable, net of unamortized debt issuance costs	3,079,178	3,098,592
Total Mortgages and Loans Payable, Low Income Housing	$ 14,690,215	$ 14,916,583

The loan agreement with the Tacoma Housing Authority in care of US Bank contains a covenant to maintain a debt service coverage ratio of 1.15 to 1.0 or more, measured annually. In 2010 the Partnership was not in compliance with this requirement resulting in a default and entered into a forbearance agreement with the bank, which has now expired. The identified default was waived upon certain conditions, one of them being the Partnership agreeing to establish a $100,000 debt service reserve with the bank, which was established during 2014.

MDC has the following obligations which have been recognized in prior years as unrestricted revenue as MDC expects to continue to maintain the underlying properties in accordance with the related agreements:

A no-interest obligation with Pierce County in the amounts $633,831 and $400,000 and maturity date of March 2036 which is forgivable in 2060 as long as the buildings are kept and maintained per the conditions of the obligation.

A no-interest obligation, supportive housing program SHB loan with TCRA in amount $297,119 and maturity date of September 2035, forgivable as long as the building is kept and maintained per the conditions of the loan.

A no-interest obligation, forgivable SHB loan with TCRA in amount $82,587 and maturity date April 2046, forgivable as long as the funds are used per the conditions of the loan.

A no-interest obligation, forgivable SHB loan with TCRA in amount $92,976 and maturity date April 2047, forgivable as long as the funds are used per the conditions of the loan.

A no-interest obligation 50 year, recoverable grant with Washington State Department of Commerce for $4,800 and maturity date January 2048, is forgivable as long as the building is kept and maintained per the conditions of the grant.

A no-interest obligation of 25 years, forgivable SHB loan with TCRA in amount $149,050 and maturity date March 2035 forgivable as long as the funds are used per the condition of the loan.

NOTE 7 - MORTGAGES PAYABLE

In December of 1994, MDC purchased the building it had been leasing at 721 South Fawcett and extensively remodeled it during 1995 and 1996.

MDC further developed this property by the addition of approximately 6,000 square feet of space for agency administration and services staff and by the addition of 15 units of low income housing apartments. The approximate cost of this development was $5,277,555. Commercial bank financing was obtained in December of 2004 in the amount of $2,800,000, including the refinancing of previous mortgages. Additional financing was obtained from low interest government loans and a HUD grant. Costs incurred through December 31, 2005 were $2,690,814 and undisbursed loan and grant funds in the amount of $1,496,391 were held in escrow. Major construction started in May of 2005, and was substantially completed in April of 2006. Financing is as follows:

	2016	2015
Payable to Heritage Bank, interest at 4.50%, monthly payments of $11,814 through February 2020, then interest rate adjusts to 4.875% with monthly payments of $12,200 through February 2025.	$ 2,024,662	$ 2,072,618
No interest loans payable to the following government agencies, completely forgivable if terms and conditions of agreement are satisfied:		
DCTED, forgivable on May 30, 2046	1,300,815	1,300,815
TCRA, HOME Funds, forgivable on March 15, 2035	284,983	284,983
TCRA, SPG Funds, forgivable on March 15, 2035	343,477	343,477
Pierce County, SHB 2060 Funds, forgivable on April 27, 2046	200,000	200,000
Payable to Heritage Bank, interest at 4.50%, 60 payments of $2,064 per month commencing on August 5, 2014. In August, 2019, interest rate will adjust to 5.125% with monthly payments of $2,152 for 59 months.	298,514	309,346
Total Mortgages Payable	$ 4,452,451	$ 4,511,239

NOTE 7 - MORTGAGES PAYABLE (Continued)

At December 31, 2016, maturities on mortgages and loans payable, low income housing, and mortgages for each year through the dates are as follows:

2017	$ 303,636
2018	310,782
2019	293,073
2020	295,779
2121	300,205
Thereafter	17,639,191
	$ 19,142,666

