

**METROPOLITAN DEVELOPMENT  
COUNCIL AND RELATED ENTITIES**

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

December 31, 2017 and 2016

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## Independent Auditor's Report

Board of Directors  
Metropolitan Development Council and Related Entities  
Tacoma, Washington

### **Report on the Financial Statements**

We have audited the accompanying consolidated financial statements of Metropolitan Development Council and Related Entities ("MDC"), which comprise the consolidated statements of financial position as of December 31, 2017 and 2016, 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 consolidated 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 consolidated 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***

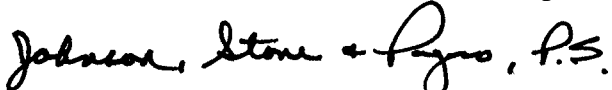
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Metropolitan Development Council as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with 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 27 to 32 as of and for the years ended December 31, 2017 and 2016 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, 2017 on pages 33 and 34 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated 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 August 6, 2018 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.

August 6, 2018

**AUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**METROPOLITAN DEVELOPMENT COUNCIL AND RELATED ENTITIES**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<b><u>ASSETS</u></b>		
Cash	\$ 2,662,279	\$ 3,482,558
Grants and contracts receivable	1,951,318	1,958,264
Deposits, advances and prepaid expenses	74,541	77,876
Receivable	165,680	
Inventory		8,651
Reserves	1,210,312	1,128,889
Land	2,964,737	3,019,191
Buildings, net of accumulated depreciation	19,019,614	20,333,385
Capitalized costs, net of accumulated amortization	20,000	35,418
Equipment, net of accumulated depreciation	<u>120,351</u>	<u>136,694</u>
<b>TOTAL ASSETS</b>	<b>\$ <u>28,188,832</u></b>	<b>\$ <u>30,180,926</u></b>
<b><u>LIABILITIES AND NET ASSETS</u></b>		
<b>LIABILITIES</b>		
Accounts payable	\$ 735,093	\$ 812,377
Accrued payroll and taxes	511,910	510,838
Funding source advance	4,849	534,232
Rental deposits	46,831	66,929
Accrued annual leave	232,237	245,331
Mortgages payable	4,978,174	4,452,451
Mortgages and loans payable, low income housing	<u>12,947,323</u>	<u>14,690,215</u>
<b>Total Liabilities</b>	19,456,417	21,312,373
<b>NET ASSETS</b>		
Unrestricted		
Asset building	150,534	147,251
Housing	4,668,505	5,410,634
Healthcare	3,632,835	3,072,421
Development	<u>280,541</u>	<u>238,247</u>
<b>Total Unrestricted Net Assets</b>	<b><u>8,732,415</u></b>	<b><u>8,868,553</u></b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ <u>28,188,832</u></b>	<b>\$ <u>30,180,926</u></b>

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, 2017

	<u>Asset Building</u>	<u>Housing</u>	<u>Healthcare</u>	<u>Total Programs</u>	<u>Development</u>	<u>Administration</u>	<u>Total</u>
<b>REVENUE</b>							
Grants and contracts	\$ 4,679,337	\$ 8,112,188	\$ 6,693,245	\$ 19,484,770		\$ (9,771)	\$ 19,474,999
Donations					\$ 123,746		123,746
Foundation grants					143,500		143,500
Service fees and match		6,522	981,480	988,002			988,002
Rent income		1,693,059		1,693,059			1,693,059
Receipts from clients		5,452		5,452			5,452
Interest income		154		154		1,234	1,388
In-kind contributions	643,673			643,673	6,123		649,796
Other income	45,000	391,357	12,411	448,768	(69,408)		379,360
<b>Total Revenue</b>	<b>5,368,010</b>	<b>10,208,732</b>	<b>7,687,136</b>	<b>23,263,878</b>	<b>203,961</b>	<b>(8,537)</b>	<b>23,459,302</b>
<b>EXPENDITURES</b>							
Personnel	1,486,567	2,287,525	4,777,272	8,551,364	68,008	1,790,177	10,409,549
Travel and transportation	153,029	62,694	8,934	224,657	737	11,139	236,533
Facility costs	71,196	786,277	479,868	1,337,341	14,501	120,424	1,472,266
Interest		226,925	1,043	227,968		6,594	234,562
Depreciation and amortization		737,307	6,444	743,751			743,751
Supplies	201,092	248,161	351,257	800,510	10,059	98,129	908,698
Materials and direct payments	2,445,859	5,136,072	4,767	7,586,698			7,586,698
Tools and equipment	651	2,766	541	3,958		2,271	6,229
Other direct costs	92,979	663,918	533,430	1,290,327	64,539	321,273	1,676,139
In-kind	643,673			643,673	6,123		649,796
Indirect and direct administrative	269,681	768,178	960,866	1,998,725		(2,358,544)	(359,819)
<b>Total Expenditures</b>	<b>5,364,727</b>	<b>10,919,823</b>	<b>7,124,422</b>	<b>23,408,972</b>	<b>163,967</b>	<b>(8,537)</b>	<b>23,564,402</b>
<b>Revenue Over (Under) Expenditures</b>	<b>3,283</b>	<b>(711,091)</b>	<b>562,714</b>	<b>(145,094)</b>	<b>39,994</b>		<b>(105,100)</b>
Gain on sale of building		368,962		368,962			368,962
<b>Change in Net Assets</b>	<b>3,283</b>	<b>(342,129)</b>	<b>562,714</b>	<b>223,868</b>	<b>39,994</b>		<b>263,862</b>
<b>Net Assets at Beginning of Year</b>	<b>147,251</b>	<b>5,410,634</b>	<b>3,072,421</b>	<b>8,630,306</b>	<b>238,247</b>		<b>8,868,553</b>
Net asset distribution		(400,000)		(400,000)			(400,000)
<b>NET ASSETS AT END OF YEAR</b>	<b>\$ 150,534</b>	<b>\$ 4,668,505</b>	<b>\$ 3,635,135</b>	<b>\$ 8,454,174</b>	<b>\$ 278,241</b>	<b>\$</b>	<b>\$ 8,732,415</b>

