MULTI-SERVICE CENTER

CONSOLIDATED FINANCIAL STATEMENTS
With Independent Auditor's Report

YEARS ENDED JUNE 30, 2017 AND 2016

UNIFORM GUIDANCE SUPPLEMENTARY FINANCIAL REPORTS
YEAR ENDED JUNE 30, 2017

MSC
MULTI-SERVICE CENTER

MULTI-SERVICE CENTER

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

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INDEPENDENT AUDITOR'S REPORT

January 25, 2018

Board of Directors
Multi-Service Center
Federal Way, Washington

We have audited the accompanying consolidated financial statements of Multi-Service Center which comprise the consolidated statements of financial position as of June 30, 2017 and 2016, and the related consolidated statements of activity, functional expenses 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 audit 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 consolidated 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 consolidated 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 consolidated financial statements.

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

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Opinion
In our opinion, the consolidated financial statements referred to in the first paragraph of this letter present fairly, in all material respects, the financial position of Multi-Service Center as of June 30, 2017 and 2016, and the changes in its net assets and members' equity and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters
Other Information
Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. Consolidating information is presented for purposes of additional analysis rather than to present the financial position and changes in net assets and members' equity of the individual organizations and is not a required part of the consolidated financial statements. Similarly, the accompanying schedule of expenditures of federal awards, as required by U.S. Office of Management and Budget 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), is presented for purposes of additional analysis and is not a required part of the consolidated 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 audit 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 January 25, 2018 on our consideration of Multi-Service Center'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 Multi-Service Center’s internal control over financial reporting and compliance.

Jacobson Jarvis & Co, PLLC

Jacobson Jarvis & Co, PLLC

MULTI-SERVICE CENTER

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2017 AND 2016

	2017					2016				
	Multi-Service Center	Foundation	Housing Entities	Eliminations	Consolidated Total	Multi-Service Center	Foundation	Housing Entities	Eliminations	Consolidated Total
ASSETS										
Current Assets										
Cash and cash equivalents	$ 904,794	$ 9,954	$ 200,879		$ 1,115,627	$ 908,931	$ 9,954	$ 259,361		$ 1,178,246
Investments	-	658,220	-		658,220	-	593,215	-		593,215
Grants and other receivables	1,193,770	-	(11,760)	$ (197,159)	984,851	1,084,438	-	10,937	$ (200,519)	894,856
Prepaid expenses	41,631	-	121,083	-	162,714	55,937	-	122,610	-	178,547
Total Current Assets	2,140,195	668,174	310,202	(197,159)	2,921,412	2,049,306	603,169	392,908	(200,519)	2,844,864
Restricted cash deposits and funded reserves	619,443	-	1,988,532		2,607,975	470,518	-	2,149,186		2,619,704
Deferred financing costs, net	-	-	217,388		217,388	7,140	-	98,158		105,298
Investment in Affiliates	538,949	-	-	(538,949)	-	502,302	-	-	(502,302)	-
Notes receivable from Affiliates	1,940,395	-	-	(1,940,395)	-	1,673,941	-	-	(1,673,941)	-
Property and equipment, net	11,618,175	-	48,491,671	-	60,109,846	10,911,990	-	41,717,696	-	52,629,686
	$ 16,857,157	$ 668,174	$ 51,007,793	$ (2,676,503)	$ 65,856,621	$ 15,615,197	$ 603,169	$ 44,357,948	$ (2,376,762)	$ 58,199,552
LIABILITIES AND NET ASSETS										
Current Liabilities										
Accounts payable and accrued expenses	$ 385,044	$ 3,053	$ 1,982,956	$ (495,676)	$ 1,875,377	$ 512,377	$ 1,692	$ 1,811,033	$ (200,519)	$ 2,124,583
Accrued payroll expenses	245,734	-	29,988		275,722	253,073	-	29,988		283,061
Tenant security deposits	69,449	-	208,858		278,307	88,066	-	171,768		259,834
Deferred revenue	280,208	-	16,869		297,077	327,034	-	3,899		330,933
Short term loans and current portion of long-term	115,585	-	4,202,594	-	4,318,179	105,355	-	1,459,417	-	1,564,772
Total Current Liabilities	1,096,020	3,053	6,441,265	(495,676)	7,044,662	1,285,905	1,692	3,476,105	(200,519)	4,563,183
Accrued interest payable	239,254	-	441,563		680,817	229,035	-	345,083		574,118
Long-term debt, net of current portion	9,235,168	-	36,917,049	(1,641,878)	44,510,339	8,168,675	-	36,547,293	(1,673,941)	43,042,027
Total Liabilities	10,570,442	3,053	43,799,877	(2,137,554)	52,235,818	9,683,615	1,692	40,368,481	(1,874,460)	48,179,328
Net Assets and Members' Equity										
Unrestricted net assets	6,044,620	665,121			6,709,741	5,816,109	601,477			6,417,586
Temporarily restricted net assets	242,095	-			242,095	115,473	-			115,473
Total Net Assets	6,286,715	665,121			6,951,836	5,931,582	601,477			6,533,059
Members' Equity			7,207,916	(538,949)	6,668,967			3,989,467	(502,302)	3,487,165
Total Net Assets and Members' Equity	6,286,715	665,121	7,207,916	(538,949)	13,620,803	5,931,582	601,477	3,989,467	(502,302)	10,020,224
	$ 16,857,157	$ 668,174	$ 51,007,793	$ (2,676,503)	$ 65,856,621	$ 15,615,197	$ 603,169	$ 44,357,948	$ (2,376,762)	$ 58,199,552

MULTI-SERVICE CENTER

CONSOLIDATED STATEMENTS OF ACTIVITY

YEARS ENDED JUNE 30, 2017 AND 2016

	2017					2016				
	Multi-Servivce Center	Foundation	Housing Entities	Eliminations	Consolidated Total	Multi-Service Center	Foundation	Housing Entities	Eliminations	Consolidated Total
Change in Unrestricted Net Assets and Members' Equity										
Unrestricted public support										
Federal and state contracts and grants	$ 7,796,209	$ -			$ 7,796,209	$ 7,272,400	$ -			$ 7,272,400
City and county contracts and grants	600,348	-			600,348	577,605	-			577,605
Contributions and special events	838,077	-			838,077	755,156	-			755,156
In-kind contributions	2,336,915	-			2,336,915	2,334,351	-			2,334,351
Total Unrestricted Public Support	11,571,549	-			11,571,549	10,939,512	-			10,939,512
Revenue										
Fees for services	1,086,694	-	$ -	$ -	1,086,694	1,055,781	-	$ -	$ -	1,055,781
Rental income	1,279,100	-	3,369,988	-	4,649,088	1,289,321	-	2,957,421	-	4,246,742
Other revenue	559,098	69,161	1,454,532	(359,181)	1,723,610	219,375	(5,128)	1,515,579	(32,370)	1,697,456
Total Revenue	2,924,892	69,161	4,824,520	(359,181)	7,459,392	2,564,477	(5,128)	4,473,000	(32,370)	6,999,979
Net Assets Released from Purpose Restrictions	25,023	-	-	-	25,023	156,943	-	-	-	156,943
Total Unrestricted Public Support and Revenue	14,521,464	69,161	4,824,520	(359,181)	19,055,964	13,660,932	(5,128)	4,473,000	(32,370)	18,096,434
Expenses										
Program services	12,889,994	-	6,485,842	(327,534)	19,048,302	12,417,695	-	5,781,463	(34,428)	18,164,730
Development	282,741	-	-	-	282,741	320,841	-	-	-	320,841
General and administration	1,120,218	5,517	-	-	1,125,735	1,185,498	8,500	-	-	1,193,998
Total Expenses	14,292,953	5,517	6,485,842	(327,534)	20,456,778	13,924,034	8,500	5,781,463	(34,428)	19,679,569
Change in Unrestricted Net Assets and Members' Equity	228,511	63,644	(1,661,322)	(31,647)	(1,400,814)	(263,102)	(13,628)	(1,308,463)	2,058	(1,583,135)
Change in Temporarily Restricted Net Assets										
Contributions	151,645	-			151,645	37,756	-			37,756
Net assets released from purpose restrictions	(25,023)	-			(25,023)	(156,943)	-	-		(156,943)
Change in Temporarily Restricted Net Assets	126,622	-			126,622	(119,187)	-	-		(119,187)
Total Change in Net Assets and Members' Equity	355,133	63,644	(1,661,322)	(31,647)	(1,274,192)	(382,289)	(13,628)	(1,308,463)	2,058	(1,702,322)
Net Assets and Members' Equity - Beginning of year	5,931,582	601,477	3,989,467	(502,302)	10,020,224	6,313,871	615,105	5,220,595	(424,360)	11,725,211
Member Equity Contributions			4,882,271	(5,000)	4,877,271			80,000	(80,000)	-
Distributions and Syndication			(2,500)	-	(2,500)			(2,665)	-	(2,665)
Net Assets and Members' Equity - End of Year	$ 6,286,715	$ 665,121	$ 7,207,916	$ (538,949)	$ 13,620,803	$ 5,931,582	$ 601,477	$ 3,989,467	$ (502,302)	$ 10,020,224

See notes to consolidated financial statements.