NOTE 8 - RESERVES

MDC is required to maintain a maintenance reserve and has established an operating reserve. According to the Partnership Agreements, the Partnerships are required to maintain escrow deposits and reserve. The reserves at December 31 consist of the following:

	2016	2015
MDC		
Maintenance reserve	$ 18,266	$ 18,248
Operating reserve	500,780	500,204
	519,046	518,452
Fawcett Street Limited Partnership		
A replacement reserve in an amount equal to $1,000 per month from gross rent collections, commencing in the month following completion of the Project funded annually.	120,000	120,000
A contingency reserve	40,454	40,454
The Partnership obtained a ten year waiver of real estate tax on the value of the building construction. This agreement, dated in March 1996 is effective for real estate taxes assessed through 2005. In accordance with the Partnership Agreement, a reserve for future real estate taxes was established.	50,000	50,000
Earnings on funded reserve accounts	197	135
	210,651	210,589

NOTE 8 - RESERVES (Continued)

Parkland Family Vista LLC

Funded operating debt and replacement reserves	$ 399,192	$ 378,908
Total Reserves, all Entities	$ 1,128,889	$ 1,107,949

NOTE 9 - LAND, BUILDINGS AND EQUIPMENT

Land, buildings and equipment consist of the following at December 31:

	2016	2015
Land	$ 3,019,191	$ 3,019,191
Buildings	29,875,639	29,869,750
Less accumulated depreciation	(9,542,254)	(8,800,140)
	20,333,385	21,069,610
Equipment	655,344	635,598
Less accumulated depreciation	(518,650)	(484,264)
	136,694	151,334
	$ 23,489,270	$ 24,240,135

NOTE 10 - CAPITALIZED COSTS

Syndication costs of the Partnerships are capitalized but not amortized. Tax credit fees are capitalized and are being amortized as follows:

	2016	2015
Fawcett Street Limited Partnership		
Tax credit fees	$ 33,281	$ 33,281
Syndication fees (non-amortizable)	6,500	6,500
	39,781	39,781
Accumulated amortization	(24,363)	(23,153)
	15,418	16,628
Parkland Family Vista LLC		
Syndication fees (non-amortizable)	20,000	20,000
Total Capitalized Costs - Net of Amortization	$ 35,418	$ 36,628

NOTE 11 - LEASES

MDC entered into a five year, noncancelable building lease for its administrative offices which expires in July 2019. The lease includes two five-year renewal options. The monthly rent is subject to annual increases and was $10,842 at December 31, 2016.

Future minimum lease payments for the years ended December 31 are:

2017	$ 131,735
2018	135,687
2019	80,519
	$ 347,941

MDC also leases equipment under operating leases expiring in 2016.