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, 2016

	<u>Asset Building</u>	<u>Housing</u>	<u>Healthcare</u>	<u>Total Programs</u>	<u>Development</u>	<u>Administration</u>	<u>Total</u>
<b>REVENUE</b>							
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
<b>Total Revenue</b>	<u>5,420,314</u>	<u>10,692,123</u>	<u>8,168,937</u>	<u>24,281,374</u>	<u>438,496</u>	<u>10,832</u>	<u>24,730,702</u>
<b>EXPENDITURES</b>							
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
<b>Total Expenditures</b>	<u>5,316,435</u>	<u>10,814,315</u>	<u>7,958,128</u>	<u>24,088,878</u>	<u>208,997</u>	<u>10,832</u>	<u>24,308,707</u>
<b>Change in Net Assets</b>	103,879	(122,192)	210,809	192,496	229,499		421,995
<b>Net Assets at Beginning of Year</b>	<u>43,372</u>	<u>5,532,826</u>	<u>2,861,612</u>	<u>8,437,810</u>	<u>8,748</u>		<u>8,446,558</u>
<b>NET ASSETS AT END OF YEAR</b>	<u>\$ 147,251</u>	<u>\$ 5,410,634</u>	<u>\$ 3,072,421</u>	<u>\$ 8,630,306</u>	<u>\$ 238,247</u>	<u>\$</u>	<u>\$ 8,868,553</u>

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, 2017 and 2016

	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 263,862	\$ 421,995
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation	742,570	792,335
Debt issuance costs	21,550	5,421
Amortization	1,181	1,210
Gain on sale of building	(368,962)	
Changes in operating assets and liabilities		
Decrease in grants and contracts receivable	6,946	831,363
Decrease in deposits, advances, prepaid expenses and inventory	11,986	39,731
Increase in reserves	(81,423)	(20,940)
Increase in receivables	(151,443)	
Decrease in accounts payable	(77,284)	(42,790)
Decrease in payroll, taxes and accrued annual leave payable	(68,861)	(47,163)
Decrease in funding source advance	(529,383)	(64,623)
Increase (decrease) in rental deposits	(20,098)	6,112
<b>Net Cash Provided (Used) by Operating Activities</b>	(249,359)	1,922,651
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of fixed assets	(785,574)	(25,635)
Proceeds from sale of building	270,902	
<b>Net Cash Used by Investing Activities</b>	(514,672)	(25,635)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from mortgages and loans	639,000	
Payments of principal on mortgages and loans	(295,248)	(293,419)
Distribution to partner	(400,000)	
<b>Net Cash Used by Financing Activities</b>	(56,248)	(293,419)
<b>NET INCREASE (DECREASE) IN CASH</b>	(820,279)	1,603,597
<b>Cash at Beginning of Year</b>	3,482,558	1,878,961
<b>CASH AT END OF YEAR</b>	\$ 2,662,279	\$ 3,482,558
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash paid during the year for interest	\$ 223,699	\$ 243,156
Non cash equity contribution	\$ 57,222	

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

# **METROPOLITAN DEVELOPMENT COUNCIL AND RELATED ENTITIES**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2017 and 2016

### **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 Education***

The Child and Adult Care Food Program ("CACFP") provides oversight and reimbursement dollars for nutritious 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.

MDC helps low-income and first generation students in the 9th through 12th grades graduate from high school and enroll in college through the Talent Search program. Academic support, including: academic advising, college campus visits, tutoring, assistance in completing financial aid forms, service learning and leadership activities.

## **METROPOLITAN DEVELOPMENT COUNCIL AND RELATED ENTITIES**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2017 and 2016

#### **NOTE 1 - ORGANIZATIONS (Continued)**

##### **Healthcare**

###### ***Medical Clinic and Hygiene Center***

MDC's Healthcare for the Homeless program ended at the end of 2016 due to loss of funding, and the Medical Clinic and Hygiene Center closed in March 2017.

###### ***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.

###### ***Co-occurring Treatment***

MDC provides co-occurring treatment for individuals who are living with a mental health disorder, as well as a substance use challenge. The program focuses specifically on individuals who currently live within the city boundaries of Tacoma and have had no success accessing these specialized services elsewhere in the community.

##### **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 340 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 ongoing services that best meet their needs. Professional care 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 and conservation of energy use through small repair and weatherization measures added to homes in the city of Tacoma.

## **METROPOLITAN DEVELOPMENT COUNCIL AND RELATED ENTITIES**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2017 and 2016

#### **NOTE 1 - ORGANIZATIONS (Continued)**

##### **Housing** (Continued)

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.

##### **MDC Housing**

MDC Housing acquired an apartment complex that has been renovated and operates as the Randall Townsend Apartments. The project was funded with debt agreements detailed in Note 6.

##### **Fawcett Street Limited Partnership**

Fawcett Street Limited Partnership ("Fawcett") was 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 was 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 was 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 began in May of 1996 and completed in December of 1996.

During the year ended December 31, 2016, the Fawcett Street Limited Partnership has reached the dissolution term of the Partnership Agreement and made the decision to place the project assets for sale per their rights under the Partnership Agreement. The project sold in June, 2017, and the partnership was dissolved in July, 2017. The gain on the sale was \$368,962 and a distribution in the amount of \$400,000 was made to the limited partner.

##### **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 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.

# **METROPOLITAN DEVELOPMENT COUNCIL AND RELATED ENTITIES**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2017 and 2016

### **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.

##### ***Revenues***

Grants and contracts are recorded as revenue when 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, 2017 and 2016. Rents are recorded for unsubsidized 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. The Federal Deposit Insurance Corporation ("FDIC") insures bank accounts with the basic coverage up to \$250,000. The cash balances at December 31, 2017 exceeded the insured amount by a total of \$1,768,347.

##### ***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, 2017 and 2016 was \$17,488 and \$24,908, respectively.

## **METROPOLITAN DEVELOPMENT COUNCIL AND RELATED ENTITIES**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2017 and 2016

#### **NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **Metropolitan Development Council (Continued)**

###### ***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, 2017 and 2016 was \$499,067 and \$447,763, respectively, and excludes Fawcett and Parkland.

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, 2017 and 2016.

###### ***Debt Issuance Costs***

Debt issuance costs are amortized over the term of the mortgage loan using the straight-line method. Interest expense associated with the debt issuance costs for MDC housing for the years ended December 31, 2017 and 2016 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.

###### ***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.

## **METROPOLITAN DEVELOPMENT COUNCIL AND RELATED ENTITIES**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2017 and 2016

#### **NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **Metropolitan Development Council** (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 net assets for the years ended December 31, 2017 and 2016.