MULTI-SERVICE CENTER

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2017

	Program Services								Supporting Services			
	Energy Assistance	Long-Term Care Ombudsman	Education and Employment	Food and Clothing	Housing Support	Permanent Housing	Other Programs	Total Program Services	Development	General and Administration	Total Supporting Services	Total
Salaries	$ 897,222	$ 471,891	$ 443,381	$ 156,873	$ 389,475	$ 948,356	$ 131,607	$ 3,438,805	$ 126,330	$ 629,564	$ 755,894	$ 4,194,699
Payroll taxes	77,250	40,156	37,586	13,493	33,466	116,956	10,797	329,704	10,747	52,822	63,569	393,273
Payroll benefits	235,712	72,910	97,511	45,691	80,930	79,970	32,463	645,187	30,036	89,581	119,617	764,804
Direct client support	2,666,789	5,862	152,619	2,875,509	336,753	32,000	-	6,069,532	215	118	333	6,069,865
Depreciation and amortization	24,710	3,850	1,533	8,660	39,119	2,377,441	-	2,455,313	-	24,981	24,981	2,480,294
Occupancy	114,796	33,216	79,139	77,471	249,669	1,059,596	14,307	1,628,194	17,779	92,577	110,356	1,738,550
Interest	-	-	-	-	-	1,215,301	-	1,215,301	-	9,828	9,828	1,225,129
Equipment, maintenance and repairs	5,677	43,418	18,184	2,557	138,656	752,198	-	960,690	42	25,833	25,875	986,565
Subcontractors	-	785,416	4,400	74,224	41,397	-	-	905,437	-	-	-	905,437
Consultants and professional services	57,056	125,201	20,846	6,790	15,115	481,201	26,977	733,186	27,653	32,272	59,925	793,111
Supplies	29,768	7,892	14,162	1,772	5,342	244,644	1,255	304,835	13,424	10,600	24,024	328,859
Printing, postage and advertising	41,829	9,671	6,322	4,108	4,585	116,388	545	183,448	26,907	46,046	72,953	256,401
Insurance	29	-	1,813	14,057	20,747	122,940	-	159,586	-	47,540	47,540	207,126
Fees and subscriptions	250	28,839	870	474	12,127	32,289	30	74,879	13,206	25,370	38,576	113,455
Travel	18,132	42,252	13,403	1,426	8,215	7,078	201	90,707	307	11,962	12,269	102,976
Miscellaneous	1,923	5,618	6,636	412	8,115	75,614	-	98,318	-	4,087	4,087	102,405
Conferences, meetings and training	5,468	19,088	4,436	208	3,383	19,058	4,176	55,817	16,095	22,420	38,515	94,332
Vehicles	-	-	1,328	21,139	248	4,182	-	26,897	-	134	134	27,031
Total Expenses	4,176,611	1,695,280	904,169	3,304,864	1,387,342	7,685,212	222,358	19,375,836	282,741	1,125,735	1,408,476	20,784,312
Eliminations	-	-	-	-	-	(327,534)	-	(327,534)	-	-	-	(327,534)
Total Consolidated Expense	$ 4,176,611	$ 1,695,280	$ 904,169	$ 3,304,864	$ 1,387,342	$ 7,357,678	$ 222,358	$ 19,048,302	$ 282,741	$ 1,125,735	$ 1,408,476	$ 20,456,778

MULTI-SERVICE CENTER

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2016

	Program Services								Supporting Services			
	Energy Assistance	Long-Term Care Ombudsman	Education and Employment	Food and Clothing	Housing Support	Permanent Housing	Other Programs	Total Program Services	Development	General and Administration	Total Supporting Services	Total
Salaries	$ 865,918	$ 415,610	$ 273,534	$ 136,098	$ 260,262	$ 924,507	$ 143,668	$ 3,019,597	$ 148,202	$ 543,581	$ 691,783	$ 3,711,380
Payroll taxes	79,379	36,865	24,822	12,325	23,354	109,214	12,262	298,221	12,766	49,290	62,056	360,277
Payroll benefits	244,249	70,133	74,734	41,256	72,197	70,786	35,913	609,268	41,666	97,988	139,654	748,922
Direct client support	2,977,140	-	30,285	2,950,514	250,106	-	-	6,208,045	-	955	955	6,209,000
Depreciation and amortization	31,054	1,280	2,005	8,829	39,294	2,062,148	-	2,144,610	-	118,459	118,459	2,263,069
Occupancy	84,157	11,812	30,484	30,271	239,188	989,193	3,493	1,388,598	8,013	17,265	25,278	1,413,876
Interest	-	-	-	-	(282)	1,070,824	-	1,070,542	-	95,525	95,525	1,166,067
Equipment, maintenance and repairs	33,522	8,112	9,612	17,616	106,051	745,774	1,515	922,202	2,648	55,919	58,567	980,769
Subcontractors	-	901,514	-	-	24,103	-	-	925,617	-	-	-	925,617
Consultants and professional services	37,281	121,770	12,877	2,729	8,810	466,952	392	650,811	19,246	79,345	98,591	749,402
Supplies	29,644	14,164	7,713	4,922	3,506	251,426	1,722	313,097	36,386	17,744	54,130	367,227
Printing, postage and advertising	36,709	5,876	4,760	3,980	4,644	118,071	128	174,168	34,853	43,532	78,385	252,553
Insurance	2,632	1,138	3,719	14,296	25,293	140,894	443	188,415	749	30,583	31,332	219,747
Fees and subscriptions	250	26,242	596	150	9,314	35,642	-	72,194	13,362	28,656	42,018	114,212
Travel	22,659	53,791	11,670	892	4,113	3,453	165	96,743	568	6,831	7,399	104,142
Miscellaneous	1,507	5,148	3,701	-	439	19,051	-	29,846	75	(6,549)	(6,474)	23,372
Conferences, meetings and training	4,982	31,686	2,667	211	(15)	15,898	5,376	60,805	2,307	14,644	16,951	77,756
Vehicles	-	5	1,151	14,311	-	10,912	-	26,379	-	230	230	26,609
Total Expenses	4,451,083	1,705,146	494,330	3,238,400	1,070,377	7,034,745	205,077	18,199,158	320,841	1,193,998	1,514,839	19,713,997
Eliminations	-	-	-	-	-	(34,428)	-	(34,428)	-	-	-	(34,428)
Total Consolidated Expense	$ 4,451,083	$ 1,705,146	$ 494,330	$ 3,238,400	$ 1,070,377	$ 7,000,317	$ 205,077	$ 18,164,730	$ 320,841	$ 1,193,998	$ 1,514,839	$ 19,679,569

See notes to consolidated financial statements.