SUPPLEMENTARY INFORMATION

METROPOLITAN DEVELOPMENT COUNCIL AND RELATED ENTITIES

SCHEDULES OF FINANCIAL POSITION

December 31, 2016

	MDC	MDC Housing	Fawcett	Parkland	Totals	Eliminations	Consolidated
ASSETS							
Cash	$ 2,659,058	$ 433,126	$ 280,935	$ 109,439	$ 3,482,558		$ 3,482,558
Grants and contracts receivable	1,918,699	30,600	4,525	4,440	1,958,264		1,958,264
Deposits, advances and prepaid expenses	65,831			12,045	77,876		77,876
Inventory	8,651				8,651		8,651
Receivable, Partnerships	1,986,081				1,986,081	$ (1,986,081)	
Investment, Parkland Street Limited Partnership	1,033,831				1,033,831	(1,033,831)	
Reserves	519,046		210,651	399,192	1,128,889		1,128,889
Land	1,685,637	683,000	390,654	259,900	3,019,191		3,019,191
Buildings, net of accumulated depreciation	9,372,634	5,228,337	1,112,320	4,620,094	20,333,385		20,333,385
Capitalized costs, net of accumulated amortization			15,418	20,000	35,418		35,418
Equipment, net of accumulated depreciation	62,650			74,044	136,694		136,694
TOTAL ASSETS	$ 19,312,118	$ 6,375,063	$ 2,014,503	$ 5,499,154	$ 33,200,838	$ (3,019,912)	$ 30,180,926
LIABILITIES AND NET ASSETS							
LIABILITIES							
Accounts payable	$ 776,887	$ 15,769	$ 9,428	$ 10,293	$ 812,377		$ 812,377
Due MDC		822,954	220,734	942,393	1,986,081	$ (1,986,081)	
Accrued payroll and taxes	510,838				510,838		510,838
Funding source advance	534,232				534,232		534,232
Rental deposits	30,301	6,918	17,035	12,675	66,929		66,929
Accrued annual leave	245,331				245,331		245,331
Mortgages payable	4,452,451				4,452,451		4,452,451
Mortgages and loans payable, low income housing	4,215,347	5,811,775	1,583,915	3,079,178	14,690,215		14,690,215
Loan, MDC				1,033,831	1,033,831	(1,033,831)	
Total Liabilities	10,765,387	6,657,416	1,831,112	5,078,370	24,332,285	(3,019,912)	21,312,373
NET ASSETS							
Unrestricted							
Asset building	147,251				147,251		147,251
Housing	5,088,812	(282,353)	183,391	420,784	5,410,634		5,410,634
Healthcare	3,072,421				3,072,421		3,072,421
Development	238,247				238,247		238,247
Total Unrestricted Net Assets	8,546,731	(282,353)	183,391	420,784	8,868,553		8,868,553
TOTAL LIABILITIES AND NET ASSETS	$ 19,312,118	$ 6,375,063	$ 2,014,503	$ 5,499,154	$ 33,200,838	$ (3,019,912)	$ 30,180,926

METROPOLITAN DEVELOPMENT COUNCIL AND RELATED ENTITIES

SCHEDULES OF FINANCIAL POSITION (Continued)

December 31, 2015

	MDC	MDC Housing	Fawcett	Parkland	Totals	Eliminations	Consolidated
ASSETS							
Cash	$ 1,415,350	$ 154,192	$ 195,427	$ 113,992	$ 1,878,961		$ 1,878,961
Grants and contracts receivable	2,766,028	24,492	7,777	7,165	2,805,462		2,805,462
Deposits, advances and prepaid expenses	77,878	7,878		31,224	116,980		116,980
Inventory	9,278				9,278		9,278
Receivable, Partnerships	1,575,288				1,575,288	$ (1,575,288)	
Investment, Parkland Street Limited Partnership	1,033,831				1,033,831	(1,033,831)	
Reserves	518,452		210,589	378,908	1,107,949		1,107,949
Land	1,685,637	683,000	390,654	259,900	3,019,191		3,019,191
Buildings, net of accumulated depreciation	9,679,266	5,353,116	1,263,124	4,774,104	21,069,610		21,069,610
Capitalized costs, net of accumulated amortization			16,628	20,000	36,628		36,628
Equipment, net of accumulated depreciation	62,440			88,894	151,334		151,334
TOTAL ASSETS	$ 18,823,448	$ 6,222,678	$ 2,084,199	$ 5,674,187	$ 32,804,512	$ (2,609,119)	$ 30,195,393
LIABILITIES AND NET ASSETS							
LIABILITIES							
Accounts payable	$ 737,881	$ 69,141	$ 24,713	$ 23,432	$ 855,167		$ 855,167
Due MDC		542,129	110,450	922,709	1,575,288	$ (1,575,288)	
Accrued payroll and taxes	553,032				553,032		553,032
Funding source advance	598,855				598,855		598,855
Rental deposits	26,813	4,943	17,298	11,763	60,817		60,817
Accrued annual leave	253,142				253,142		253,142
Mortgages payable	4,511,239				4,511,239		4,511,239
Mortgages and loans payable, low income housing	4,364,067	5,830,383	1,623,541	3,098,592	14,916,583		14,916,583
Loan, MDC				1,033,831	1,033,831	(1,033,831)	
Total Liabilities	11,045,029	6,446,596	1,776,002	5,090,327	24,357,954	(2,609,119)	21,748,835
NET ASSETS							
Unrestricted							
Asset building	43,372				43,372		43,372
Housing	4,864,687	(223,918)	308,197	583,860	5,532,826		5,532,826
Healthcare	2,861,612				2,861,612		2,861,612
Development	8,748				8,748		8,748
Total Unrestricted Net Assets	7,778,419	(223,918)	308,197	583,860	8,446,558		8,446,558
TOTAL LIABILITIES AND NET ASSETS	$ 18,823,448	$ 6,222,678	$ 2,084,199	$ 5,674,187	$ 32,804,512	$ (2,609,119)	$ 30,195,393