###### ***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 maintained its cash in bank deposit accounts, which, at times, may exceed federally insured limits. Fawcett has not experienced any losses in such accounts.

###### ***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, 2017 and 2016 was \$75,402 and \$150,804, respectively, calculated using straight-line method over lives ranging from 7 to 27.5 years.

Fawcett reviewed 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 was no impairment loss recognized for the year ended December 31, 2016. The building was sold in 2017.

## **METROPOLITAN DEVELOPMENT COUNCIL AND RELATED ENTITIES**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2017 and 2016

#### **NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **Fawcett Street Limited Partnership (Continued)**

###### ***Debt Issuance Costs***

Debt issuance costs are amortized over the term of the loan using the straight-line method. Interest expense associated with the debt issuance costs for the years ended December 31, 2017 and 2016 was \$17,290 and \$1,152, respectively.

###### ***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, 2017 and 2016 was \$1,181 and \$1,210, respectively.

###### ***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.

###### ***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.

###### ***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.



## **METROPOLITAN DEVELOPMENT COUNCIL AND RELATED ENTITIES**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2017 and 2016

#### **NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **Parkland Family Vista LLC (Continued)**

###### ***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, 2017 and 2016 was \$168,868 and \$168,860, 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, 2017 and 2016.

###### ***Grant Revenue***

The General Partner awarded a pass-through grant to Parkland to fund the supporting services at the project. Grant revenue for the years ended December 31, 2017 and 2016 was \$15,000 and \$56,900, respectively.

###### ***Debt Issuance Costs***

Debt issuance costs are amortized over the term of the mortgage loan using the straight-line method. Interest expense associated with the debt issuance costs for the years ended December 31, 2017 and 2016 was \$3,493 and \$3,502, respectively.

###### ***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.

###### ***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.

## **METROPOLITAN DEVELOPMENT COUNCIL AND RELATED ENTITIES**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2017 and 2016

#### **NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **Parkland Family Vista LLC (Continued)**

###### ***New Accounting Pronouncement***

In August 2016, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, to improve the presentation of net asset classifications and other information, presented or disclosed in the financial statements, regarding a not-for-profit entity's liquidity and availability of financial resources, board designations of net assets, financial performance and expenses on a functional basis. The ASU's requirements are broadly applicable, and will be effective for years beginning after December 15, 2017. Management is currently evaluating how the new requirements will affect MDC's financial statements.

###### ***Subsequent Events***

MDC evaluated for subsequent events through August 6, 2018, 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, 2017 and 2016.

#### **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, 2017 and 2016 were \$422,056 and \$442,309, respectively.

#### **NOTE 5 - RENT AGREEMENTS**

MDC rents various properties on a month-to-month basis. Rent expense for the years ended December 31, 2017 and 2016 was \$667,708 and \$659,343, respectively, for non-MDC owned properties.

## METROPOLITAN DEVELOPMENT COUNCIL AND RELATED ENTITIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

#### NOTE 5 - RENT AGREEMENTS (Continued)

Rental income from owned properties totaled \$1,175,353 and \$1,125,233 for the years ended December 31, 2017 and 2016, respectively.

#### NOTE 6 - LINE OF CREDIT

MDC has an available \$500,000 revolving line of credit with a bank that expires in July 2020. The obligation was renewed in July 2018. Interest is payable monthly at prime rate with a minimum rate of 5.50%, the rate as of December 31, 2017. There were no amounts outstanding on the line as of December 31, 2017 or 2016.

#### NOTE 7 - 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 MDCs 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.

	<u>2017</u>	<u>2016</u>
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.	\$ 311,815	\$ 314,392
Tacoma Community Redevelopment Authority ("TCRA"), 30 year no interest loan, 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
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.	18,041	18,621
Washington State Department of Commerce, 50 year no interest loan payable at \$3,151 per year, due January 2046.	91,365	94,514

# METROPOLITAN DEVELOPMENT COUNCIL AND RELATED ENTITIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

### NOTE 7 - MORTGAGES AND LOANS PAYABLE, LOW-INCOME HOUSING

(Continued)

	<u>2017</u>	<u>2016</u>
Washington State Department of Commerce, 50 year no interest loan payable at \$1,600 per year commencing in 2002, due January 2048.	\$ 49,600	\$ 51,200
Pierce County CDC, no interest loan payable at \$6,601 per year, due June 2018.	19,802	26,404
Pierce County CDC, 30 year no interest loan payable at \$3,865 per year, due August 2029.	46,380	50,245
Washington State Department of Commerce, 50 year no interest loan payable at \$2,776 per year, due in 2048.	85,031	87,807
Pierce County CDC, no interest loan payable at \$5,000 per year, due December 2031.	65,000	70,000
Pierce County CDC, 20 year no interest loan payable in annual payments of \$8,307, due in August 2024.	49,839	58,145
Pierce County CDC, no interest loan payable at \$3,491 per year, due September 2027.	73,308	73,308
First Citizens Bank, interest at 8.0% with 120 payments of \$2,527 per month, due February 2019.	32,891	59,370
Washington State Department of Commerce, 50 year no interest loan payable at \$2,800 per year, due in 2051.	95,200	98,000
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.	9,318	9,985
Pierce County CDC, 30 year no interest loan payable at \$667 per year, due June 2031.	9,318	9,985
Pierce County CDC, 30 year no interest loan payable at \$4,632 per year, due September 2031.	74,106	78,738

**METROPOLITAN DEVELOPMENT COUNCIL AND RELATED ENTITIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

**NOTE 7 - MORTGAGES AND LOANS PAYABLE, LOW-INCOME HOUSING**

(Continued)

	<u>2017</u>	<u>2016</u>
Pierce County CDC, 40 year no interest loan payable at \$3,333 per year, due July 2042.	\$ 83,327	\$ 86,660
Pierce County CDC, 40 year no interest loan payable at \$3,680 per year, due July 2042.	92,012	95,693
Pierce County CDC, 40 year no interest loan payable at \$2,562 per year, due July 2042.	63,890	66,451
Pierce County CDC, 40 year no interest loan payable at \$3,949 per year, due July 2042.	98,721	102,632
HTF Home Program, 40 year loan with interest at 1.0%, payable at \$3,944 per quarter, due September 2043.	357,801	372,871
HTF Home Program, 40 year loan with interest at 1.0%, payable at \$3,647 per quarter, due September 2043.	330,736	344,674
Note payable with interest at 6.5%, payable at \$630 per month, due September 2020, secured by a van.	12,090	18,612
Note payable with interest at 4.75%, payable at \$884 per month, due March 2022, secured by two trucks.	40,613	
Tacoma Redevelopment Authority, interest at 0.5% per annum, payable at \$2,358 per month, due November 2032.	406,356	432,640
Washington State Department of Commerce, 10 year no interest loan, convertible to a grant in 2024.	<u>1,320,000</u>	<u>1,320,000</u>
	4,104,560	4,215,347

**MDC Housing**

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 1 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, due January 2046.