MULTI-SERVICE CENTER

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
Cash Flows from Operating Activities		
Cash received from:		
Governmental agencies	$ 8,276,066	$ 7,624,322
Donors	989,722	792,912
Service recipients	1,103,747	1,055,781
Tenants	4,667,561	4,277,710
Other	1,986,139	1,741,148
Cash paid for:		
Personnel	(5,360,115)	(4,769,120)
Services and supplies	(9,613,043)	(8,860,220)
Interest	(1,146,051)	(1,136,390)
Net Cash Provided by Operating Activities	904,026	726,143
Cash Flows from Investing Activities		
Purchase of investments	-	(65,000)
Purchases of property and equipment	(5,556,459)	(5,708,943)
Net Cash Used by Investing Activities	(5,556,459)	(5,773,943)
Cash Flows from Financing Activities		
Member equity distributions	(2,500)	(2,662)
Repayments on long-term debt	(634,576)	(1,361,373)
Borrowings on long-term debt	5,215,161	5,230,434
Net Cash Provided by Financing Activities	4,578,085	3,866,399
Changes in Cash and Cash Equivalents	(74,348)	(1,181,401)
Cash and Cash Equivalents - Beginning of Year	3,797,950	4,979,351
Cash and Cash Equivalents - End of Year	$ 3,723,602	$ 3,797,950
Noncash Investing and Financing Activity		
Repayment of long-term debt via member equity contribution	$ 4,877,271	$ -
Purchase of property through issuance of long-term debt	$ 4,559,311	$ -

See notes to consolidated financial statements.

MULTI-SERVICE CENTER

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
Change in net assets and members' equity	$ (1,274,192)	$ (1,702,322)
Adjustments to reconcile change in net assets and members' equity to net cash provided by operating activities		
Depreciation and amortization	2,576,679	2,263,069
Accrued interest	106,699	29,677
Reinvested investment earnings, net of fees	1,760	(12,466)
(Gain) loss on investments	(66,765)	21,730
Change in assets and liabilities		
Grants and other receivables	(86,635)	(122,570)
Prepaid expenses	(137,163)	87,516
Accounts payable and accrued expenses	(200,974)	233,654
Deferred revenue	(33,856)	(103,113)
Tenant security deposits	18,473	30,968
Net Cash Provided by Operating Activities	$ 904,026	$ 726,143

See notes to consolidated financial statements.

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Incorporated in 1971, Multi-Service Center (MSC) was formed for the purpose of helping people achieve greater independence and discover the power of their choices. MSC is located in Federal Way, Washington, with satellite offices in Burien and Kent. The following programs are offered to individuals and families in the community:

Energy Assistance – The Low-Income Home Energy Assistance Program (LIHEAP) and other similar contracts provide South King County area low-income families with financial assistance to pay heating and emergency heating system repair bills. The program also encourages energy self-sufficiency through energy education/crisis prevention and other supportive services.

Long-Term Care Ombudsman Program (LTCO) – This program provides services throughout Washington State to improve the quality of life for individuals residing in nursing homes and other long-term care facilities. Program objectives are to insure that long-term care facility residents receive appropriate and fair medical treatment, have access to available resources and receive information about their rights.

Education & Employment (E&E) **-** The E&E program provides adults and youth with English as a Second Language (ESL) classes; individual tutoring to improve reading, writing and math skills; and General Equivalency Diploma (GED) instruction. The E&E program provides a range of services to homeless adults and at-risk youth ages 16-24 years through its THRIVE and YES programs. Services include outreach and case management; barrier reduction assistance; pre-employment services and training; paid internship placements with community employers; leadership development; job retention and wage progression; and referrals to other agency “wrap-around services.”

Food and Clothing Bank - The food and clothing bank provides emergency supplemental food and clothing to low-income individuals and families.

Housing Support **-** The Housing Support program provides temporary housing and housing assistance services to families with dependent children, the elderly and disabled, and homeless individuals. This category includes only properties that have associated case management. Housing Support services include emergency shelter and transitional housing for single men and women in alcohol/drug abuse recovery, transitional housing for families, and housing first services for the homeless individuals.

Permanent Housing - This program operates permanent housing facilities available to low income individuals and families as well as veterans and the elderly. This program includes all permanent housing facilities without active case management services. Permanent Housing includes "Housing Entity" properties where MSC has a minority equity interest, as well as properties fully owned directly or indirectly by MSC.

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

The consolidated financial statements include the accounts and activities of Multi-Service Center, a nonprofit corporation; MSC Foundation (the Foundation), a nonprofit corporation; and the affiliated for-profit entities (the Affiliates). As of June 30, 2017, the Affiliates include SKCMSC Federal Way Associates Limited Partnership, MSC Fern Hill Terrace LLC, MSC GP Two Apartments LLC, Rainier View Senior LLC, MSC Radcliffe Place Associates LLC, Hawthorne Lane Graham Associates LLLP, MSC Federal Way Veterans LLC, MSC Pierce Preservation LLC, MSC Colvos Terrace LLC and MSC Pierce Co Preservation LLLP.

The affiliated entities, MSC Fern Hill Terrace LLC and MSC Pierce Preservation LLC, are wholly owned by Multi-Service Center and are included within the Multi-Service Center columns on the consolidated statements of financial position and of activity. All other affiliated entities are included within the Housing Entities columns.

Principles of consolidation

The consolidated financial statements include the accounts of MSC, the Foundation and the Affiliates. The consolidated entities are collectively referred to as the Center. All significant intercompany transactions have been eliminated in consolidation.

MSC controls the affiliated entities by virtue of being the sole managing member (or general partner). The properties held by these entities are expected to be transferred to MSC in the future. These partnerships and limited liability companies are subrecipients and/or assignees of government loans, grants and awards. As managing member (or general partner), MSC is contingently liable for compliance with loan, grant or award terms. MSC and the Foundation share the same board members; therefore MSC exercises control over the Foundation.

Basis of presentation

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Center and changes therein are classified and reported as follows:

Unrestricted net assets are available without restriction for support of the Center's operations.

Temporarily restricted net assets are restricted by the donors to be used for certain purposes or in future periods. Temporarily restricted net assets were available for various program purposes as of June 30, 2017 and 2016.

Permanently restricted net assets represent endowment gifts given with the intent that the principal will be maintained intact in perpetuity, and the income may be used for current operations. The Center had no permanently restricted net assets as of June 30, 2017 and 2016.

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Change in accounting principle

During the year ended June 30, 2017, the Center retrospectively adopted the provisions of Accounting Standards Update No. 2015-03 (ASU 2015-03), Simplifying the Presentation of Debt Issuance Costs. ASU 2015-03 requires that debt issuance costs be presented in the statement of financial position as a direct deduction from the carrying amount of the related debt liability and amortization of debt issuance costs be reported as interest expense. The adoption of ASU 2015-03 resulted in a decrease of previously reported deferred financing costs and long-term debt in the amount of $651,205. The adoption had no effect on the total net asset and members' equity balances or on the change in net assets and members' equity as of or for the years ended June 30, 2017 or 2016.

Cash and cash equivalents

Cash consists of cash held in checking and savings accounts. For purposes of the consolidated statements of cash flows, the Center considers all unrestricted, highly liquid investments with an initial maturity of three months or less to be cash equivalents. The Center maintains its cash and cash equivalents in bank accounts that may exceed federally insured limits at times during the year. The Center has not experienced any losses in these accounts, and management does not believe it is exposed to any significant credit risk.

Fair value measurements

In accordance with financial accounting standards, a three-tiered hierarchy of input levels is used for measuring fair value. Financial accounting standards defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Valuation techniques utilized to determine fair value are consistently applied. The three tiers of inputs used for fair value measurements are as follows:

Level 1: Fair values are based on quoted prices in active markets for identical assets and liabilities.

Level 2: Fair values are based on observable inputs that include: quoted market prices for similar assets or liabilities; quoted market prices that are not in an active market; or other inputs that are observable in the market and can be corroborated by observable market data for substantially the full term of the assets.

Level 3: Fair values are calculated by the use of pricing models and/or discounted cash flow methodologies, and may require significant management judgment or estimation. These methodologies may result in a significant portion of the fair value being derived from unobservable data.

Investments

Investments are reported at their fair values in the statements of financial position. Investments are subject to market risk which could have a significant impact on future valuation.