METROPOLITAN DEVELOPMENT COUNCIL AND RELATED ENTITIES

SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN NET ASSETS

Year Ended December 31, 2016

	MDC	MDC Housing	Fawcett	Parkland	Total	Administration	Eliminations	Consolidated
REVENUE								
Grants and contracts	$ 20,780,514	$ 188,345		$ 56,900	$ 21,025,759	$ 9,771	$ (56,900)	$ 20,978,630
Donations	133,659				133,659			133,659
Foundation grants	120,875				120,875			120,875
Service fee and match	593,680				593,680			593,680
Rent income	879,299	399,934	$ 386,293	317,148	1,982,674			1,982,674
Receipts from clients			5,265		5,265			5,265
Interest income	42,397		62	127	42,586	1,061	(42,397)	1,250
In-kind contributions	895,530				895,530			895,530
Other income	33,266	5,960	5,340	3,049	47,615		(28,476)	19,139
Total Revenue	23,479,220	594,239	396,960	377,224	24,847,643	10,832	(127,773)	24,730,702
EXPENDITURES								
Personnel	8,691,457	300,192	59,472	46,619	9,097,740	1,628,438		10,726,178
Travel and transportation	243,889	2,138	242	884	247,153	12,324		259,477
Facility costs	899,390	159,267	141,352	117,637	1,317,646	121,825		1,439,471
Interest	113,727	23,592	55,880	92,769	285,968	6,377	(42,397)	249,948
Depreciation and amortization	331,944	140,727	152,014	168,860	793,545			793,545
Supplies	813,611	8,098	22,733	6,702	851,144	84,507		935,651
Materials and direct payments	7,446,700				7,446,700			7,446,700
Tools and equipment	20,637				20,637	3,578		24,215
Other direct costs	1,052,243	72,722	90,073	106,829	1,321,867	206,305	(85,376)	1,442,796
In-kind	895,030				895,030	500		895,530
Indirect and direct administrative	2,202,280	(54,062)			2,148,218	(2,053,022)		95,196
Total Expenditures	22,710,908	652,674	521,766	540,300	24,425,648	10,832	(127,773)	24,308,707
Change in Net Assets	768,312	(58,435)	(124,806)	(163,076)	421,995			421,995
Net Assets at Beginning of Year	7,778,419	(223,918)	308,197	583,860	8,446,558			8,446,558
NET ASSETS AT END OF YEAR	$ 8,546,731	$ (282,353)	$ 183,391	$ 420,784	$ 8,868,553	$	$	$ 8,868,553

METROPOLITAN DEVELOPMENT COUNCIL AND RELATED ENTITIES

SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN NET ASSETS (Continued)

