METROPOLITAN DEVELOPMENT COUNCIL AND RELATED ENTITIES

Audited Financial Statements,
Supplemental Financial Information and
Reports on Internal Control and Compliance

December 31, 2012 and 2011

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Johnson Stone & Pagano, P.S.
Certified Public Accountants
1501 Regents Blvd., Suite 100
Fircrest, WA 98466-6060

Independent Auditor's Report

Board of Directors
Metropolitan Development Council
Tacoma, Washington

Report on the Financial Statements

We have audited the accompanying financial statements of Metropolitan Development Council, which comprise the statements of financial position as of December 31, 2012 and 2011, and the related 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 financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 Metropolitan Development Council as of December 31, 2012 and 2011, 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 financial statements as a whole. The accompanying supplemental financial information on pages 30 to 35 as of and for the years ended December 31, 2012 and 2011 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards for the year ended December 31, 2012 on pages 36 and 37 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit* Organizations, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 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 24, 2013 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 24, 2013

AUDITED FINANCIAL STATEMENTS

METROPOLITAN DEVELOPMENT COUNCIL AND RELATED ENTITIES

STATEMENTS OF FINANCIAL POSITION

December 31, 2012 and 2011

	2012	2011
ASSETS		
Cash	$ 1,223,572	$ 1,309,403
Grants and contracts receivable	1,605,585	1,949,733
Deposits, advances and prepaid expenses	383,525	77,113
Inventory	10,929	13,230
Property reserves	522,799	544,461
Land	2,774,791	2,469,978
Buildings, net of accumulated depreciation	16,511,134	17,157,621
Capitalized costs, net of accumulated amortization	175,252	191,928
Equipment, net of accumulated depreciation	162,999	162,999
TOTAL ASSETS	$ 23,370,586	$ 23,876,466
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	$ 528,348	$ 739,714
Accrued payroll and taxes	198,337	186,263
Funding source advance	213,977	442,247
Rental deposits	40,241	38,327
Accrued annual leave	186,013	233,058
Mortgages payable	4,717,146	4,811,212
Mortgages and loans payable, low income housing	9,871,727	9,854,497
Total Liabilities	15,755,789	16,305,318
NET ASSETS		
Unrestricted		
Asset building	170,527	200,244
Housing	6,021,396	5,912,633
Healthcare	1,280,164	1,458,271
Development	142,710	
Total Unrestricted Net Assets	7,614,797	7,571,148
TOTAL LIABILITIES AND NET ASSETS	$ 23,370,586	$ 23,876,466

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

METROPOLITAN DEVELOPMENT COUNCIL AND RELATED ENTITIES

STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN NET ASSETS

Year Ended December 31, 2012

	Asset Building	Housing	Healthcare	Total Programs	Development	Administration	Total
REVENUE							
Grants and contracts	$ 4,553,566	$ 5,124,381	$ 1,142,872	$ 10,820,819			$ 10,820,819
Donations	300	4,571	610	5,481	$ 34,834		40,315
Foundation grants	99,471	112,200	127,453	339,124	202,000		541,124
Service fees and match		(742)	2,521,116	2,520,374			2,520,374
Rent income		1,505,425		1,505,425			1,505,425
Receipts from clients		10,745		10,745			10,745
Interest income		1,600		1,600			1,600
In-kind contributions	575,439	21,731	465,529	1,062,699	4,338		1,067,037
Other income	100	36,843	3,582	40,525			40,525
Total Revenue	5,228,876	6,816,754	4,261,162	16,306,792	241,172		16,547,964
EXPENDITURES							
Personnel	1,780,795	1,965,257	2,139,297	5,885,349	48,474	$ 903,509	6,837,332
Travel and transportation	56,124	51,665	28,233	136,022	344	1,202	137,568
Space costs	144,010	610,922	425,294	1,180,226	105	76,505	1,256,836
Interest		254,402	12,812	267,214		3,109	270,323
Depreciation and amortization		702,635	4,992	707,627			707,627
Supplies	94,704	112,065	137,969	344,738	33,468	74,924	453,130
Materials and direct payments	2,022,877	2,429,415	513,045	4,965,337		405	4,965,742
Tools and equipment	22,204	31,426	33,182	86,812	121	22,815	109,748
Other direct costs	224,323	379,637	199,892	803,852	11,612	232,783	1,048,247
In-kind	575,439	21,731	465,529	1,062,699	4,338		1,067,037
Indirect and direct administrative	338,117	498,111	479,024	1,315,252		(1,315,252)	
Total Expenditures	5,258,593	7,057,266	4,439,269	16,755,128	98,462		16,853,590
OTHER							
Gain sale of assets		349,275		349,275			349,275
Change in Net Assets	(29,717)	108,763	(178,107)	(99,061)	142,710		43,649
Net Assets at Beginning of Year	200,244	5,912,633	1,458,271	7,571,148			7,571,148
NET ASSETS AT END OF YEAR	$ 170,527	$ 6,021,396	$ 1,280,164	$ 7,472,087	$ 142,710	$	$ 7,614,797