1,135,217	1,162,065
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**METROPOLITAN DEVELOPMENT COUNCIL AND RELATED ENTITIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2017 and 2016

**NOTE 7 - MORTGAGES AND LOANS PAYABLE, LOW-INCOME HOUSING**

(Continued)

	<u>2017</u>	<u>2016</u>
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 1.0% per annum. Interest is payable annually, principal is due in June 2022.	\$ 11,687	\$ 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
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 2043.	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.	<u>341,025</u>	<u>341,025</u>
	5,793,622	5,821,783
Less unamortized debt issuance costs	<u>9,241</u>	<u>10,008</u>
Mortgages and loans payable, net of unamortized debt issuance costs	5,784,381	5,811,775

**METROPOLITAN DEVELOPMENT COUNCIL AND RELATED ENTITIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

**NOTE 7 - MORTGAGES AND LOANS PAYABLE, LOW-INCOME HOUSING**

(Continued)

**Fawcett Street Limited Partnership**

A second deed of trust was 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:

	<u>2017</u>	<u>2016</u>
Tier one - initial principal amount of \$305,518, payable annually at \$11,792, including interest at 1.0% per annum. Loan assumed by buyer in 2017.		\$ 122,784
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 1.0%. Loan assumed by buyer in 2017.		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. Accrued interest assumed by buyer in 2017.		<u>56,839</u> 996,105
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. Paid in full in 2017.		<u>605,100</u> 1,641,983
Less unamortized debt issuance costs		<u>17,290</u>
Mortgages and loans payable, net of unamortized debt issuance costs		1,583,915

**METROPOLITAN DEVELOPMENT COUNCIL AND RELATED ENTITIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

**NOTE 7 - MORTGAGES AND LOANS PAYABLE, LOW-INCOME HOUSING**  
(Continued)

	<u>2017</u>	<u>2016</u>
<b><u>Parkland Family Vista LLC</u></b>		
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.	\$ 849,745	\$ 874,035
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 2017 and 2016 payments were deferred by the lender.	<u>945,000</u> 3,140,898	<u>945,000</u> 3,165,188
Less unamortized debt issuance costs	<u>82,516</u>	<u>86,010</u>
Mortgages and loans payable, net of unamortized debt issuance costs	<u>3,058,382</u>	<u>3,079,178</u>
Total Mortgages and Loans Payable, Low-income Housing	\$ <u>12,947,373</u>	\$ <u>14,690,215</u>

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.



## **METROPOLITAN DEVELOPMENT COUNCIL AND RELATED ENTITIES**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2017 and 2016

#### **NOTE 7 - MORTGAGES AND LOANS PAYABLE, LOW-INCOME HOUSING**

(Continued)

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 the amount of \$297,119 and maturity date of September 2037, 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 the amount of \$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 the amount of \$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 the 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 the amount of \$149,050, and maturity date March 2020, forgivable as long as the funds are used per the condition of the loan.

#### **NOTE 8 - 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 with the addition of approximately 6,000 square feet of space for agency administration and services staff and with 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:

**METROPOLITAN DEVELOPMENT COUNCIL AND RELATED ENTITIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2017 and 2016

**NOTE 8 - MORTGAGES PAYABLE (Continued)**

	<u>2017</u>	<u>2016</u>
Payable to Heritage Bank, interest at 4.5%, monthly payments of \$11,814 through February 2020, then interest rate adjusts to 4.875% with monthly payments of \$12,200 through February 2025.	\$ 1,973,791	\$ 2,024,662
Payable to Heritage Bank, interest at 4.99%, 119 payments of \$3,488 per month commencing on September 5, 2017. Balloon payment of \$442,681 due on August 5, 2027.	587,869	
No-interest loans payable to the following government agencies, completely forgivable if terms and conditions of agreement are satisfied:		
DCTED, forgivable on May 30, 2036	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, 2035	200,000	200,000
Payable to Heritage Bank, interest at 4.5%, 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.	<u>287,239</u>	<u>298,514</u>
Total Mortgages Payable	\$ <u>4,978,174</u>	\$ <u>4,452,451</u>

**METROPOLITAN DEVELOPMENT COUNCIL AND RELATED ENTITIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

**A NOTE 8 - MORTGAGES PAYABLE (Continued)**

At December 31, 2017, maturities on mortgages and loans payable, low-income housing and mortgages for each year through the dates are as follows:

2018	\$ 270,537
2019	249,622
2020	251,424
2021	251,178
2122	257,760
Thereafter	<u>16,736,733</u>
	\$ <u>18,017,254</u>

**NOTE 9 - 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 reserves. The reserves at December 31 consist of the following:

	<u>2017</u>	<u>2016</u>
<b><u>MDC</u></b>		
Maintenance reserve	\$ 118,482	\$ 18,266
Operating reserve	<u>701,566</u>	<u>500,780</u>
	820,048	519,046

**Parkland Family Vista LLC**

Funded operating debt and replacement reserves	390,264	399,192
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**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
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## METROPOLITAN DEVELOPMENT COUNCIL AND RELATED ENTITIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

#### NOTE 9 - RESERVES (Continued)

	<u>2017</u>	<u>2016</u>
Contingency reserve		\$ 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
Earnings on funded reserve accounts	<u>                    </u>	<u>197</u>
	<u>                    </u>	<u>210,651</u>
Total Reserves, all Entities	\$ <u>1,210,312</u>	\$ <u>1,128,889</u>