Year Ended December 31, 2015

	MDC	MDC Housing	Fawcett	Parkland	Total	Administration	Eliminations	Consolidated
REVENUE								
Grants and contracts	$ 18,046,809	$ 115,581		$ 70,900	$ 18,233,290			$ 18,233,290
Donations	114,563				114,563			114,563
Foundation grants	162,250				162,250			162,250
Service fee and match	2,343,782				2,343,782			2,343,782
Rent income	840,939	308,446	$ 392,527	301,868	1,843,780			1,843,780
Receipts from clients	3,505	747	4,297		8,549			8,549
Interest income	42,531		110	100	42,741	$ 545	$ (42,397)	889
In-kind contributions	830,078				830,078			830,078
Other income	34,949	(12,118)	7,974	3,342	34,147		(27,487)	6,660
Total Revenue	22,419,406	412,656	404,908	376,210	23,613,180	545	(69,884)	23,543,841
EXPENDITURES								
Personnel	9,108,739	296,770	71,468	34,017	9,510,994	1,468,584		10,979,578
Travel and transportation	164,253	1,192	1,121	746	167,312	8,860		176,172
Facility costs	823,776	150,564	172,964	104,522	1,251,826	110,730		1,362,556
Interest	123,469	18,522	58,470	93,816	294,277	5,705	(42,397)	257,585
Depreciation and amortization	335,433	140,727	152,014	168,858	797,032			797,032
Supplies	666,490	13,324	29,219	5,890	714,923	82,735		797,658
Materials and direct payments	6,280,270				6,280,270			6,280,270
Tools and equipment	24,609	417			25,026	3,590		28,616
Other direct costs	1,249,699	(23,522)	77,548	111,979	1,415,704	249,387	(27,487)	1,637,604
In-kind	828,828				828,828			828,828
Indirect and direct administrative	2,251,177	95,269			2,346,446	(1,929,046)		417,400
Total Expenditures	21,856,743	693,263	562,804	519,828	23,632,638	545	(69,884)	23,563,299
Change in Net Assets	562,663	(280,607)	(157,896)	(143,618)	(19,458)			(19,458)
Net Assets at Beginning of Year	7,215,756	56,689	466,093	727,478	8,466,016			8,466,016
NET ASSETS AT END OF YEAR	$ 7,778,419	$ (223,918)	$ 308,197	$ 583,860	$ 8,446,558	$	$	$ 8,446,558

METROPOLITAN DEVELOPMENT COUNCIL AND RELATED ENTITIES

SCHEDULES OF CASH FLOWS

Year Ended December 31, 2016

	MDC	MDC Housing	Fawcett	Parkland	Consolidated
CASH FLOWS FROM OPERATING ACTIVITIES					
Change in net assets	$ 768,312	$ (58,435)	$ (124,806)	$ (163,076)	$ 421,995
Adjustments to reconcile change in net assets to net cash provided by operating activities					
Depreciation	331,944	140,727	150,804	168,860	792,335
Debt issuance costs		767	1,152	3,502	5,421
Amortization			1,210		1,210
Change in operating assets and liabilities					
(Increase) decrease in grants and contracts receivable	841,553	(16,167)	3,252	2,725	831,363
Decrease in deposits, advances, prepaid expenses and inventory	12,674	7,878		19,179	39,731
Increase in reserves	(594)		(62)	(20,284)	(20,940)
(Increase) decrease in receivables from Partnerships	(410,793)	280,825	110,284	19,684	
Increase (decrease) in accounts payable	39,006	(53,372)	(15,285)	(13,139)	(42,790)
Increase (decrease) in payroll, taxes and accrued annual leave payable	(50,005)		2,842		(47,163)
Decrease in funding source advance	(64,623)				(64,623)
Increase (decrease) in rental deposits	3,488	1,975	(263)	912	6,112
Net Cash Provided by Operating Activities	1,470,962	304,198	129,128	18,363	1,922,651
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of fixed assets	(19,746)	(5,889)			(25,635)
CASH FLOWS FROM FINANCING ACTIVITIES					
Payments of principal on mortgages and loans	(207,508)	(19,375)	(43,620)	(22,916)	(293,419)
Net Cash Used by Financing Activities	(207,508)	(19,375)	(43,620)	(22,916)	(293,419)
NET INCREASE (DECREASE) IN CASH	1,243,708	278,934	85,508	(4,553)	1,603,597
Cash at Beginning of Year	1,415,350	154,192	195,427	113,992	1,878,961
CASH AT END OF YEAR	$ 2,659,058	$ 433,126	$ 280,935	$ 109,439	$ 3,482,558
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION					
Cash paid during the year for interest	$ 121,575	$ 22,825	$ 51,886	$ 46,870	$ 243,156