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

METROPOLITAN DEVELOPMENT COUNCIL AND RELATED ENTITIES

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

Year Ended December 31, 2011

	Asset Building	Housing	Healthcare	Total Programs	Administration	Total
REVENUE						
Grants and contracts	$ 4,402,054	$ 6,557,595	$ 1,792,740	$ 12,752,389		$ 12,752,389
Donations	590	200	116	906		906
Foundation grants	9,000		130,124	139,124		139,124
Service fees and match	25		2,855,261	2,855,286		2,855,286
Rent income		1,533,951	6,640	1,540,591		1,540,591
Receipts from clients		6,792		6,792		6,792
Interest income		59,267		59,267		59,267
In-kind contributions	165,239	4,956	232,657	402,852		402,852
Other income	(465)	84,018	24,706	108,259		108,259
Total Revenue	4,576,443	8,246,779	5,042,244	17,865,466		17,865,466
EXPENDITURES						
Personnel	1,773,838	2,213,539	2,558,888	6,546,265	$ 707,958	7,254,223
Travel and transportation	66,315	36,711	46,541	149,567	1,601	151,168
Facility cost	74,807	324,874	410,656	810,337	119,633	929,970
Interest		311,958	12,900	324,858	328	325,186
Depreciation and amortization		702,633	4,992	707,625	8,882	716,507
Supplies	121,311	98,973	204,204	424,488	113,630	538,118
Materials and direct payments	2,027,652	3,732,383	820,948	6,580,983		6,580,983
Tools and equipment	11,062	19,176	26,277	56,515	31,294	87,809
Other direct costs	192,606	331,761	126,516	650,883	212,734	863,617
Indirect and admnistrative	284,456	436,618	474,986	1,196,060	(1,196,060)	
In-kind	165,239	4,956	232,657	402,852		402,852
Total Expenditures	4,717,286	8,213,582	4,919,565	17,850,433		17,850,433
Change in Net Assets	(140,843)	33,197	122,679	15,033		15,033
Net Assets at Beginning of Year	341,087	5,879,436	1,335,592	7,556,115		7,556,115
NET ASSETS AT END OF YEAR	$ 200,244	$ 5,912,633	$ 1,458,271	$ 7,571,148	$	$ 7,571,148

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

METROPOLITAN DEVELOPMENT COUNCIL AND RELATED ENTITIES

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2012 and 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 43,649	$ 15,033
Adjustments to reconcile change in net assets net cash provided by operating activities		
Depreciation	700,997	709,870
Amortization	6,630	6,631
Gain on sale of assets	(349,275)	
Changes in operating assets and liabilities		
(Increase) decrease in grants and contracts receivable	344,148	(509,675)
(Increase) decrease in deposits, advances, prepaid expenses and inventory	(304,111)	100,424
(Increase) decrease in property reserves	21,662	(42,396)
Decrease in accounts payable	(210,011)	(102,880)
Increase (decrease) in payroll, taxes and accrued annual leave payable	(34,971)	29,333
Increase (decrease) in funding source advance	(228,270)	110,005
Increase in rental deposits	1,914	11,041
Net Cash Provided by Operating Activities	(7,638)	327,386
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from notes payable	200,000	
Payments of principal on mortgages and loans	(278,193)	(453,125)
Net Cash Used by Financing Activities	(78,193)	(453,125)
NET DECREASE IN CASH	(85,831)	(125,739)
Cash at Beginning of Year	1,309,403	1,435,142
CASH AT END OF YEAR	$ 1,223,572	$ 1,309,403
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	$ 270,323	$ 382,286

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

NOTE 1 - ORGANIZATIONS

Metropolitan Development Council doing business as MDC, Making a Difference in Community ("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 develop and implement innovative programs that remove people from poverty and promotes self-sufficiency 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, 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 change. 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 or homeless 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, job placement and retention.

Child and Adult Care Food Program ("CACFP") provide oversight and reimbursement dollars for nutritional meals served to children attending licensed in-home day care. 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.

Educational Opportunity Center ("EOC") provides free educational support to adults through career advising and exploration, education planning, assistance with financial aid forms and college applications, and student loan default advocacy.

Entrepreneurial Assistance Program ("EAP") provides classes for entrepreneurs who wish to start a small business or expand their existing business. The curriculum includes training and private mentoring is provided to individuals by our qualified staff.

NOTE 1 - ORGANIZATIONS (Continued)

Education

MDC helps low-income and first generation college bound 9th through 12th grade students graduate from high school and attend 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.

Education Talent Search (ETS) 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 and Dental Care

MDC helps homeless adults and families' access health care. Services include primary medical care, dental care, psychiatric care, substance abuse treatment, hygiene services like showers and laundry and a case-managed continuum of care.

Behavioral Health and Recovery

MDC offers a continuum of care for substance abuse clients: from sobering center to acute detoxification to chemical dependency inpatient and referrals, to outpatient care, mental health counseling and dual disorder treatment.

Housing

MDC creates a continuum of affordable housing options for low-income and homeless individuals and families. Apartments, duplexes, group homes and single family dwellings comprise the more than 350 units of rental housing available at MDC, making it possible for 900 individuals to be served each year. It takes a great deal more than a roof to recover from homelessness. MDC provides many specialized services to help with this difficult transition.

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

NOTE 1 - ORGANIZATIONS (Continued)

Housing (Continued)

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 and the Housing Essential Needs Project both contribute to homeless prevention and rapid re-housing of clients in need of help finding and maintaining housing.

MDC Housing

On December 31, 2012, MDC Housing Limited Liability Company, wholly owned by MDC, acquired all the assets and assumed substantially all the liabilities of MDC One Affordable Housing Development Limited Partnership and the partnership was liquidated. See Note 12.

MDC One Affordable Housing Development Limited Partnership

MDC One Affordable Housing Development Limited Partnership ("SRO") was an entity created by MDC to obtain investment capital and long-term subsidized financing for the purchase and renovation of two apartment complexes in Tacoma, Washington. The purpose of the project was to provide affordable housing facilities for low income and homeless individuals. SRO was formed as a limited partnership under the laws of the State of Washington. Metropolitan Housing Development Council, a Washington not-for-profit corporation, whose sole shareholder is Metropolitan Development Council, is the general partner in SRO with a 1% equity interest.

This partnership was liquidated as of December 31, 2012. MDC Housing, a limited liability company wholly owned by MDC, assumed all assets and liabilities of the partnership. See Note 12.