#### NOTE 10 - LAND, BUILDINGS AND EQUIPMENT

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

	<u>2017</u>	<u>2016</u>
Land	\$ 2,964,737	\$ 3,019,191
Buildings	26,139,788	29,875,639
Less accumulated depreciation	<u>(7,120,174)</u>	<u>(9,542,254)</u>
	19,019,614	20,333,385
Equipment	682,597	655,344
Less accumulated depreciation	<u>(562,246)</u>	<u>(518,650)</u>
	<u>120,351</u>	<u>136,694</u>
	\$ <u>22,104,702</u>	\$ <u>23,489,270</u>

## METROPOLITAN DEVELOPMENT COUNCIL AND RELATED ENTITIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

#### NOTE 11 - CAPITALIZED COSTS

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

	<u>2017</u>	<u>2016</u>
<b><u>Fawcett Street Limited Partnership</u></b>		
Tax credit fees		\$ 33,281
Syndication fees (non-amortizable)	_____	<u>6,500</u>
		39,781
Accumulated amortization	_____	<u>(24,363)</u>
		15,418
<b><u>Parkland Family Vista LLC</u></b>		
Syndication fees (non-amortizable)	\$ <u>20,000</u>	<u>20,000</u>
Total Capitalized Costs - Net of Amortization	\$ <u>20,000</u>	\$ <u>35,418</u>

#### NOTE 12 - 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, 2017.

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

2018	\$ 135,687
2019	<u>80,519</u>
	\$ <u>216,206</u>

**SUPPLEMENTARY INFORMATION**

**METROPOLITAN DEVELOPMENT COUNCIL AND RELATED ENTITIES**

SCHEDULES OF FINANCIAL POSITION

December 31, 2017

	<u>MDC</u>	<u>MDC Housing</u>	<u>Fawcett</u>	<u>Parkland</u>	<u>Totals</u>	<u>Eliminations</u>	<u>Consolidated</u>
<b><u>ASSETS</u></b>							
Cash	\$ 2,286,239	\$ 222,641		\$ 153,399	\$ 2,662,279		\$ 2,662,279
Grants and contracts receivable	1,905,804	37,910		7,604	1,951,318		1,951,318
Deposits, advances and prepaid expenses	73,175	640		726	74,541		74,541
Receivable	2,151,256				2,151,256	\$ (1,985,576)	165,680
Inventory							
Investment, Parkland Street Limited Partnership	1,033,831				1,033,831	(1,033,831)	
Reserves	820,048			390,264	1,210,312		1,210,312
Land	2,021,837	683,000		259,900	2,964,737		2,964,737
Buildings, net of accumulated depreciation	9,458,678	5,094,948		4,465,988	19,019,614		19,019,614
Capitalized costs, net of accumulated amortization				20,000	20,000		20,000
Equipment, net of accumulated depreciation	61,069			59,282	120,351		120,351
<b>TOTAL ASSETS</b>	<b>\$ 19,811,937</b>	<b>\$ 6,039,139</b>	<b>\$</b>	<b>\$ 5,357,163</b>	<b>\$ 31,208,239</b>	<b>\$ (3,019,407)</b>	<b>\$ 28,188,832</b>
<b><u>LIABILITIES AND NET ASSETS</u></b>							
<b>LIABILITIES</b>							
Accounts payable	\$ 703,944	\$ 16,409		\$ 14,740	\$ 735,093		\$ 735,093
Due to MDC		980,025		1,005,551	1,985,576	\$ (1,985,576)	
Accrued payroll and taxes	511,910				511,910		511,910
Funding source advance	4,849				4,849		4,849
Rental deposits	27,634	6,692		12,505	46,831		46,831
Accrued annual leave	232,237				232,237		232,237
Mortgages payable	4,978,174				4,978,174		4,978,174
Mortgages and loans payable, low income housing	4,104,560	5,784,381		3,058,382	12,947,323		12,947,323
Loan, MDC				1,033,831	1,033,831	(1,033,831)	
<b>Total Liabilities</b>	<b>10,563,308</b>	<b>6,787,507</b>		<b>5,125,009</b>	<b>22,475,824</b>	<b>(3,019,407)</b>	<b>19,456,417</b>
<b>NET ASSETS</b>							
Unrestricted							
Asset building	150,534				150,534		150,534
Housing	5,184,719	(748,368)		232,154	4,668,505		4,668,505
Healthcare	3,632,835				3,632,835		3,632,835
Development	280,541				280,541		280,541
<b>Total Unrestricted Net Assets</b>	<b>9,248,629</b>	<b>(748,368)</b>		<b>232,154</b>	<b>8,732,415</b>		<b>8,732,415</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 19,811,937</b>	<b>\$ 6,039,139</b>	<b>\$</b>	<b>\$ 5,357,163</b>	<b>\$ 31,208,239</b>	<b>\$ (3,019,407)</b>	<b>\$ 28,188,832</b>

**METROPOLITAN DEVELOPMENT COUNCIL AND RELATED ENTITIES**

SCHEDULES OF FINANCIAL POSITION (Continued)

December 31, 2016

	<u>MDC</u>	<u>MDC Housing</u>	<u>Fawcett</u>	<u>Parkland</u>	<u>Totals</u>	<u>Eliminations</u>	<u>Consolidated</u>
<b><u>ASSETS</u></b>							
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
Receivable, partnerships	1,986,081				1,986,081	\$ (1,986,081)	
Inventory	8,651				8,651		8,651
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
<b>TOTAL ASSETS</b>	<b>\$ 19,312,118</b>	<b>\$ 6,375,063</b>	<b>\$ 2,014,503</b>	<b>\$ 5,499,154</b>	<b>\$ 33,200,838</b>	<b>\$ (3,019,912)</b>	<b>\$ 30,180,926</b>
<b><u>LIABILITIES AND NET ASSETS</u></b>							
<b>LIABILITIES</b>							
Accounts payable	\$ 776,887	\$ 15,769	\$ 9,428	\$ 10,293	\$ 812,377		\$ 812,377
Due to 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)	
<b>Total Liabilities</b>	<b>10,765,387</b>	<b>6,657,416</b>	<b>1,831,112</b>	<b>5,078,370</b>	<b>24,332,285</b>	<b>(3,019,912)</b>	<b>21,312,373</b>
<b>NET ASSETS</b>							
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
<b>Total Unrestricted Net Assets</b>	<b>8,546,731</b>	<b>(282,353)</b>	<b>183,391</b>	<b>420,784</b>	<b>8,868,553</b>		<b>8,868,553</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 19,312,118</b>	<b>\$ 6,375,063</b>	<b>\$ 2,014,503</b>	<b>\$ 5,499,154</b>	<b>\$ 33,200,838</b>	<b>\$ (3,019,912)</b>	<b>\$ 30,180,926</b>