METROPOLITAN DEVELOPMENT COUNCIL AND RELATED ENTITIES

SCHEDULES OF CASH FLOWS (Continued)

Year Ended December 31, 2015

	MDC	MDC Housing	Fawcett	Parkland	Consolidated
CASH FLOWS FROM OPERATING ACTIVITIES					
Change in net assets	$ 562,663	$ (280,607)	$ (157,896)	$ (143,618)	$ (19,458)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities					
Depreciation	335,433	140,727	150,804	168,858	795,822
Debt issuance costs		767	1,152	3,502	5,421
Amortization			1,210		1,210
Change in operating assets and liabilities					
(Increase) decrease in grants and contracts receivable	(669,960)	100,261	(3,473)	(4,736)	(577,908)
(Increase) decrease in deposits, advances, prepaid expenses and inventory	(47,008)	331,234		(30,598)	253,628
(Increase) decrease in reserves	(500,223)		40,996	(38,646)	(497,873)
(Increase) decrease in receivables from Partnerships	222,580	(309,880)	95,018	(7,718)	
Increase (decrease) in accounts payable	(237,604)	(16,196)	18,759	20,344	(214,697)
Increase (decrease) in payroll, taxes and accrued annual leave payable	(83,565)		2,842		(80,723)
Increase in funding source advance	517,893				517,893
Increase in rental deposits	1,429	17	2,403	1,797	5,646
Net Cash Provided (Used) by Operating Activities	101,638	(33,677)	151,815	(30,815)	188,961
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of fixed assets	(17,213)	(4,369)			(21,582)
CASH FLOWS FROM FINANCING ACTIVITIES					
Payments of principal on mortgages and loans	(193,594)	(19,375)	(30,556)	(21,869)	(265,394)
Net Cash Used by Financing Activities	(193,594)	(19,375)	(30,556)	(21,869)	(265,394)
NET INCREASE (DECREASE) IN CASH	(109,169)	(57,421)	121,259	(52,684)	(98,015)
Cash at Beginning of Year	1,524,519	211,613	74,168	166,676	1,976,976
CASH AT END OF YEAR	$ 1,415,350	$ 154,192	$ 195,427	$ 113,992	$ 1,878,961
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION					
Cash paid during the year for interest	$ 132,016	$ 17,755	$ 54,476	$ 47,917	$ 252,164

METROPOLITAN DEVELOPMENT COUNCIL AND RELATED ENTITIES

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended December 31, 2016

Agency	Program Title	Federal CFDA Grantor	Pass Through Entity Identifying Number	Passed Through to Subrecipients	Federal Expenditures
HHS	Health Center Program	93.224			$ 1,238,273
	Affordable Care Act Grant for Expanded Services for Health Centers	93.527			1,495
	Total Direct Awards - HHS				1,239,768
	LIHEAP	93.568	32606-070		1,986,627
	Community Services Block Grant	93.569	43101-418		374,650
	Childcare for the Homeless	93.575	32101-016, 32100-016		2,695
	Medical Assistance Program	93.778	14-1009, 16-1009		4,624,205
	Medical Assistance Program	93.778	2016-BHO-4.01 - MDC		2,147,848
	Substance Abuse	93.959	SC-101958		3,000
	Total Indirect Awards - HHS				9,139,025
	Total Health and Human Services				10,378,793
DOE	Education EOC (TRIO Cluster)	84.066A			892,242
	Upward Bound (TRIO Cluster)	84.047A			1,124,534
	Talent Search (TRIO Cluster)	84.044A			800,389
	Total Direct Awards - Department of Education				2,817,165
HUD	Community Development Block Grant	14.218	4600011929		199,275
	Emergency Solutions Grant Program	14.231	92533, 92664, 92645, 92532, 92501, 90845		88,211
	Continuum of Care Program	14.267	SC-103224, SC-103034, SC-103223, SC-103121, SC-102729, SC-103229		718,066
	Section 8 Housing Choice Vouchers	14.871	SC-104541		129,783
	Total Housing and Urban Development				1,135,335
Energy	Weatherization	81.042	43103-418		182,132
Agriculture	Child Care Food Program	10.558	27020201		2,587,085
	Pilot Projects to Reduce Dependency and Increase Work Requirements and Work Effort Under SNAP	10.596	1612-76166		9,978
	Total Department of Agriculture Food and Nutrition Services				2,597,063
VA	VA Homeless Provider	64.024			67,823
	Supportive Services for Veteran Families	64.033		$ 1,244,290	3,994,965
	Total Department of Veterans Affairs			1,244,290	4,062,788
	Total Federal Awards			$ 1,244,290	$ 21,173,276