SRO obtained $1.5 million in subsidized financing from government units, including a $1.175 million 50 year 1.5% financing from the State of Washington and grants and equity capital investments of approximately $700,000. The complexes were purchased in December of 1994, and final renovation construction was begun in June of 1995 and completed in February of 1996.

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. Metropolitan Development Council 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.

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. Metropolitan Development Council 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

MDC financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America. 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.

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 market value when received. A rent bad debt reserve has been established for rents owed to MDC which may not be paid. The bad debt reserve was $42,605 for the year ended December 31, 2012. There was no reserve for the year ended December 31, 2011.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 Department of Health and Human Services, except for the Department of Education Educational Opportunity and Resource Center grant 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. MDC has not experienced any losses in such accounts. MDC believes it is not exposed to any significant credit risk on cash and cash equivalents.

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. The equipment was fully depreciated for the year ended December 31, 2012. Depreciation expense for the year ended December 31, 2011 was $8,882.

Land and Buildings
Land and buildings are recorded at cost. 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, 2012 and 2011 was $312,407, respectively.

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, 2012.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2011, 2010 and 2009 remain subject to potential examination.

Use of Estimates
The preparation of financial statements in conformity with generally accepted accounting principles 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.

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, 2012 and 2011.

SRO

Basis of Presentation
The SRO financial statements have been prepared in accordance with generally accepted accounting principles and are presented on the accrual basis and include the accounts of MDC One Affordable Housing Development Limited Partnership through December 31, 2012 and the accounts of MDC Housing as of December 31, 2102, the date the partnership was liquidated. See Note 12.

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

Land, Building and Equipment
Land, building and equipment is recorded at cost. Improvements are capitalized and expenditures for maintenance and repairs are expensed as incurred. The project was placed in service in December of 1996. Depreciation expense for the years ended December 31, 2012 and 2011 was $68,925 calculated using the straight-line method over 27.5 years.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Land, Building and Equipment (Continued)
MDC Housing 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, 2012.

Amortization
Mortgage costs are amortized over the term of the mortgage loan using the straight-line method. Amortization expense in for the years ended December 31, 2012 and 2011 was $767.

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. The partnership's returns for the years ended December 31, 2011, 2010 and 2009 remain subject to potential examination.

Use of Estimates
The preparation of financial statements in conformity with generally accepted accounting principles 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.

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.

Fawcett Street Limited Partnership

Basis of Presentation
The Fawcett financial statements have been prepared in accordance with generally accepted accounting principles 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, 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 is recorded at cost. Improvements are capitalized and expenditures for maintenance and repairs are expensed as incurred. Depreciation expense for the years ended December 31, 2012 and 2011 was $150,804 and $150,803, respectively, 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 at December 31, 2012.

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, 2012 and 2011 was $2,363.

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. The partnership's returns for the years ended December 31, 2011, 2010 and 2009 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates
The preparation of financial statements in conformity with generally accepted accounting principles 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 generally accepted accounting principles and are presented on the accrual basis.

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, 2012 and 2011 was $168,859 calculated using the straight-line method over 15 to 40 years.

The Partnership 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, 2012

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, 2012 and 2011 was $3,501.

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. The partnership's returns for the years ended December 31, 2011, 2010 and 2009 remain subject to potential examination.

Use of Estimates
The preparation of financial statements in conformity with generally accepted accounting principles 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
Management has evaluated for subsequent events and transactions for potential recognition and disclosure through April 24, 2013, 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 Department of Health and Human Services. This rate is subject to re-negotiation and finalization by the Department of Health and Human Services. The established provisional rate is 16.0% for the years ended December 31, 2012 and 2011.

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, immediate vesting of employer contributions and employer contributions of 8% of gross salary in both 2012 and 2011. Detailed plan provisions are available in the plan trust agreement. Pension plan contributions for the years ended December 31, 2012 and 2011 were $371,075 and $383,614, respectively.

NOTE 5 - RENT AGREEMENTS

MDC rents various properties on a month-to-month basis. Rent expense for the years ended December 31, 2012 and 2011 was $378,735 and $396,601, respectively, for non-MDC owned properties.

Rental income from owned properties totaled $632,581 and $630,541 for the years ended December 31, 2012 and 2011, 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. 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.

	2012	2011
State of Washington, 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.	$ 324,466	$ 326,917
Tacoma Community Redevelopment Authority, (TCRA) 30 year no interest loan payable forgivable if terms and conditions of the loan agreement are met, due in 2027.	143,000	143,000
Pierce County CDC, 20 year no interest loan payable at $400 per month, with a balloon payment of $19,200 due April, 2014.	25,600	30,400
State of Washington, Department of Commerce, 50 year loan with interest at 1.0% payable at $765 each June 12th for 50 years, due December 2044.	21,419	21,970
State of Washington, Department of Commerce, 50 year no interest loan payable at $3,151 per year, due January 2046.	107,117	110,267
Pierce County CDC, 20 year no interest loan payable at $4,100 per year, due September 2016.	16,400	20,500
State of Washington, Department of Commerce, 50 year no interest loan payable at $1,600 per year commencing in 2002, due January 2048.	57,600	59,200
Pierce County CDC, interest at 1.5%, due March 1, 1998, modified in 1998 to require annual payments of $6,601 without interest commencing in June of 1998. Further modified in 2008, deferring the 2008, 2009 and 2010 payments for 3 years and extending the due date of the note to June 2018.	52,808	59,409