**METROPOLITAN DEVELOPMENT COUNCIL AND RELATED ENTITIES**

**SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN NET ASSETS**

Year Ended December 31, 2017

	<u>MDC</u>	<u>MDC Housing</u>	<u>Fawcett</u>	<u>Parkland</u>	<u>Total</u>	<u>Administration</u>	<u>Eliminations</u>	<u>Consolidated</u>
<b>REVENUE</b>								
Grants and contracts	\$ 19,399,772	\$ 84,998		\$ 15,000	\$ 19,499,770	\$ (9,771)	\$ (15,000)	\$ 19,474,999
Donations	123,746				123,746			123,746
Foundation grants	143,500				143,500			143,500
Service fee and match	988,002				988,002			988,002
Rent income	768,001	338,980	\$ 195,865	390,213	1,693,059			1,693,059
Receipts from clients	3,438	373	1,641		5,452			5,452
Interest income	42,397		31	123	42,551	1,234	(42,397)	1,388
In-kind contributions	649,796				649,796			649,796
Other income	366,506	20,317	1,725	4,523	393,071		(13,711)	379,360
<b>Total Revenue</b>	<b>22,485,158</b>	<b>444,668</b>	<b>199,262</b>	<b>409,859</b>	<b>23,538,947</b>	<b>(8,537)</b>	<b>(71,108)</b>	<b>23,459,302</b>
<b>EXPENDITURES</b>								
Personnel	8,183,421	368,715	21,553	45,683	8,619,372	1,790,177		10,409,549
Travel and transportation	220,352	4,600	46	396	225,394	11,139		236,533
Facility costs	990,841	173,274	66,764	120,963	1,351,842	120,424		1,472,266
Interest	130,314	16,222	32,402	91,427	270,365	6,594	(42,397)	234,562
Depreciation and amortization	357,573	140,727	76,583	168,868	743,751			743,751
Supplies	751,697	30,719	20,486	7,667	810,569	98,129		908,698
Materials and direct payments	7,586,698				7,586,698			7,586,698
Tools and equipment	3,714	244			3,958	2,271		6,229
Other direct costs	1,048,122	95,411	76,559	163,485	1,383,577	321,273	(28,711)	1,676,139
In-kind	649,796				649,796			649,796
Indirect and direct administrative	1,917,954	80,771			1,998,725	(2,358,544)		(359,819)
<b>Total Expenditures</b>	<b>21,840,482</b>	<b>910,683</b>	<b>294,393</b>	<b>598,489</b>	<b>23,644,047</b>	<b>(8,537)</b>	<b>(71,108)</b>	<b>23,564,402</b>
<b>Revenue Over (Under) Expenditures</b>	<b>644,676</b>	<b>(466,015)</b>	<b>(95,131)</b>	<b>(188,630)</b>	<b>(105,100)</b>			<b>(105,100)</b>
Gain on sale of building			368,962		368,962			368,962
<b>Change in Net Assets</b>	<b>644,676</b>	<b>(466,015)</b>	<b>273,831</b>	<b>(188,630)</b>	<b>263,862</b>			<b>263,862</b>
<b>Net Assets at Beginning of Year</b>	<b>8,546,731</b>	<b>(282,353)</b>	<b>183,391</b>	<b>420,784</b>	<b>8,868,553</b>			<b>8,868,553</b>
Net asset contribution (distribution)	57,222		(457,222)		(400,000)			(400,000)
<b>NET ASSETS AT END OF YEAR</b>	<b>\$ 9,248,629</b>	<b>\$ (748,368)</b>	<b>\$</b>	<b>\$ 232,154</b>	<b>\$ 8,732,415</b>	<b>\$</b>	<b>\$</b>	<b>\$ 8,732,415</b>

**METROPOLITAN DEVELOPMENT COUNCIL AND RELATED ENTITIES**

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

Year Ended December 31, 2016

	<u>MDC</u>	<u>MDC Housing</u>	<u>Fawcett</u>	<u>Parkland</u>	<u>Total</u>	<u>Administration</u>	<u>Eliminations</u>	<u>Consolidated</u>
<b>REVENUE</b>								
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
<b>Total Revenue</b>	<b>23,479,220</b>	<b>594,239</b>	<b>396,960</b>	<b>377,224</b>	<b>24,847,643</b>	<b>10,832</b>	<b>(127,773)</b>	<b>24,730,702</b>
<b>EXPENDITURES</b>								
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
<b>Total Expenditures</b>	<b>22,710,908</b>	<b>652,674</b>	<b>521,766</b>	<b>540,300</b>	<b>24,425,648</b>	<b>10,832</b>	<b>(127,773)</b>	<b>24,308,707</b>
<b>Change in Net Assets</b>	<b>768,312</b>	<b>(58,435)</b>	<b>(124,806)</b>	<b>(163,076)</b>	<b>421,995</b>			<b>421,995</b>
<b>Net Assets at Beginning of Year</b>	<b>7,778,419</b>	<b>(223,918)</b>	<b>308,197</b>	<b>583,860</b>	<b>8,446,558</b>			<b>8,446,558</b>
<b>NET ASSETS AT END OF YEAR</b>	<b>\$ 8,546,731</b>	<b>\$ (282,353)</b>	<b>\$ 183,391</b>	<b>\$ 420,784</b>	<b>\$ 8,868,553</b>	<b>\$</b>	<b>\$</b>	<b>\$ 8,868,553</b>