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred tax credit costs

Tax credit monitoring fees and related legal costs are amortized over the term of the related financing using the straight-line method. Financial accounting standards require that the effective yield method be used to amortize financing costs; however, the effect of using the straight-line method is not materially different from the results that would have been obtained under the effective yield method. Amortization expense for the years ended June 30, 2017 and 2016 totaled $33,345 and $65,184, respectively.

Grants and other receivables

Trade accounts, grants and pledges receivable are stated at the amount management expects to collect from outstanding balances. Grants receivable are anticipated by management to be collected in full.

Restricted cash deposits and funded reserves

In accordance with the terms of its partnership or LLC agreements and various loans, the Center is required to establish and maintain various operating and replacement reserves with required minimum balances and/or minimum annual deposits. In addition, the Board of Directors of MSC has established certain reserve funds. Such reserves are held in the form of cash.

Property and equipment

Land, buildings, improvements, furniture and equipment are capitalized at cost. Improvements are capitalized, while expenditures for maintenance and repairs are charged to expense as incurred. Depreciation is provided using the straight-line method over estimated useful lives of three to thirty-one years and totaled $2,576,679 and $2,263,069, respectively, for the years ended June 30, 2017 and 2016. The Center's policy is to capitalize property and equipment over $1,000. Property and equipment consists of the following at June 30:

	2017	2016
Land and improvements	$ 6,889,833	$ 6,506,006
Building and improvements	74,354,462	58,079,268
Vehicles	135,376	71,205
Furniture and equipment	2,576,845	1,440,347
Construction in progress	300,805	8,137,001
	84,257,321	74,233,827
Accumulated depreciation	(24,147,475)	(21,604,141)
	$ 60,109,846	$ 52,629,686

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Center 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 discounted 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 estate is considered to be 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 during the years ended June 30, 2017 and 2016.

Contributed goods and services

Contributed materials have been recorded on the basis of rates that otherwise would have been paid for similar goods. Donated services are recorded as in-kind contributions and are recognized as revenue at estimated values at the date of receipt if they (a) create or enhance non-financial assets, or (b) require specialized skills and would need to be purchased if not provided by donation. Corresponding expenses are recognized as the assets and services are utilized.

The Center calculates the value of food donations based on the weight at the time of the donation. The dollar value per pound of food of $1.73 was established by the State of Washington, Emergency Food Assistance Program (EFAP) for the years ended June 30, 2017 and 2016. The Center established a value for the donation of used clothing and personal hygiene items to the emergency services program at $1.50 per pound.

Such donations cannot be resold or used internally by the organization. This method was applied consistently and the estimated fair value was not expected to be materially different from that determined using a more detailed measurement of the inventory's fair value.

The Center also received 76,600 and 59,600 hours, respectively, of donated services from volunteers assisting in office administration, food collection, food and clothing distribution and home delivery of food during the years ended June 30, 2017 and 2016. The estimated value of these services, if recorded, would be $1,141,200 and $850,600, respectively. No amounts have been recognized in the statements of activity for the volunteer time because the criteria for recognition under financial accounting standards have not been satisfied.

In-kind contributions for the years ended June 30:

	2017	2016
Food donations	$ 1,908,128	$ 1,920,183
Clothing and hygiene donations	428,787	414,168
	$ 2,336,915	$ 2,334,351

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted and unrestricted public support

Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in temporarily restricted or permanently restricted net assets. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activity as net assets released from restrictions.

Revenue

Revenue is defined as income earned through fee-for-service agreements that is paid by the recipients of the services provided and rental subsidies paid by third parties. Revenues are recognized in the period in which they are earned.

Concentrations

The Center receives a significant amount of its funding from governmental and private sources. In addition, a Community Services Block Grant covers a significant portion of indirect costs incurred, including administration costs. Should some of these grantors not renew the Center’s grants, contracts or awards, or there were significant reductions in the federal budget related to the Center's programs, significant reductions of services would be required.

Functional allocation of expenses

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

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 and disclosures. Accordingly, actual results could differ from the estimated amounts.

Reclassifications

Certain accounts in the 2016 financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements. These reclassifications had no effect on the net assets or change in net assets as of or for the year ended June 30, 2016.

Income tax status

MSC and the Foundation are exempt from federal income taxes under the provisions of Section 509(a) of the Internal Revenue Code as entities described in Section 501(c)(3). Accordingly, no provision for income taxes has been made in the accompanying financial statements.

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

In addition, MSC qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(vi) and has been classified as an organization that is not a private foundation under Section 509(a)(2). MSC is liable for payment on a commercial loan on one building. The portion of the building rented to for-profit entities is subject to taxation as unrelated business income if net income is realized. No such tax was due for the year ended June 30, 2017.

Affiliates with only one member, MSC Fern Hill Terrace LLC, MSC Pierce Preservation LLC, MSC Colvos Terrace LLC and MSC Pierce Co Preservation LLLP, are considered disregarded entities for tax purposes and therefore have no tax filing requirements. The partners/members of the partnerships/limited liability companies are taxed individually on their share of earnings under applicable federal taxation laws. For the years ended June 30, 2017 and 2016, no taxes were due or payable by MSC for their share of the Affiliates' earnings.

NOTE B - AFFILIATED ORGANIZATIONS

MSC Fern Hill Terrace, LLC

The entity was formed as a limited liability company under the laws of the State of Washington in December 2006 for the purpose of operating a 26-unit apartment project known as Fern Hill Terrace in Tacoma, WA. The project is financed by a Department of Housing and Urban Development (HUD) loan and Section 8 rent subsidies. The rent subsidy contract with HUD expires September 30, 2029. MSC is the sole member.

MSC Pierce Preservation, LLC

The entity was formed as a limited liability company under the laws of the State of Washington in August 2013 for the purpose of operating an 18-unit apartment project known as Kenyon House in Buckley, WA. The project is financed by an Enterprise Community Loan and by the Pierce County Community Development Corporation and HUD Section 8 rent subsidies. The rent subsidy contract with HUD expires August 31, 2019. MSC is the sole member.

SKCMSC Federal Way Associates Limited Partnership

The entity was formed as a limited partnership under the laws of the State of Washington in April 2000 for the purpose of acquiring, constructing and operating a 50-unit, low-income senior housing project known as Mitchell Place Senior Residence in Federal Way, WA. MSC is the general partner with a .01% interest, and Midland Corporate Tax Credit Limited Partnership (and its subsidiaries) is the limited partner with 99.99% interest.

NOTE B - AFFILIATED ORGANIZATIONS (Continued)

The project received an allocation of low-income housing tax credits from the Washington State Housing Finance Commission under Section 42 of the Internal Revenue Code of 1986, as amended, which regulates the unit gross rent and occupant eligibility for a period of 15 consecutive years. In addition, the entity has executed an Affordable Housing Development Agreement which requires the utilization of the project pursuant to Section 42 for a minimum of 55 years, even after the disposition of the project by the entity.

MSC Radcliffe Place Associates, LLC

The entity was formed as a limited liability company under the laws of the State of Washington in April 2002 to construct, own and operate the Radcliffe Senior Apartments, a 135-unit senior apartment project located in Kent, WA. MSC is the managing and administrative member with a .01% total interest; AMTAX Holdings 570, LLC is the investor member with a 99.98% interest; Protech 2004-D, LLC is the special member with a .005% interest; Shelter Resources Inc. is the Class B member with a .0025% interest; and Synergy Construction Inc. is the additional Class B member with a .0025% interest.

The project received an allocation of low-income housing tax credits from the Washington State Housing Finance Commission under Section 42 of the Internal Revenue Code of 1986, as amended, which regulates the unit gross rent and occupant eligibility for a period of 15 consecutive years. In addition, the entity has agreed to maintain 100% of the units as both rent-restricted and occupied by low-income tenants for a minimum period of 30 years beginning in 2007.

Rainier View Senior, LLC

The entity was formed as a limited liability company under the laws of the State of Washington in January 2004 to purchase, construct and operate a 50-unit apartment project known as Rainier View Senior Apartments located in Fife, WA. MSC is the managing member with .01% interest and Community Housing Alliance III LP is the investor member with 99.99% interest.