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

	2012	2011
Pierce County CDC, 30 year no interest loan payable at $3,865 per year, due August 2029.	$ 65,705	$ 69,570
State of Washington, Department of Commerce, 50 year no interest loan payable at $2,776 per year, due in 2048.	98,911	101,687
Pierce County CDC, no interest loan payable at $5,000 per year, due December 2031.	90,000	95,000
Pierce County CDC, 20 year no interest loan payable in annual payments of $8,307 to 2015, when the balance is due in full.	91,373	99,680
Pierce County CDC, no interest loan payable at $3,491 per year, due September 2017.	87,271	90,762
First Citizens Bank, interest at 8.0% with 120 payments of $2,527 per month, due February 2019.	146,242	163,753
State of Washington, Department of Commerce, 50 year no interest loan payable at $2,800 per year, due January 2051.	109,200	112,000
State of Washington, 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, secured by real estate, due June 2031.	12,653	13,320
Pierce County CDC 30 year no interest loan payable at $667 per year, secured by real estate, due June 2031.	13,320	13,987
Pierce County CDC 30 year no interest loan payable at $4,632 per year, secured by real estate. Modified in 2008, deferring the 2008 and 2009 payments for two years, extending the due date until September 2031.	97,265	101,897

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

	2012	2011
Pierce County CDC 40 year no interest loan payable at $3,333 per year, secured by real estate, due July 2042.	$ 102,291	$ 105,624
Pierce County CDC 40 year no interest loan payable at $3,680 per year, secured by real estate, due July 2042.	110,415	114,095
Pierce County CDC 40 year no interest loan payable at $2,562 per year, secured by real estate, due July 2042.	76,698	79,289
Pierce County CDC 40 year no interest loan payable at $3,949 per year, secured by real estate, due July 2042.	118,427	122,377
HTF Home program, 40 year loan with interest at 1%, payable at $3,944 per quarter, due September 2043.	420,046	431,581
HTF Home Program, 40 year loan with interest at 1%, payable at $3,647 per quarter, due September 2043.	388,303	398,969
Tacoma Redevelopment Authority, interest at ½% per annum, payable at $2,358 per month, secured by real estate, due November 2032.	533,848	559,389
	3,435,378	3,569,643

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

SRO

The debt related to the SRO project was assumed by MDC Housing on December 31, 2012, and was held by MDC One Affordable Housing Development Limited Partnership at December 31, 2011. See Note 12.

	2012	2011
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.	$ 1,175,000	$ 1,175,000
Accrued interest in excess of loan repayment requirements	59,065	57,710
Second deeds of trust are as follows:		
The second deed of trust held by the Tacoma Community Redevelopment Authority 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
Note payable to Impact Capital with interest at 6.5%, due in October 2013 with an option to extend to October 2014. The note is unsecured.	200,000	
	1,447,065	1,245,710

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

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:

	2012	2011
Tier one - initial principal amount of $305,518, payable annually at $11,792 including interest at 1% per annum, due in 2026.	$ 153,993	$ 164,190
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.	45,471	42,630
	1,015,946	1,023,302
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.	722,934	746,900
	1,738,880	1,770,202

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

	2012	2011
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.	$ 959,251	$ 977,789
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 2012 payments were deferred by the lender.	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 annual payment was deferred by the lender in December 2012.	945,000	945,000
	3,250,404	3,268,942
Total Mortgages and Loans Payable, Low Income Housing	$ 9,871,727	$ 9,854,497

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 $633,830 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 City of Tacoma: Tacoma Community Redevelopment Authority (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.

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

A no-interest obligation, forgivable SHB loan with TCRA in amount $60,000 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 $70,371 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 State of Washington 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.

In April 2011, MDC entered into a $250,000 line of credit agreement with a bank. Interest on the line is at .5% over prime, with a minimum rate of 5.0%. The line is secured by real estate and is renewable on May 1, 2013. There were no amounts outstanding on the line of credit at December 31, 2012 or 2011.

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:

	2012	2011
Payable to First Citizens Bank, interest at 3.82%, monthly payments of $15,979 through December 2030.	$ 1,958,953	$ 2,032,586

NOTE 7 - MORTGAGES PAYABLE (Continued)

	2012	2011
Payable to First Citizens Bank, interest at 6.14%, monthly payments of $2,738 through December 2014, with a balloon payment of $311,844 due January of 2015.	$ 329,725	$ 340,305
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
In May of 2004, MDC purchased the building housing its Day Care Center. Total purchase price was $634,857 including closing costs and loan fees. A loan in the amount of $520,000 was obtained for this purchase, with private foundation grants in the amount of $67,097 and corporate funds providing the balance of the acquisition funds:		
Payable to First Citizens Bank, interest at 6.75%, 60 payments of $3,594 per month commencing on May 31, 2004. In March of 2007, MDC made a balloon payment of $107,800, and changed the monthly payment requirement to 96 payments of $2,548, with balance due in April of 2014.	299,193	309,046
Total Mortgages Payable	$ 4,717,146	$ 4,811,212

NOTE 7 - MORTGAGES PAYABLE (Continued)

At December 31, 2012, maturities on mortgages and loans payable, low income housing, and mortgages for each year through the dates are as follows:

2013	$ 938,356
2014	1,141,760
2015	1,187,270
2016	477,376
2017	447,164
Thereafter	10,396,947
	$ 14,588,873

NOTE 8 - PROPERTY RESERVES

According to the Partnership Agreements, the Partnerships are required to maintain the following escrow deposits and reserves:

	2012	2011
MDC Property Reserves		
Maintenance reserve	$ 18,166	$ 18,064
MDC One Affordable Housing Development LP		
An operating reserve in an amount equal to one percent of gross rent collections		14,610
A replacement reserve in an amount equal to $200 per unit, per year from gross rent collections, cumulatively, until the amount of the reserve has reached $121,737 or higher.		22,661
		37,271