METROPOLITAN DEVELOPMENT COUNCIL AND RELATED ENTITIES

NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended December 31, 2016

NOTE A - BASIS OF PRESENTATION

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

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

2) MDC has elected to not use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

REPORTS ON INTERNAL CONTROL AND COMPLIANCE

Johnson Stone & Pagano, P.S.
Certified Public Accountants

1501 Regents Blvd., Suite 100
Fircrest, WA 98466-6060

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*

Board of Directors
Metropolitan Development Council
Tacoma, Washington

We have audited, in accordance with the 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 consolidated financial statements of Metropolitan Development Council ("MDC"), which comprise the consolidated statement of financial position as of December 31, 2016, and the related consolidated statements of revenues, expenditures and changes in net assets and cash flows for the year then ended and the related notes to the consolidated financial statements, and have issued our report thereon dated April 20, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered MDC'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 consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of MDC's internal control. Accordingly, we do not express an opinion on the effectiveness of MDC'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 entity'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 or significant deficiencies may exist that were not identified.

Board of Directors
Metropolitan Development Council

Compliance and Other Matters

As part of obtaining reasonable assurance about whether MDC's consolidated 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 consolidated 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Johnson, Stone & Pagano, P.S.

JOHNSON, STONE & PAGANO, P.S.

April 20, 2017

JOHNSON STONE & PAGANO, P.S.
CERTIFIED PUBLIC ACCOUNTANTS
1501 Regents Blvd., Suite 100
Fircrest, WA 98466-6060

Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance

Board of Directors
Metropolitan Development Council
Tacoma, Washington

Report on Compliance for Each Major Federal Program

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

Management's Responsibility
Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility
Our responsibility is to express an opinion on compliance for each of MDC'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 MDC'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 MDC's compliance.

Board of Directors
Metropolitan Development Council

Opinion on Each Major Federal Program

In our opinion, MDC 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 MDC 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 MDC'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 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 MDC'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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that were not 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.

Johnson, Stone & Pagano, P.S.

JOHNSON, STONE & PAGANO, P.S.

April 20, 2017

METROPOLITAN DEVELOPMENT COUNCIL AND RELATED ENTITIES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended December 31, 2016

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weaknesses identified?	No
Significant deficiencies identified that are not considered material weaknesses?	None Reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over financial reporting:	
Material weaknesses identified?	No
Significant deficiencies identified that are not considered material weaknesses?	None Reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings reported in this Schedule that are required to be reported in accordance with 2CFR Section 200.516(a)?	No

Identification of major programs:

CFDA Number(s)	**Federal Program or Cluster**
14.267	Continuum of Care Program
93.224	Health Center Program
93.569	Community Services Block Grant
93.778	Medical Assistance Program

Dollar threshold used to distinguish between type A and type B programs:	$ 750,000
Auditee qualified as a low-risk auditee?	No

Section II - Financial Statement Findings

No matters were reported.

Section III - Federal Award Findings and Questioned Costs

No matters were reported.