The project received an allocation of low-income housing tax credits from the Washington State Housing Finance Commission under Section 42 of the Internal Revenue Code of 1986, as amended, which regulates the unit rent and occupant eligibility for a period of 15 consecutive years. In addition, the entity has agreed to maintain 100% of the units, except the resident manager unit, as both rent-restricted and occupied by low-income tenants for a minimum period of 50 years beginning in 2007.

NOTE B - AFFILIATED ORGANIZATIONS (Continued)

MSC GP Two Apartments, LLC

The entity was formed as a limited liability company under the laws of the State of Washington in January 2005 to acquire, rehabilitate and operate an 86-unit, low-income residential housing project known as Villa Capri Apartments in Federal Way, WA. MSC is the managing member with .005% interest; AMTAX holdings 308, LLC is the investor member with 99.98% interest; Transamerica Affordable Housing, Inc. is the special member with a .01% interest; and Shelter Resources is the Class B member with a .005% interest.

The project received an allocation of low-income housing tax credits from the Washington State Housing Finance Commission under Section 42 of the Internal Revenue Code of 1986, as amended, which regulates the unit gross rent and occupant eligibility for a period of 15 consecutive years. In addition, the entity has agreed to maintain 100% of the units as both rent-restricted and occupied by low-income tenants for a minimum period of 40 years beginning in 2007.

Hawthorne Lane Graham Associates, LLLP

The entity was formed as a limited liability limited partnership under the laws of the State of Washington in August 2006 to construct and operate a 32-unit apartment project known as Hawthorne Lane Apartments located in Graham, WA. MSC is the general partner with 5.0% interest and SRI Housing Development LLC is the limited partner with 95.0% interest.

The project was financed and constructed under Section 515 of the National Housing Act. Under this program, the entity provides affordable housing to tenants subject to regulation by Rural Development. The entity also received a grant from the Tax Credit Exchange Program. This program is administered by the Washington State Housing Finance Commission under Section 42 of the Internal Revenue Code. Under this program, housing provided by the entity is subject to monitoring of tenant eligibility by the Commission. The entity has agreed to maintain all apartment units as rent-restricted for a minimum of 37 years.

MSC Federal Way Veterans, LLC

The entity was formed as a limited liability company under the laws of the State of Washington in July 2011 for the purpose of constructing and operating a 45-unit apartment community in Federal Way, WA. Construction began in April 2015 and was completed in November 2016. MSC is the managing member with .01% interest and NEF Assignment Corporation is the investor member with 99.99% interest.

The project received an allocation of low-income housing tax credits from the Washington State Housing Finance Commission under Section 42 of the Internal Revenue Code of 1986, as amended, which regulates the unit gross rent and occupant eligibility for a period of 15 consecutive years. In addition, the entity has agreed to maintain all apartment units as both rent-restricted and occupied by low-income tenants for a period of 40 years.

NOTE B - AFFILIATED ORGANIZATIONS (Continued)

MSC Colvos Terrace, LLC

The entity was formed as a limited liability company under the laws of the State of Washington in January 2017 for the purpose of renovating and operating a 27 unit apartment project known as Colvos Terrace in Gig Harbor, WA. Pending permanent financing, the project has a Churchill Mortgage Construction LLC loan and HUD Section 8 rent subsidies. The rent subsidies contract with HUD expires on April 1, 2022. MSC is currently the sole member.

MSC Pierce Co Preservation, LLLP

The entity was formed as a limited liability limited partnership under the laws of the State of Washington in January 2015 for the purpose of renovating and operating a 60 unit apartment project known as Fawcett Street Apartments in Tacoma, WA. Pending permanent financing, the project has a Churchill Mortgage Construction LLC loan and Washington Department of Commerce HAP loan (assumed from prior owner). MSC is the general partner with a 0.99% interest (through MSC Pierce Co GP LLC – wholly owned); MSC is also the Class A limited partner with a 99.0% interest; Shelter Resources, Inc. is the Class B limited partner with a 0.01% interest.

NOTE C - NONCONTROLLING INTEREST

The noncontrolling Affiliate changes in consolidated members' equity are as follows:

	Managing Member (controlling)	Investor Members (noncontrolling)	Total
Members' Equity - July 1, 2016	$ 424,360	$ 4,796,235	$ 5,220,595
Change in members' equity	(2,058)	(1,306,405)	(1,308,463)
Members' equity contributions	80,000	-	80,000
Distributions and syndication	-	(2,665)	(2,665)
Members' Equity - July 1, 2017	502,302	3,487,165	3,989,467
Change in members' equity	31,647	(1,692,969)	(1,661,322)
Members' equity contributions	5,000	4,877,271	4,882,271
Distributions and syndication	-	(2,500)	(2,500)
Members' Equity - June 30, 2017	$ 538,949	$ 6,668,967	$ 7,207,916

NOTE D - FAIR VALUE MEASUREMENTS

Assets and liabilities carried at fair value (at least annually) by the Center consist of the following:

	Quoted Prices (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
As of June 30, 2017:				
Money market	$ 14,090	$ -	$ -	$ 14,090
Fixed income	259,051	-	-	259,051
Equities	385,079	-	-	385,079
	$ 658,220	$ -	$ -	$ 658,220
As of June 30, 2016:				
Money market	$ 27,110	$ -	$ -	$ 27,110
Fixed income	247,462	-	-	247,462
Equities	318,643	-	-	318,643
	$ 593,215	$ -	$ -	$ 593,215

Assets and liabilities carried at fair value on a nonrecurring basis using level 2 inputs generally include donated goods, facilities and services. Long-term promises to give are valued on a nonrecurring basis using the net present value of future cash flows discounted at a risk-free rate of return which is a level 3 input. The Center also use fair value concepts to test various long-lived assets for impairment.

NOTE E - LONG-TERM DEBT

Long-term debt consisted of the following at June 30:	2017	2016
MSC		
Department of Commerce, interest-only payments until May 2004, plus 50% of cash flows generated by Maple Lane Apartments for principal payment, beginning May 2005, $21,225 annually, including interest at 1%, matures May 2045. Collateralized by land and building with a recorded cost of $1,405,401, and related rents.	$ 553,303	$ 568,840
Department of Commerce, payments deferred to December 2029; thereafter payable at $25,796 per year, including 1% interest, matures December 2049. Collateralized by Victorian Place II Apartments land and building with a recorded cost of $1,448,429, and related rents.	350,000	350,000

NOTE E - LONG-TERM DEBT (Continued)	2017	2016
Banner Bank, $2,212 monthly payments, including 6.5% interest, matures February 2029. Collateralized by Victorian Place II Apartments land and building with a recorded cost of $1,448,429, and related rents.	216,747	228,755
Umpqua Bank, $3,430 monthly payments which include 7% interest, matures December 2030. Collateralized by White River Apartments land and building with a recorded cost of $1,469,413. Includes certain covenants pertaining to maintenance of working capital and provision of audited financial statements.	292,410	306,265
Department of Commerce, payments deferred until July 2006, thereafter payable at $9,463 per year, including 1% interest, matures July 2051. Collateralized by White River Apartments land and building with a recorded cost of $1,469,413.	271,631	278,311
Columbia State Bank, $1,916 monthly payments, including interest at the five-year FHLB-SEA rate plus 2.65%. Collateralized by Titusville Station land and building with a recorded cost of $1,422,015, and related rents.	161,176	184,445
Washington State HOME, 0% interest, matures December 2053, annual payments of $7,234 commenced December 2004. Collateralized by Titusville Station land and building with a recorded cost of $1,422,015.	288,018	295,803
Umpqua Bank, 5.5% interest, matures September 2040, but may be called in 2020 or 2030 at the sole discretion of lender. Monthly payments of $9,315. Collateralized by the administration land and building with a recorded cost of $3,309,253. Includes certain covenants pertaining to maintenance of working capital and provision of audited financial statements.	1,153,423	1,177,302
Federal Home Loan Bank of Seattle, 3% simple interest, annual payments from available cash flows commenced in April 2017. Matures December 2066 at which time payment of principal and accrued interest are due. Secured by deed of trust in MSC Federal Way Veterans, LLC land and building under construction with a recorded cost of $8,679,236, and recourse to MSC.	326,760	326,760