NOTE 8 - PROPERTY RESERVES

Fawcett Street Limited Partnership (Continued)

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	73,250	73,250
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	49,448	48,791
	292,698	292,041

Parkland Family Vista LLC

Funded operating and replacement reserves	211,935	197,085
Total Reserves, all Entities	$ 522,799	$ 544,461

NOTE 9 - LAND, BUILDINGS AND EQUIPMENT

Land, buildings and equipment consist of the following at June 30:

	2012	2011
Land	$ 2,774,791	$ 2,469,978
Buildings	23,280,699	24,389,364
Less accumulated depreciation	(6,769,565)	(7,231,743)
	16,511,134	17,157,621
Equipment	639,204	639,204
Less accumulated depreciation	(476,205)	(476,205)
	162,999	162,999
	$ 19,448,924	$ 19,790,598

NOTE 10 - CONTINGENCIES

At December 31, 2012, MDC was a defendant in two lawsuits file by former employees. Subsequent to year end these lawsuits were settled. MDC's costs of the settlement were not material to the financial statements.

NOTE 11 - CAPITALIZED COSTS

Syndication costs of the Partnerships are capitalized but not amortized. Costs to obtain financing of the project partnership are capitalized and are being amortized as follows:

	2012	2011
SRO		
Financing costs, bridge loan interest and tax credit fees 10-15 years	$ 35,009	$ 35,009
Syndication fees (non-amortizable)		10,046
	35,009	45,055
Accumulated amortization	(21,933)	(21,166)
	$ 13,076	$ 23,889
Fawcett Street Limited Partnership		
Financing costs and tax credit fees	$ 74,042	$ 74,042
Syndication fees (non-amortizable)	6,500	6,500
	80,542	80,542
Accumulated amortization	(38,385)	(36,023)
	$ 42,157	$ 44,519

NOTE 11 - CAPITALIZED COSTS (Continued)

	2012	2011
Parkland Family Vista LLC		
Financing costs, bridge loan interest and tax credit fees 10-40 years	$ 121,024	$ 121,024
Syndication fees (non-amortizable)	20,000	20,000
	141,024	141,024
Accumulated amortization	(21,005)	(17,504)
	$ 120,019	$ 123,520
Total Capitalized Costs - Net of Amortization	$ 175,252	$ 191,928

NOTE 12 – Partnership Termination

On December 31, 2012, MDC One Affordable Housing Development Limited Partnership ("SRO") terminated its partnership in accordance with the terms of its partnership agreement with its limited partner. MDC Housing, a wholly owned limited liability company of MDC, the general partner in SRO assumed substantially all liabilities and assets of SRO. The acquisition of the land and building recorded at fair value resulted in a gain of $349,275.

NOTE 13 - LEASES

MDC leases equipment under operating leases expiring in various years through 2015.

Minimum future rental payments under non-cancelable operating leases having remaining terms in excess of one year as of December 31, 2012 in the aggregate are:

2013	$ 133,612
2014	23,957
2015	203
	$ 157,772

NOTE 14 – SUBSEQUENT EVENT

On April 1, 2013 MDC acquired an apartment complex that will be renovated and operated as the Randall Townsend House. The land and building was acquired for $2,264,750 and the total anticipated cost of the project is $4,106,000. The project, which is expected to be completed in the fall of 2013 is being funded with the following 2013 debt agreements:

State of Washington, Department of Community, Housing Trust Fund 50 year loan with interest at 0% and no expectation of repayment if the terms and conditions of the contract are met for 40 years. Secured by a deed of trust	$ 1,533,000
Pierce County Department of Community Connections:	
Note payable with no interest and is forgivable if terms and conditions of the loan agreement are met for 30 years. Secured by a deed of trust.	1,581,925
Note payable with no interest and is forgivable if terms and conditions of the loan agreement are met for 30 years. Secured by a deed of trust.	703,500
Note payable with no interest and is forgivable if terms and conditions of the loan agreement are met for 20 years. Secured by a deed of trust.	287,268
Total funding secured for project	$ 4,105,693
Loan proceeds drawn as of April 1, 2013 purchase	$ 2,254,954

SUPPLEMENTAL FINANCIAL INFORMATION

METROPOLITAN DEVELOPMENT COUNCIL AND RELATED ENTITIES

SCHEDULES OF FINANCIAL POSITION

December 31, 2012

	MDC	MDC Housing	Fawcett	Parkland	Totals	Eliminations	Combined
ASSETS							
Cash	$ 766,810	$ 70,856	$ 163,963	$ 221,943	$ 1,223,572		$ 1,223,572
Grants and contracts receivable	1,605,585				1,605,585		1,605,585
Deposits, advances and prepaid expenses	122,324	249,653	4,286	7,262	383,525		383,525
Inventory	10,929				10,929		10,929
Investment, MDC One Affordable Housing Development Partnership							
Receivable, Partnerships	1,061,056				1,061,056	$ (1,061,056)	
Investment, Parkland Street Limited Partnership	1,033,831				1,033,831	(1,033,831)	
Property reserves	18,166		292,698	211,935	522,799		522,799
Land	1,685,637	438,600	390,654	259,900	2,774,791		2,774,791
Buildings, net of accumulated depreciation	8,732,122	856,900	1,715,536	5,206,576	16,511,134		16,511,134
Capitalized costs, net of accumulated amortization		13,076	42,157	120,019	175,252		175,252
Equipment, net of accumulated depreciation				162,999	162,999		162,999
TOTAL ASSETS	$ 15,036,460	$ 1,629,085	$ 2,609,294	$ 6,190,634	$ 25,465,473	$ (2,094,887)	$ 23,370,586
LIABILITIES AND NET ASSETS							
LIABILITIES							
Accounts payable	$ 497,552	$ 14,202	$ 10,053	$ 6,541	$ 528,348		$ 528,348
Due MDC		164,915	70,233	825,908	1,061,056	$ (1,061,056)	
Accrued payroll and taxes	198,337				198,337		198,337
Funding source advance	213,977				213,977		213,977
Rental deposits	18,876	2,903	11,831	6,631	40,241		40,241
Accrued annual leave	186,013				186,013		186,013
Mortgages payable	4,717,146				4,717,146		4,717,146
Mortgages and loans payable, low income housing	3,435,378	1,447,065	1,738,880	3,250,404	9,871,727		9,871,727
Loan, MDC				1,033,831	1,033,831	(1,033,831)	
Total Liabilities	9,267,279	1,629,085	1,830,997	5,123,315	17,850,676	(2,094,887)	15,755,789
NET ASSETS							
Unrestricted							
Asset building	170,527				170,527		170,527
Housing	4,175,780		778,297	1,067,319	6,021,396		6,021,396
Healthcare	1,280,164				1,280,164		1,280,164
Development	142,710				142,710		142,710
Total Unrestricted Net Assets	5,769,181		778,297	1,067,319	7,614,797		7,614,797
TOTAL LIABILITIES AND NET ASSETS	$ 15,036,460	$ 1,629,085	$ 2,609,294	$ 6,190,634	$ 25,465,473	$ (2,094,887)	$ 23,370,586