**METROPOLITAN DEVELOPMENT COUNCIL AND RELATED ENTITIES**

**SCHEDULES OF CASH FLOWS**

Year Ended December 31, 2017

	<u>MDC</u>	<u>MDC Housing</u>	<u>Fawcett</u>	<u>Parkland</u>	<u>Consolidated</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Change in net assets	\$ 644,676	\$ (466,015)	\$ 273,831	\$ (188,630)	\$ 263,862
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities					
Depreciation	357,573	140,727	75,402	168,868	742,570
Debt issuance costs		767	17,290	3,493	21,550
Amortization			1,181		1,181
Gain on sale of building			(368,962)		(368,962)
Change in operating assets and liabilities					
(Increase) decrease in grants and contracts receivable	12,895	(7,310)	4,525	(3,164)	6,946
(Increase) decrease in deposits, advances, prepaid expenses and inventory	1,307	(640)		11,319	11,986
(Increase) decrease in reserves	(301,002)		210,651	8,928	(81,423)
(Increase) decrease in receivables	(107,953)	157,071	(263,719)	63,158	(151,443)
Increase (decrease) in accounts payable	(72,943)	640	(9,428)	4,447	(77,284)
Increase (decrease) in payroll, taxes and accrued annual leave payable	(12,022)		(56,839)		(68,861)
Decrease in funding source advance	(529,383)				(529,383)
Decrease in rental deposits	(2,667)	(226)	(17,035)	(170)	(20,098)
<b>Net Cash Provided (Used) by Operating Activities</b>	<u>(9,519)</u>	<u>(174,986)</u>	<u>(133,103)</u>	<u>68,249</u>	<u>(249,359)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Purchase of fixed assets	(778,236)	(7,338)			(785,574)
Proceeds from sale of building			270,902		270,902
<b>Net Cash Provided (Used) by Investing Activities</b>	<u>(778,236)</u>	<u>(7,338)</u>	<u>270,902</u>		<u>(514,672)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Proceeds from mortgages and loans	639,000				639,000
Payments of principal on mortgages and loans	(224,064)	(28,161)	(18,734)	(24,289)	(295,248)
Distributions to partner			(400,000)		(400,000)
<b>Net Cash Provided (Used) by Financing Activities</b>	<u>414,936</u>	<u>(28,161)</u>	<u>(418,734)</u>	<u>(24,289)</u>	<u>(56,248)</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	(372,819)	(210,485)	(280,935)	43,960	(820,279)
<b>Cash at Beginning of Year</b>	<u>2,659,058</u>	<u>433,126</u>	<u>280,935</u>	<u>109,439</u>	<u>3,482,558</u>
<b>CASH AT END OF YEAR</b>	<u>\$ 2,286,239</u>	<u>\$ 222,641</u>	<u>\$ _____</u>	<u>\$ 153,399</u>	<u>\$ 2,662,279</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>					
Cash paid during the year for interest	<u>\$ 130,314</u>	<u>\$ 15,455</u>	<u>\$ 32,402</u>	<u>\$ 45,528</u>	<u>\$ 223,699</u>
Non-cash equity contribution	<u>\$ 57,222</u>	<u>\$ _____</u>	<u>\$ _____</u>	<u>\$ _____</u>	<u>\$ _____</u>

**METROPOLITAN DEVELOPMENT COUNCIL AND RELATED ENTITIES**

SCHEDULES OF CASH FLOWS (Continued)

Year Ended December 31, 2016

	<u>MDC</u>	<u>MDC Housing</u>	<u>Fawcett</u>	<u>Parkland</u>	<u>Consolidated</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
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
<b>Net Cash Provided by Operating Activities</b>	<u>1,470,962</u>	<u>304,198</u>	<u>129,128</u>	<u>18,363</u>	<u>1,922,651</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Purchase of fixed assets	(19,746)	(5,889)			(25,635)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Payments of principal on mortgages and loans	<u>(207,508)</u>	<u>(19,375)</u>	<u>(43,620)</u>	<u>(22,916)</u>	<u>(293,419)</u>
<b>Net Cash Used by Financing Activities</b>	<u>(207,508)</u>	<u>(19,375)</u>	<u>(43,620)</u>	<u>(22,916)</u>	<u>(293,419)</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	1,243,708	278,934	85,508	(4,553)	1,603,597
<b>Cash at Beginning of Year</b>	<u>1,415,350</u>	<u>154,192</u>	<u>195,427</u>	<u>113,992</u>	<u>1,878,961</u>
<b>CASH AT END OF YEAR</b>	<u>\$ 2,659,058</u>	<u>\$ 433,126</u>	<u>\$ 280,935</u>	<u>\$ 109,439</u>	<u>\$ 3,482,558</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>					
Cash paid during the year for interest	<u>\$ 121,575</u>	<u>\$ 22,825</u>	<u>\$ 51,886</u>	<u>\$ 46,870</u>	<u>\$ 243,156</u>

**METROPOLITAN DEVELOPMENT COUNCIL AND RELATED ENTITIES**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Year Ended December 31, 2017

<u>Agency</u>	<u>Program Title</u>	<u>Federal CFDA Grantor</u>	<u>Pass Through Entity Identifying Number</u>	<u>Passed Through to Subrecipients</u>	<u>Federal Expenditures</u>
HHS	LIHEAP	93.568	32606-070, 43101-418		\$ 2,064,092
	Community Services Block Grant	93.569	F17-32101-016		106,714
	<b>Total Health and Human Services</b>				<u>2,170,806</u>
DOE	Education EOC (TRIO Cluster)	84.066A			630,886
	Upward Bound (TRIO Cluster)	84.047A			552,258
	Talent Search (TRIO Cluster)	84.044A			468,068
	<b>Total Department of Education</b>				<u>1,651,212</u>
HUD	Community Development Block Grant	14.218			44,757
	Emergency Solutions Grant Program	14.231	SC-104541		8,551
	Continuum of Care Program	14.267	SC-105181, SC-105117, SC-105120, SC-105172, SC-105146		546,807
	Rapid Re-housing THA	14.871	SC-104541		47,996
	<b>Total Housing and Urban Development</b>				<u>648,111</u>
Energy	Weatherization	81.042	F17-43103-418		141,227
Agriculture	Child Care Food Program	10.558	27-0202-01		2,643,640
	RISE program	10.596	1712-16248		233,579
	<b>Total Department of Agriculture Food and Nutrition Services</b>				<u>2,877,219</u>
VA	VA Homeless Provider	64.024			51,092
	Supportive Services for Veteran Families	64.033		\$ 2,101,766	3,940,168
	<b>Total Department of Veterans Affairs</b>			<u>2,101,766</u>	<u>3,991,260</u>
	<b>Total Federal Awards</b>			<u>\$ 2,101,766</u>	<u>\$ 11,479,835</u>

## **METROPOLITAN DEVELOPMENT COUNCIL AND RELATED ENTITIES**

### **NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Year Ended December 31, 2017

#### **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, 2017. 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



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, 2017, 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 August 6, 2018.