NOTE E - LONG-TERM DEBT (Continued)	2017	2016
Department of Housing and Urban Development, 3.5% simple interest, due October 2039. Payments due from available cash flow. Secured by deed of trust in MSC Fern Hill Terrace, LLC land and building with a recorded cost of $1,157,016.	597,202	597,202
MSC Fern Hill Terrace, LLC		
Tacoma Community Development Authority, annual interest-only payments of $4,680. Interest accrues at 1% per annum, matures 2046. Secured by deed of trust in land and building with a recorded cost of $2,978,754.	468,000	468,000
Pierce County Department of Community Services, 0% interest, payable in full in 2039. Secured by deed of trust in land and building with a recorded cost of $2,978,754.	300,000	300,000
State of Washington, recoverable grant of $367,000 and loan of $1,427,996, 0% interest until 2011, then interest-only quarterly payments of $3,570, principal to amortize for 10 years at 1%, then quarterly payments of $37,559 beginning March 2041. Secured by deed of trust in land and building with a recorded cost of $2,978,754.	1,794,996	1,794,996
Washington Community Reinvestment Association, 6.25% interest, monthly payments of $1,693, maturing September 2039. Secured by rental receipts and deed of trust in land and building with a recorded cost of $2,978,754.	243,894	248,802
MSC Pierce Preservation, LLC		
Washington Community Reinvestment Association, 5.5% interest, monthly payments of $1,693, maturing October 2046. Secured by rental receipts and deed of trust in land and building with a recorded cost of $2,265,291.	723,504	-
Pierce County Community Development Corp, non-interest bearing, annual payments based on project cash flow, matures September 2043. Secured by deed of trust in land and building with a recorded cost of $2,265,291.	1,670,000	1,199,878
	9,411,064	8,325,359
Less unamortized debt issuance costs	(60,311)	(51,329)
Less current	(115,585)	(105,355)
Total Multi-Service Center	9,235,168	8,168,675

NOTE E - LONG-TERM DEBT (Continued)

	2017	2016
SKCMSC Federal Way Association, LP		
Washington State HOME and HFU, 1% interest accrued until 2008, annual payments of $18,788 began November 2009, matures November 2052. Collateralized by Mitchell Place Senior Residence deed of trust in land and building with a recorded cost of $5,222,786.	565,658	578,660
King County note payable, 1% interest accrues annually, annual payments of $53,818 begin December 2033, matures December 2052. Collateralized by Mitchell Place Senior Residence deed of trust in land and building with a recorded cost of $5,222,786.	861,000	861,000
Washington Community Reinvestment Association, interest at prime plus 1.75%, payments of approximately $12,000 monthly until 2033. Collateralized by Mitchell Place Senior Residence deed of trust in land and building with a recorded cost of $5,222,786.	1,329,063	1,371,202
MSC Radcliffe Place Associates, LLC		
Washington State Dept. of Commerce HOME loan, 0% interest, matures August 2048, quarterly payments of $7,362 commenced November 2009. Collateralized by Radcliffe Place Senior Apartments deed of trust in land and building with a recorded cost of $20,079,183.	916,312	941,171
King County Housing Authority Bond, 5.65% interest, payable in monthly installments of $56,563, matures 2038. Collateralized by Radcliffe Place Senior Apartments deed of trust in land and building with a recorded cost of $20,079,183.	8,995,554	9,143,346
King County Housing and Community Development, accrues interest at 1% annually. Annual payments of $127,236 commence January 2038. Matures January 2053. Secured by Radcliffe Place Senior Apartments deed of trust in land and building with a recorded cost of $20,079,183.	1,375,000	1,375,000
Deferred developer fee payable to Class B member based on net cash flow from operations.	1,375,745	1,398,403
Synergy Construction, Inc., accrues interest at 7%. Annual payments began April 2010, note matured May 2017.	-	2,268

NOTE E - LONG-TERM DEBT (Continued)

	2017	2016
Rainier View Senior, LLC		
Pierce County Department of Community Services "Sponsor 2060" loan, 0% interest, annual principal and interest of $19,273 commencedMarch 2008 from available cash flow. Matures August 2047. Secured by Rainier View Senior Apartments land and building with a recorded cost of $7,784,806.	550,000	550,000
Pierce County Community Development Corp. HOME loan, 9% interest, matures June 2047, annual principal payments of $10,000 based on cash flow. Secured by Rainier View Senior Apartments land and building with a recorded cost of $7,784,806.	1,669,319	1,669,319
Washington State Department of Commerce, $1,305,000 deferred until 2047 at 0% interest. $195,000 deferred two years, then annual payments of $5,000 for 39 years. Secured by Rainier View Senior Apartments land and building with a recorded cost of $7,784,806.	1,465,155	1,465,000
Enterprise Team, Inc., interest at 7%, payable through January 2048 in monthly installments of $5,736. Note is nonrecourse and is secured by the rental property and equipment.	874,811	882,127
MSC GP Two Apartments, LLC		
Department of Commerce, payments deferred until January 2017, 1% annual interest accruing for the nine year deferral period. Quarterly payments of $13,204 until October 2046. Collateralized by MSC GP Two deeds of trust in land and building with a recorded cost of $9,824,819.	1,367,418	1,352,659
King County Department of Community and Human Services note subordinated to the first mortgage, 0% interest per annum for 50 years. Payments begin January 2032 continuing through January 1, 2056. Collateralized by MSC GP Two Apartments LLC land and building with a recorded cost of $9,824,819.	2,184,981	2,184,981
Washington Community Reinvestment Association, 7% interest per annum, monthly payments of $11,683 are due through the maturity date of August 1, 2038.	1,526,088	1,576,500
Deferred developer fee payable to Shelter Resources, Inc. based on net cash flow from operations.	95,038	95,038

NOTE E - LONG-TERM DEBT (Continued)	2017	2016
Hawthorne Lane Graham Associates, LLLP		
Washington State Housing Finance Commission, Tax Credit Exchange Program, $2,906,737 approved. No payments over 15 years if remaining in compliance with use restrictions.	1,808,636	2,002,419
Washington Community Reinvestment Association, monthly payments of $9,480 at 7% per annum until December 2042.	1,351,166	1,369,647
Rural Housing Service payable in monthly installments of $2,121 at 3.125% per annum until December 2042.	961,090	972,294
Pierce County HOME, principal payments deferred five years to 2017, subsequently principal payments from available cash flow. Due July 2050, with accrued interest at 12% per annum.	950,000	950,000
Pierce County "2060" loan, forgivable loan, matures in December 2039, if use restrictions met.	317,000	317,000
Deferred developer fee payable to Shelter Resources, Inc. based on net cash flow from operations.	69,869	79,879
MSC Federal Way Veterans, LLC		
Washington Federal construction loan, in the maximum amount of $5,500,000, accrues interest on the aggregate principal balance outstanding from time to time at an annual interest rate of 2.25% per annum above the LIBOR index, rounded to the nearest .125%, provided that at no time can the note rate be less than 2.4%. Interest-only payments are required through maturity. The note had an original maturity date of November 2016, but was extended to June 2017.	88,973	974,710
Washington State Department of Commerce, original amount of $1,503,528, accrues interest at 1% compounded annually beginning June 1, 2018 and ending May 31, 2068. A lump sum payment of principal and accrued interest is due May 2068.	1,404,378	1,404,378
King County Department of Community and Human Services, in the original amount of $3,448,000, accrues simple interest at the rate of 1% per annum. The note matures December 1, 2066, at which time all principal and interest are due.	3,448,000	3,415,644