METROPOLITAN DEVELOPMENT COUNCIL AND RELATED ENTITIES

SCHEDULES OF FINANCIAL POSITION (Continued)

December 31, 2011

	MDC	SRO	Fawcett	Parkland	Totals	Eliminations	Combined
ASSETS							
Cash	$ 897,928	$ 88,778	$ 183,587	$ 139,110	$ 1,309,403		$ 1,309,403
Grants and contracts receivable	1,949,733				1,949,733		1,949,733
Deposits, advances and prepaid expenses	61,029	31	3,821	12,232	77,113		77,113
Inventory	13,230				13,230		13,230
Investment, MDC One Affordable Housing Development Partnership	181,062				181,062	$ (181,062)	
Receivable, Partnerships	1,163,079				1,163,079	(1,163,079)	
Investment, Fawcett Street Limited Partnership	1,033,831				1,033,831	(1,033,831)	
Property reserves	18,064	37,271	292,041	197,085	544,461		544,461
Land	1,685,637	133,787	390,654	259,900	2,469,978		2,469,978
Buildings, net of accumulated depreciation	9,044,529	871,317	1,866,340	5,375,435	17,157,621		17,157,621
Capitalized costs, net of accumulated amortization		23,889	44,519	123,520	191,928		191,928
Equipment, net of accumulated depreciation				162,999	162,999		162,999
TOTAL ASSETS	$ 16,048,122	$ 1,155,073	$ 2,780,962	$ 6,270,281	$ 26,254,438	$ (2,377,972)	$ 23,876,466
LIABILITIES AND NET ASSETS							
LIABILITIES							
Accounts payable	$ 726,122	$ 2,396	$ 7,265	$ 3,931	$ 739,714		$ 739,714
Accounts payable, MDC		318,280	82,953	761,846	1,163,079	$ (1,163,079)	
Accrued payroll and taxes	186,263				186,263		186,263
Funding source advance	442,247				442,247		442,247
Rental deposits	17,882	1,609	11,967	6,869	38,327		38,327
Accrued annual leave	233,058				233,058		233,058
Mortgages payable	4,811,212				4,811,212		4,811,212
Mortgages and loans payable, low income housing	3,569,643	1,245,710	1,770,202	3,268,942	9,854,497		9,854,497
Loan, MDC				1,033,831	1,033,831	(1,033,831)	
Total Liabilities	9,986,427	1,567,995	1,872,387	5,075,419	18,502,228	(2,196,910)	16,305,318
NET ASSETS							
Unrestricted							
Asset building	200,244				200,244		200,244
Housing	4,403,180	(412,922)	908,575	1,194,862	6,093,695	(181,062)	5,912,633
Healthcare	1,458,271				1,458,271		1,458,271
Total Unrestricted Net Assets	6,061,695	(412,922)	908,575	1,194,862	7,752,210	(181,062)	7,571,148
TOTAL LIABILITIES AND NET ASSETS	$ 16,048,122	$ 1,155,073	$ 2,780,962	$ 6,270,281	$ 26,254,438	$ (2,377,972)	$ 23,876,466