***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 significant deficiencies. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be material weaknesses as items 2017-001 and 2017-002.



***Compliance and Other Matters***

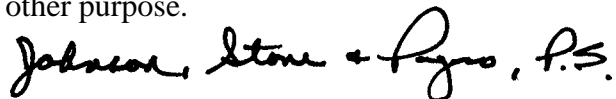
As part of obtaining reasonable assurance about whether MDC's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2017-003.

***Metropolitan Development Council's Response to Findings***

MDC's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. MDC's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

***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.**

August 6, 2018



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, 2017. 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 federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of 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.

***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, 2017.

***Other Matters***

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2017-003. Our opinion on each major federal program is not modified with respect to these matters.

MDC's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. MDC's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

**Report on Internal Control over Compliance**

Management of 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.

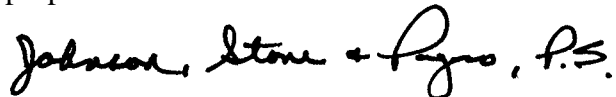
*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement 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 and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. We identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2017-003 that we consider to be material weaknesses.

Board of Directors  
Metropolitan Development Council

MDC's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. MDC's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.**

August 6, 2018

**METROPOLITAN DEVELOPMENT COUNCIL AND RELATED ENTITIES**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Year Ended December 31, 2017

**Section I - Summary of Auditor's Results**

**Financial Statements**

Type of auditor's report issued	Unmodified
Internal control over financial reporting	
Material weaknesses identified?	Yes
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?	Yes
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 the Schedule that are required to be reported in accordance with 2CFR Section 200.516(a)?	2017-003

Identification of major programs

<u>CFDA Number(s)</u>	<u>Federal Program or Cluster</u>
10.558	Child and Adult Care Food Program
10.596	Resources to Initiate Successful Employment Project
64.033	VA Supportive Services for Veterans
93.568	Low-income Home Energy Assistance

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

**METROPOLITAN DEVELOPMENT COUNCIL AND RELATED ENTITIES**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)**

Year Ended December 31, 2017

**Section II - Financial Statement Findings**

**2017-001 Background Checks and Employee Files**

***Criteria***

Employee files were not maintained and the policy that requires background checks was not followed.

***Condition***

No process was in place to document and review background checks and to maintain an organized filing system.

***Context***

Employee files were missing documentation and background checks.

***Effect***

Employees may be hired and placed in employment that do not meet the background check clearance requirements.

***Cause***

Human Resources was not reviewing the background checks in a timely manner.

***Auditor's Recommendation***

We recommend that procedures are implemented to review background checks in a timely manner and to maintain documentation of such in employee files.

**METROPOLITAN DEVELOPMENT COUNCIL AND RELATED ENTITIES**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)**

Year Ended December 31, 2017

**Section II - Financial Statement Findings (Continued)**

**2017-002 Maintaining detailed supporting documentation for eligibility requirements as outlined by the federal grant.**

***Criteria***

The grant agreement requires recipients to document eligibility requirements as outlined in the required checklist.

***Condition***

Detailed supporting documentation was not maintained that indicated program employees were following the guidelines.

***Context***

Client files selected for review did not meet the compliance requirements as outlined in the grant agreement. Insufficient documentation was in the files to support the eligibility requirements. Eight of forty files selected for testing did not have sufficient documentation.

***Effect***

Program employees were not following the guidelines and there is a possibility that clients did not meet the criteria for services under the grant fund.

***Cause***

Program employees were not following established procedures due to a lack of oversight.

***Auditor's Recommendation***

We recommend that procedures be implemented to maintain detailed supporting documents for expenses charged to federal grants.

# **METROPOLITAN DEVELOPMENT COUNCIL AND RELATED ENTITIES**

## **SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)**

Year Ended December 31, 2017

### **Section III - Federal Award Findings and Questioned Costs**

#### **2017-003**

##### *Federal Program Information*

Funding Agency: Veterans Affairs  
CFDA Number: 64.003

##### ***Criteria***

The grant agreement requires recipients to document eligibility requirements as outlined in the required checklist.

##### ***Condition***

Detailed supporting documentation was not maintained that indicated program employees were following the guidelines.

##### ***Context***

Client files selected for review did not meet the compliance requirements as outlined in the grant agreement. Insufficient documentation was in the files to support the eligibility requirements. Eight of forty files selected for testing did not have sufficient documentation.

##### ***Effect***

Program employees were not following the guidelines and there is a possibility that clients did not meet the criteria for services under the grant fund.

##### ***Cause***

Program employees were not following established procedures due to a lack of oversight.

##### ***Auditor's Recommendation***

We recommend that procedures be implemented to maintain detailed supporting documents for expenses charged to federal grants.



# METROPOLITAN DEVELOPMENT COUNCIL AND RELATED ENTITIES

## CORRECTIVE ACTION PLAN

Year Ended December 31, 2017



945 Fawcett Avenue  
Tacoma, WA 98402  
www.mdc-hope.org

### **2017-001 Background Checks and Employee Files**

#### *Condition*

No process was in place to document and review background checks and to maintain an organized filing system.

#### **CORRECTIVE ACTION:**

A process has been developed and training conducted within the Human Resource Department to ensure background checks are being conducted in a timely manner to confirm employees meet clearance and certification requirements. Additional hiring and temporary labor has been brought in to review, organize and collect any documentation required in the employment files. In addition, an RFP is in process to procure an electronic Human Resource Information System (HRIS) to replace the existing manual HR process.

### **2017-002 Maintaining detailed supporting documentation for eligibility requirements as outlined by the federal grant**

#### *Condition*

Detailed supporting documentation was not maintained that indicated program employees were following the guidelines.

#### **CORRECTIVE ACTION:**

Checklists have been developed, certification forms implemented and training has been completed with staff to ensure program standards, guidelines and requirements are met for audit compliance.

### **2017-003 Federal Program Information CFDA Number: 64.003**

#### *Condition*

Detailed supporting documentation was not maintained that indicated program employees were following the guidelines.

#### **CORRECTIVE ACTION:**

Checklists have been developed, certification forms implemented and training has been completed with staff to ensure program standards, guidelines and requirements are met for audit compliance.

Housing

Healthcare

Education

Employment