NOTE E - LONG-TERM DEBT (Continued)	2017	2016
MSC Colvos Terrace LLC		
Churchill Mortgage Construction LLC acquisition loan pending permanent financing in original amount of $2,300,000 accrues interest at 6.25% fixed per annum. Monthly installment on accrued interest due beginning May 1, 2017. Collateralized by MSC Colvos Terrace rental revenue and deed of trust in land and building with a recorded cost of $2,452,920. All principal and accrued interest was originally due and payable January 19, 2018 and was extended to May 31, 2018 subsequent to year end.	2,300,000	-
MSC Pierce Co Preservation LLLP		
Churchill Mortgage Construction LLC acquisition loan pending permanent financing in original amount of $1,269,000 accrues interest at 6.25% fixed per annum. Monthly installment on accrued interest due beginning July 1, 2017. Collateralized by MSC Pierce Co Preservation LLLP rental revenue and deed of trust in land and building with a recorded cost of $2,259,736. Principal and accrued interest due and payable March 26, 2018.	1,269,000	-
Washington State Department of Commerce loan, assumed balance of $990,311 from prior owner, accrues 1% interest. Annual payments of $28,638 until December 31, 2047. Collateralized by MSC Pierce Co LLLP deed of trust in land and building subordinate to Churchill Mortgage Construction LLC.	990,311	-
	40,109,565	36,932,645
Less unamortized debt issuance costs	(631,800)	(599,876)
Less current portion	(4,202,594)	(1,459,417)
Total Housing Entities excluding intercompany notes payable	35,275,171	34,873,352
Total all long-term debt	49,520,629	45,258,004
Less unamortized debt issuance costs	(692,111)	(651,205)
Less current portion	(4,318,179)	(1,564,772)
	44,510,339	43,042,027

NOTE E - LONG-TERM DEBT (Continued)

Principal reductions are as follows for the years ending June 30:

2018	$ 4,318,179
2019	685,991
2020	710,558
2021	736,686
2022	764,428
Thereafter	42,304,787
	$ 49,520,629

The Center capitalizes interest cost as a component of the cost of construction in progress. During the years ended June 30, 2017 and 2016, $1,283,777 and $1,188,488, respectively, of interest costs were incurred, of which $0 and $22,421, respectively, was capitalized and $1,283,777 and $1,166,067, respectively, was charged to expense.

NOTE F - RETIREMENT PLAN

The Center established a 401(k) Profit-Sharing Plan under which all employees are qualified to participate. Employer contributions to the Plan are discretionary. No such contributions were made for the years ended June 30, 2017 and 2016.

NOTE G - LEASE COMMITMENTS

The Center leases certain facilities and equipment under non-cancelable lease commitments that expire at various times through May 2022. Rental expense incurred for these leases for the year ended June 30, 2017 was $57,225. Related minimum future rental commitments on these leases are:

2018	$ 134,910
2019	135,401
2020	91,855
2021	27,095
2022	20,603
	$ 409,864

NOTE H - CONTINGENCIES AND COMMITMENTS

Amounts received from grantor agencies are subject to audit and adjustments by the grantor agency. Any disallowed cost, including amounts already collected, may constitute a liability for the Center. The amounts, if any, of expenditures which may be disallowed by the grantor are recorded at the time that such amounts can be reasonably determined, normally upon notification by the government agency. During the years ended June 30, 2017 and 2016, no such adjustments were made.

NOTE H - CONTINGENCIES AND COMMITMENTS (Continued)

The Center has a managing member or general partner interest in the Affiliates. In addition to the general partner and managing member liabilities, the Center executed sponsor guarantee agreements guaranteeing against operating deficits and reduced tax benefits.

A significant amount of the Center's property was obtained with grant monies. The federal and state government-funded property retains a reversionary interest to the grantor(s). Such assets may be reclaimed at the program end or if the use of the property changes from the original intent, or the grantor may relinquish title to the Center. The Center does not intend to change the use of the properties acquired with such funds.

NOTE I - SUBSEQUENT EVENTS

Management has evaluated events occurring subsequent to June 30, 2017 through January 25, 2018, which is the date the financial statements were available to be issued and has recognized in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at June 30, 2017, including the estimates inherent in the processing of financial statements.

Subsequent to June 30, 2017, Federal Way Veterans LLC received its final equity installments from its limited investor members totaling $1,359,524. A portion of these proceeds was used to pay the developer fee payable balance of $258,693 to MSC in December 2017.

Three single-family town homes with a net book value of $78,000 as of June 30, 2017 are in the process of being sold by MSC. The town homes were part of a transitional housing program. MSC decided to sell the units in order to better utilize staffing and financial resources.

UNIFORM GUIDANCE SUPPLEMENTARY INFORMATION

MULTI-SERVICE CENTER

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2017

Federal Grantor *Pass-through Grantor* "Program Title"	Contract Number	CFDA Number	Passed Through to Subrecipients	Federal Expenditures
US Department of Agriculture				
Washington State Department of Social and Health Services				
"State Administrative Matching Grants for the Supplemental Nutrition Assistance Program" SNAP Cluster	1512-49920	10.561	$ -	$ 46,556
"Pilot Projects to Reduce Dependency and Increase Work Requirements and Work Effort under SNAP"	1512-50133	10.596	-	136,697
Office of the Superintendent of Public Instruction				
"Summer Food Service Program for Children"	17-OSPI-SM		-	3,968
"Summer Food Service Program for Children"	16-OSPI-SM		-	45,932
		10.559	-	49,900
Food Lifeline				
"Emergency Food Assistance Program (Food Commodities)"	1518-TEFAP	10.569	-	476,784
Total US Department of Agriculture			-	709,937
US Department of Labor				
King County Department of Community and Human Services				
"WIA Youth Activities" WIA Cluster	5855757-III Amend 1		-	68,061
Total US Department of Labor		17.259	-	68,061
US Department of Housing and Urban Development				
"Continuum of Care Program"	WA0025LOT001407		-	17,816
"Continuum of Care Program"	WA0025LOT001609		-	8,908
		14.267	-	26,724
King County Community Services				
"Continuum of Care Program"	5723855-III		-	16,950
"Continuum of Care Program"	5859193-III		-	158,572
		14.267	-	175,522
YWCA				
"Continuum of Care Program"	WA0059LOT001407	14.267	-	5,939
King County Department of Community and Human Services				
"Emergency Solutions Grant Program"	5723855-II		-	37,500
"Emergency Solutions Grant Program"	5899263-II		-	37,500
		14.231	-	75,000

* Denotes major program

See notes to schedule.

MULTI-SERVICE CENTER

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2017

Federal Grantor *Pass-through Grantor* "Program Title"	Contract Number	CFDA Number	Passed Through to Subrecipients	Federal Expenditures
US Department of Housing and Urban Development (Continued)				
King County				
"Section 8 Housing Choice Vouchers"	WA19K002002	14.871	-	90,954
King County				
"Community Development Block Grants/Entitlement Grants"	5859193-III		-	20,000
Solid Ground Washington				
"Community Development Block Grants/Entitlement Grants"	5900391 EX VII		-	802
"Community Development Block Grants/Entitlement Grants"	5724851 Amend 1		-	856
City of Federal Way				
"Community Development Block Grants/Entitlement Grants"	0116-1216 Amend 2		-	21,246
"Community Development Block Grants/Entitlement Grants"	Pending		-	323
"Community Development Block Grants/Entitlement Grants"	0116-1216 Amend 1		-	5,669
"Community Development Block Grants/Entitlement Grants"	FW YES 0117-1217		-	6,892
City of Kent				
"Community Development Block Grants/Entitlement Grants"	BG-1505-1605		-	46,631
"Community Development Block Grants/Entitlement Grants"	Pending		-	14,770
City of Auburn				
"Community Development Block Grants/Entitlement Grants"	BG-1502		-	7,500
"Community Development Block Grants/Entitlement Grants"	Pending		-	5,000
CDBG - Entitlement Grants Cluster		14.218	-	129,689
Total US Department of Housing and Urban Development			-	503,828
US Department of Health and Human Services				
Washington State Department of Commerce				
"Low-Income Home Energy Assistance"	16-32606-077		-	583,777
"Low-Income Home Energy Assistance"	17-32606-077		-	2,830,731
		93.568*	-	3,414,508
City of Seattle				
"Special Programs for the Aging, Title VII, Chapter 3, Programs for Prevention of Elder Abuse, Neglect, and Exploitation"	DA16-1071		-	18,197
"Special Programs for the Aging, Title VII, Chapter 3, Programs for Prevention of Elder Abuse, Neglect, and Exploitation"	DA17-1071		-	12,780
		93.041	-	30,977

* Denotes major program

See notes to schedule.