METROPOLITAN DEVELOPMENT COUNCIL AND RELATED ENTITIES

SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN NET ASSETS

Year Ended December 31, 2012

	MDC	SRO	Fawcett	Parkland	Total	Administration	Eliminations	Total
REVENUES								
Grants and contracts	$ 10,751,819			$ 69,000	$ 10,820,819			$ 10,820,819
Donations	40,315				40,315			40,315
Foundation grants	541,124				541,124			541,124
Service fee and match	2,520,374				2,520,374			2,520,374
Rent income	702,328	$ 151,586	$ 364,945	286,566	1,505,425			1,505,425
Receipts from clients	3,756	421	6,568		10,745			10,745
Interest income	50,441	95	657		51,193		$ (49,593)	1,600
In-kind contributions	1,067,037				1,067,037			1,067,037
Other income	76,779	665	8,858	5,130	91,432		(50,907)	40,525
Total Revenues	15,753,973	152,767	381,028	360,696	16,648,464		(100,500)	16,547,964
EXPENDITURES								
Personnel	5,697,323	67,867	97,973	70,660	5,933,823	$ 903,509		6,837,332
Travel and transportation	135,511	130	324	401	136,366	1,202		137,568
Facility costs	828,331	144,123	113,091	94,786	1,180,331	76,505		1,256,836
Interest	140,452	18,569	64,243	93,543	316,807	3,109	(49,593)	270,323
Depreciation and amortization	312,409	69,692	153,166	172,360	707,627			707,627
Supplies	354,227	4,475	14,609	4,895	378,206	74,924		453,130
Materials and direct payments	4,965,337				4,965,337	405		4,965,742
Tools and equipment	86,933				86,933	22,815		109,748
Other direct costs	694,583	52,294	67,900	51,594	866,371	232,783	(50,907)	1,048,247
In-kind	1,067,037				1,067,037			1,067,037
Indirect and direct administrative	1,315,252				1,315,252	(1,315,252)		
Total Expenditures	15,597,395	357,150	511,306	488,239	16,954,090		(100,500)	16,853,590
OTHER								
Gain sale of assets		349,275			349,275			349,275
Gain (loss) on forgiveness of debt	(268,030)	268,030						
	(268,030)	617,305			349,275			349,275
Change in Net Assets	(111,452)	412,922	(130,278)	(127,543)	43,649			43,649
Net Assets at Beginning of Year	5,880,633	(412,922)	908,575	1,194,862	7,571,148			7,571,148
NET ASSETS AT END OF YEAR	$ 5,769,181	$	$ 778,297	$ 1,067,319	$ 7,614,797	$	$	$ 7,614,797

METROPOLITAN DEVELOPMENT COUNCIL AND RELATED ENTITIES

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

Year Ended December 31, 2011

	MDC	SRO	Fawcett	Parkland	Total	Administration	Eliminations	Total
REVENUES								
Grants and contracts	$ 12,699,021			$ 53,368	$ 12,752,389			$ 12,752,389
Donations	906				906			906
Foundation grants	139,124				139,124			139,124
Service fees and match	2,909,649				2,909,649		$ (54,363)	2,855,286
Rent income	741,199	$ 165,722	$ 356,755	276,915	1,540,591			1,540,591
Receipts from clients	3,398		3,394		6,792			6,792
Interest income	108,482	66	413		108,961		(49,694)	59,267
In-kind contributions	402,852				402,852			402,852
Other income	94,958	37	9,874	3,390	108,259			108,259
Total Revenues	17,099,589	165,825	370,436	333,673	17,969,523		(104,057)	17,865,466
EXPENDITURES								
Personnel	6,354,694	64,692	73,511	53,368	6,546,265	$ 707,958		7,254,223
Travel and transportation	148,933			634	149,567	1,601		151,168
Facility costs	599,522	58,544	79,976	72,295	810,337	119,633		929,970
Interest	192,846	25,052	66,086	90,568	374,552	328	(49,694)	325,186
Depreciation and amortization	312,407	69,692	153,166	172,360	707,625	8,882		716,507
Supplies	406,176	4,816	6,772	6,724	424,488	113,630		538,118
Materials and direct payments	6,580,936			47	6,580,983			6,580,983
Tools and equipment	56,491		24		56,515	31,294		87,809
Other direct costs	563,455	28,836	64,275	48,680	705,246	212,734	(54,363)	863,617
Indirect and direct administrative	1,196,060				1,196,060	(1,196,060)		
In-kind	402,852				402,852			402,852
Total Expenditures	16,814,372	251,632	443,810	444,676	17,954,490		(104,057)	17,850,433
Change in Net Assets	285,217	(85,807)	(73,374)	(111,003)	15,033			15,033
Net Assets at Beginning of Year	5,776,478	(327,115)	981,949	1,305,865	7,737,177		(181,062)	7,556,115
NET ASSETS AT END OF YEAR	$ 6,061,695	$ (412,922)	$ 908,575	$ 1,194,862	$ 7,752,210	$	$ (181,062)	$ 7,571,148

METROPOLITAN DEVELOPMENT COUNCIL AND RELATED ENTITIES

SCHEDULES OF CASH FLOWS

Year Ended December 31, 2012

	MDC	SRO	Fawcett	Parkland	Total
CASH FLOWS FROM OPERATING ACTIVITIES					
Change in net assets	$ (111,452)	$ 412,922	$ (130,278)	$ (127,543)	$ 43,649
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:					
Depreciation	312,409	68,925	150,804	168,859	700,997
Amortization		767	2,362	3,501	6,630
Gain on sale of assets		(349,275)			(349,275)
Change in operating assets and liabilities:					
Decrease in grants and contracts receivable	344,148				344,148
(Increase) decrease in deposits, advances, prepaid expenses and inventory	(58,994)	(249,622)	(465)	4,970	(304,111)
Increase (decrease) in property reserves	(102)	37,271	(657)	(14,850)	21,662
(Increase) decrease in receivables from Partnerships	102,023	(153,365)	(12,720)	64,062	
Decrease in accounts payable	(228,570)	13,161	2,788	2,610	(210,011)
Decrease in payroll, taxes and accrued annual leave payable	(34,971)				(34,971)
Decrease in funding source advance	(228,270)				(228,270)
Increase (decrease) in rent deposits	994	1,294	(136)	(238)	1,914
Net Cash Provided (Used) by Operating Activities	97,215	(217,922)	11,698	101,371	(7,638)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from notes payable		200,000			200,000
Payments of principal on mortgages and loans	(228,333)		(31,322)	(18,538)	(278,193)
Net Cash Provided (Used) by Financing Activities	(228,333)	200,000	(31,322)	(18,538)	(78,193)
Net Increase (Decrease) in Cash	(131,118)	(17,922)	(19,624)	82,833	(85,831)
Cash at Beginning of Year	897,928	88,778	183,587	139,110	1,309,403
CASH AT END OF YEAR	$ 766,810	$ 70,856	$ 163,963	$ 221,943	$ 1,223,572
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION					
Cash paid during the year for interest	$ 145,269	$ 18,569	$ 64,188	$ 42,297	$ 270,323

METROPOLITAN DEVELOPMENT COUNCIL AND RELATED ENTITIES

SCHEDULES OF CASH FLOWS (Continued)

Year Ended December 31, 2011

	MDC	SRO	Fawcett	Parkland	Total
CASH FLOWS FROM OPERATING ACTIVITIES					
Change in net assets	$ 285,217	$ (85,807)	$ (73,374)	$ (111,003)	$ 15,033
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:					
Depreciation	321,283	68,925	150,803	168,859	709,870
Amortization		767	2,363	3,501	6,631
Change in operating assets and liabilities:					
(Increase) decrease in grants and contracts and fee for service receivable	(497,122)	347	(1,587)	(11,313)	(509,675)
Decrease in deposits, advances, prepaid expenses and inventory	100,424				100,424
Increase in property reserves	(18,064)	(6,642)	(401)	(17,289)	(42,396)
(Increase) decrease in receivables from Partnerships	(112,072)	36,594	1,164	74,314	
Increase (decrease) in accounts payable	(24,861)	1,296	(80,987)	1,672	(102,880)
Increase in payroll, taxes and accrued annual leave payable	29,333				29,333
Increase in funding source advance	110,005				110,005
Increase (decrease) in rent deposits	8,524	(235)	1,953	799	11,041
Net Cash Provided (Used) by Operating Activities	202,667	15,245	(66)	109,540	327,386
CASH FLOWS FROM FINANCING ACTIVITIES					
Payments of principal on mortgages and loans	(316,363)	(15,005)	(41,245)	(80,512)	(453,125)
Net Cash Used by Financing Activities	(316,363)	(15,005)	(41,245)	(80,512)	(453,125)
Net Increase (Decrease) in Cash	(113,696)	240	(41,311)	29,028	(125,739)
Cash at Beginning of Year	1,011,624	88,538	224,898	110,082	1,435,142
CASH AT END OF YEAR	$ 897,928	$ 88,778	$ 183,587	$ 139,110	$ 1,309,403
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION					
Cash paid during the year for interest	$ 249,031	$ 17,755	$ 63,444	$ 52,056	$ 382,286

METROPOLITAN DEVELOPMENT COUNCIL AND RELATED ENTITIES

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended December 31, 2012

Agency	Program Title	Federal CFDA Number	Pass Through Grantor	Federal Expenditures
HHS	Health Center Cluster	93.224		$ 906,815
	LIHEAP	93.568	DCTED	2,412,274
	Child Care Quality	93.575	OSPI	27,627
	Substance Abuse	93.959	Pierce County	891,356
	Total Indirect Awards - HHS			3,331,257
	Total Health and Human Services			4,238,072
DOE	Education EOC	84.066A		641,433
	Upward Bound	84.047A		782,659
	Talent Search	84.044A		452,605
	Total Direct Awards - Department of Education			1,876,697
	College Access Challenge	84.378A	Higher Ed Coord Board	100,402
	Total Department of Education			1,977,099
HUD	Emergency Shelter and Repair	14.218	City of Tacoma	254,322
	Housing	14.235	Pierce County	413,599
	Total Housing and Urban Development			667,921
Energy	Weatherization	81.042	DCTED	137,462
Agriculture	Child Care Food Program	10.558	OSPI	2,321,168
	Brownfield Job Training ARRA	66.815		53,093
Justice	VA Homeless Provider	16.729		40,022
Labor	WIA	17.259	TPCETC	35,488
	Total Federal Awards			$ 9,470,325

METROPOLITAN DEVELOPMENT COUNCIL AND RELATED ENTITIES

NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended December 31, 2012

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of MDC and related entities and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of *OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations.* Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

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

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 financial statements of Metropolitan Development Council (a nonprofit organization) ("MDC") as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise MDC's basic financial statements, and have issued our report thereon dated April 24, 2013.

Internal Control over Financial Reporting
In planning and performing our audit of the 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 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 may exist that have not been identified.

Board of Directors
Metropolitan Development Council

Compliance and Other Matters
As part of obtaining reasonable assurance about whether MDC'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 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 24, 2013

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

Independent Auditor's Report

Board of Directors
Metropolitan Development Council
Tacoma, Washington

Report on Compliance for Each Major Federal Program

We have audited Metropolitan Development Council's (a nonprofit organization) ("MDC") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of MDC's major federal programs for the year ended December 31, 2012. 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 OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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.

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, 2012.

Board of Directors
Metropolitan Development Council

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 OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of 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 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Johnson, Stone & Pagano, P.S.

JOHNSON, STONE & PAGANO, P.S.

April 24, 2013

METROPOLITAN DEVELOPMENT COUNCIL AND RELATED ENTITIES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended December 31, 2012

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued	Unqualified
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:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	No

Identification of major programs:

CFDA Number(s)	Federal Program or Cluster
93.959	Block Grant Treatment of Substance Abuse
14.235	Supportive Housing
93.568	Low Income Home Energy Assistance Program
10.558	Child Care Food Program

Dollar threshold used to distinguish between type A and type B programs:	$ 300,000
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.

Section IV - Prior Year Audit Findings

2011-02 **Program Expenses**

Federal Program Information:

Funding Agency:	U.S. Department of Health and Human Services Health Resources and Services Administration.
Title:	Block Grant for Prevention and Treatment of Substance Abuse
CFDA Number:	93.959

Condition
During our audit, we noted that not all recipient services had documentation of income verifications in their files necessary to determine eligibility to receive service.

Current Status
Income verifications are now included in the recipient's files.