MULTI-SERVICE CENTER

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2017

Federal Grantor *Pass-through Grantor* "Program Title"	Contract Number	CFDA Number	Passed Through to Subrecipients	Federal Expenditures
US Department of Health and Human Services (Continued)				
Washington State Department of Commerce				
"Special Programs for the Aging, Title VII, Chapter 2 Long Term Care Ombudsman Services for Older Individuals"	17-32303-001 Amend 1	93.042	-	385,655
Washington State Department of Commerce				
"Special Programs for the Aging, Title III, Part B Grants for Supportive Services and Senior Centers"	17-32303-001 Amend 1		-	88,585
City of Seattle				
"Special Programs for the Aging, Title III, Part B Grants for Supportive Services and Senior Centers"	DA16-1071		-	10,074
"Special Programs for the Aging, Title III, Part B Grants for Supportive Services and Senior Centers"	DA17-1071		-	5,328
Aging Cluster		93.044	-	103,987
Washington State Department of Commerce				
"Community Services Block Grant"	F16-32101-017		-	303,855
"Community Services Block Grant"	F17-32100-017		-	298,234
		93.569	-	602,089
Total US Department of Health and Human Services			-	4,537,216
US Department of Justice				
Disability Rights Washington				
"Education, Training, and Enhanced Services to End Violence Against and Abuse of Women with Disabilities"	2016-FW-AX-K008	16.529	-	10,160
Department of Homeland Security				
"Emergency Food and Shelter National Board Program"	29-8890-00-004	97.024	99,621	153,305
Total Expenditures of Federal Awards			$ 99,621	$ 5,982,507

* Denotes major program

See notes to schedule.

MULTI-SERVICE CENTER

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2017

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Multi-Service Center and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the Uniform Guidance. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic consolidated financial statements.

NOTE B - INDIRECT COST RATE

Multi-Service Center does not have a negotiated indirect cost rate for use on federal grants and contracts. As such, Multi-Service Center has elected to use the 10% *de minimus* indirect cost rate.

INDEPENDENT AUDITOR'S REPORT
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS*

January 25, 2018

Board of Directors
Multi-Service Center
Federal Way, 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 Multi-Service Center (a nonprofit organization), which comprise the consolidated statements of financial position as of June 30, 2017 and 2016, and the related consolidated statements of activity, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated January 25, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Multi-Service Center'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 Multi-Service Center’s internal control. Accordingly, we do not express an opinion on the effectiveness of Multi-Service Center’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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item 2017-001, that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Multi-Service Center'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 financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Multi-Service Center's Response to Findings

Multi-Service Center's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Multi-Service Center's response was not subjected to the auditing procedures applied in the audit of the consolidated 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 Multi-Service Center'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 Multi-Service Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Jacobson Jarvis & Co, PLLC

Jacobson Jarvis & Co, PLLC

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE AS REQUIRED BY THE UNIFORM GUIDANCE

January 25, 2018

Board of Directors
Multi-Service Center
Federal Way, Washington

Report on Compliance with Each Major Federal Program
We have audited Multi-Service Center's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Multi-Service Center's major federal programs for the year ended June 30, 2017. Multi-Service Center'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 Multi-Service Center'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 Multi-Service Center'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 Multi-Service Center's compliance.

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Opinion on Each Major Federal Program

In our opinion, Multi-Service Center complied, in all material respects, with the types of compliance requirements referred to in the first paragraph of this letter that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Report on Internal Control Over Compliance

Management of Multi-Service Center 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 Multi-Service Center'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 our opinion on compliance for each 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 Multi-Service Center'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 a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Jacobson Jarvis & Co, PLLC

Jacobson Jarvis & Co, PLLC

MULTI-SERVICE CENTER

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2017

A. SUMMARY OF AUDIT RESULTS

1. The auditor’s report expresses an unmodified opinion on the consolidated financial statements of Multi-Service Center.
2. A material weakness relating to the consolidated financial statements is reported in the "Independent Auditor's Report Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* ."
3. No instances of noncompliance material to the consolidated financial statements of Multi-Service Center were disclosed during the audit.
4. No material weaknesses relating to the audit of the major federal awards programs are reported in the "Independent Auditor's Report on Compliance for each Major Program and on Internal Control over Compliance as Required by the Uniform Guidance."
5. The auditor’s report on compliance for the major federal award program for Multi-Service Center expresses an unmodified opinion.
6. Audit findings relative to the major federal award program for Multi-Service Center are reported in Part C of this Schedule.
7. The program tested as major was Low-Income Home Energy Assistance, CFDA No. 93.568.
8. The threshold used for distinguishing between Type A and B programs was $750,000.
9. Multi-Service Center was not determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

2017-001 Entity-level Controls

Criteria: Management is responsible for the design, implementation and maintenance of an internal control system to provide reasonable assurance that the consolidated financial statements of Multi-Service Center will be fairly presented in accordance with generally accepted accounting principles.

Condition: Multi-Service Center's internal control structure has focused on process level controls over cash receipts, cash disbursements, payroll and contract and grant compliance. However, controls over certain aspects of financial reporting such as non-cash contributions, depreciation, supplementary information and consolidation were not adequately designed and implemented. In addition, we noted a lack of formal process for the review and approval of journal entries and bank reconciliations and a lack of a formal monitoring process with respect to internal controls.

MULTI-SERVICE CENTER

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2017

B. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)

Cause: Previously employed accounting personnel did not possess the level of accounting knowledge necessary to understand and properly treat the complex accounting associated with the business complexities of Multi-Service Center. Multi-Service Center has retained more experienced personnel. However, as of June 30, 2017, the accounting department had not yet been able to fully correct all prior errors and implement the necessary internal control improvements to ensure the preparation and presentation of consolidated financial statements in accordance with generally accepted accounting principles.

Effect: As a result of the situation noted above, there were significant adjustments made during the audit process in order for the consolidated financial statements to be presented in accordance with generally accepted accounting principles.

Recommendation: We recommend that the system improvements currently being made continue. Once all the necessary system improvements and corrections have been made, we further recommend that management and the board perform a thorough analysis of the overall internal control structure to ensure that all five key aspects of a properly functioning internal control system (control environment, risk assessment, information and communication, control activities and monitoring) are properly designed and fully implemented.

Views of a Responsible Official: Management concurs with the finding and recommendation and is taking appropriate corrective action.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM AUDIT

None

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2017

FINANCIAL STATEMENT AUDIT

2016-001 Entity-level Controls

Condition: Multi-Service Center's internal control structure has focused on process level controls over cash receipts, cash disbursements, payroll and contract and grant compliance. However, controls over certain aspects of financial reporting such as non-cash contributions, depreciation and consolidation were not adequately designed and implemented. In addition, we noted a lack of formal process for the review and approval of journal entries and bank reconciliations and a lack of a formal monitoring process with respect to internal controls.

Recommendation: We recommend that the system improvements currently being made continue. Once all the necessary system improvements and corrections have been made, we further recommend that management and the board perform a thorough analysis of the overall internal control structure to ensure that all five key aspects of a properly functioning internal control system (control environment, risk assessment, information and communication, control activities and monitoring) are properly designed and fully implemented.

Current Status: During the audit process in early fiscal 2017, management overhauled the fixed asset and depreciation schedule which resolved prior depreciation discrepancies and has created clear linkage with accounting system. Management also created 'entity' fund codes in the accounting system, with comprehensive account mapping to subsidiaries' general ledger accounts, and a trial balance import process with complete check and balance reconciliation with subsidiary trial balances, which resolved previous consolidation discrepancies.

In March, 2017, management implemented a journal entry review process to ensure all journal entries are properly reviewed, tracked and documented.

In June, 2017, management implemented a bank reconciliation review process to ensure all bank reconciliations have documented review signoff.

In August, 2017, an additional accountant (CPA licensed) was hired to facilitate continued internal control process improvements. For example, additional fields were added to deposit receipting in the accounting system to facilitate reconciliation of the cash receipts log to recorded deposits to monitor completeness.

As some of these system improvements occurred subsequent to June 30, 2017, and as management continues to make additional system improvements, this finding continued as of June 30, 2017.