



**Office of the Washington State Auditor
Pat McCarthy**

September 20, 2018

Council
Historic Seattle Preservation and Development Authority
Seattle, Washington

Contracted CPA Firm's Audit Report on Financial Statements

We have reviewed the audit report issued by a certified public accounting (CPA) firm on the Historic Seattle Preservation and Development Authority's financial statements for the fiscal year ended December 31, 2017. The Authority contracted with the CPA firm for this audit and requested that we accept in lieu of performing our own audit.

Based on this review, we have accepted this report in lieu of the audit required by RCW 43.09.260. The Office of the Washington State Auditor did not audit the accompanying financial statements and, accordingly, we do not express an opinion on those financial statements.

This report is being published on the Office of the Washington State Auditor website as a matter of public record.

Sincerely,

Pat McCarthy
State Auditor
Olympia, WA

HISTORIC SEATTLE PRESERVATION
AND DEVELOPMENT AUTHORITY

Financial Statements
and Supplementary Information
for the Years Ended December 31, 2017 and 2016
and Independent Auditor's Report

HISTORIC SEATTLE PRESERVATION AND DEVELOPMENT AUTHORITY

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For the Years Ended December 31, 2017 and 2016

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WATSON & McDONELL, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

Council
Historic Seattle Preservation and Development Authority
Seattle, Washington

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Historic Seattle Preservation and Development Authority (Historic Seattle) as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise Historic Seattle Preservation and Development Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Historic Seattle Preservation and Development Authority as of December 31, 2017 and 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 19, 2018, on our consideration of Historic Seattle Preservation and Development Authority'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 Historic Seattle Preservation and Development Authority's internal control over financial reporting and compliance.

Watson & McDowell, PLLC

July 19, 2018

HISTORIC SEATTLE
PRESERVATION AND DEVELOPMENT AUTHORITY
Management's Discussion and Analysis
For the Years Ended December 31, 2017 and 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of the financial performance of Historic Seattle Preservation and Development Authority (Historic Seattle), presents a narrative overview and analysis of the financial activities of Historic Seattle for the year ended December 31, 2017.

The Management's Discussion and Analysis (MD&A) is an element of the reporting model as required by Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Government*, and amended by GASB Statements No. 37, No. 54, No. 62, and No. 63. This information should be considered in conjunction with Historic Seattle's financial statements and notes to the financial statements, which follow.

2017 HIGHLIGHTS

Historic Seattle was chartered in 1973 by the City of Seattle as a public corporation organized pursuant to Chapter 177, Laws of 1971 (RCW 35.21.660 and 35.21.670). Historic Seattle was created as a legal entity through which citizens may participate in preservation of the historic heritage of the City of Seattle for the mutual pride of all citizens and the creation of a more livable environment. Historic Seattle is an advocate for, and active participant in, thoughtful and meaningful preservation and rehabilitation of historic buildings, landscapes, and architectural artifacts.

2017 was a year of change, new faces, and new opportunities for the organization. We honored the effort, dedication, professionalism, and year end retirement of Larry Kreisman, Historic Seattle's Program Director for the past twenty years. Historic Seattle PDA also welcomed new Council members Mike Powe, Valerie Tran, Krista Whitters, and David Yeaworth. The organization also diligently worked to identify new opportunities in real estate, to continue to offer inspirational education programs, and to strategically advocate for places that matter.

Historic Seattle continued to engage members, constituents, and supporters through well-planned quarterly members meetings, thoughtful communication strategies, and compelling fundraising initiatives.

ADVOCACY

In 2017, Historic Seattle's Director of Preservation Services, Eugenia Woo, and Preservation Advocacy Coordinator, Brooke Best, continued their outstanding work throughout the community.

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2017 HIGHLIGHTS, CONTINUED

ADVOCACY, CONTINUED

The Advocacy team managed the selection of award recipients for the 9th Annual Historic Preservation Awards held at Washington Hall and produced substantive content for the awards journal. Award winners included the Southwest Seattle Historical Society for their “We Love the Junction” campaign, the rehabilitation of First United Methodist Church in downtown Seattle, the restoration of a residence located on Queen Anne designed by Robert Reichert, the rehabilitation of the Publix Hotel in the Chinatown / International District, Optimism Brewing on Capitol Hill, McMenamins’ Anderson School in Bothell, the work of Cynthia Brothers and the on-line platform “Vanishing Seattle”, and 4Culture’s Building For Culture funding program.

Ms. Woo and Ms. Best continued to monitor and actively respond to city-wide issues such as the Mandatory Housing Affordability (MHA) policy. Historic Seattle analyzed the policy and communicated our concern that MHA will have a significant adverse impact on historic preservation. Although affordability will always be a significant concern, through public comment and mass communication efforts, Historic Seattle encouraged the City to consider the creation of public policy that promotes both sustainable growth and the preservation of historic structures. Inspired by the work and attention paid to MHA and its potential impact on historic buildings, Historic Seattle teamed with Bellwether Housing at the Cambridge Apartments and offered a tour and presentation on “How Preservation Provides Affordable Housing.”

Our advocacy effort surrounding the University of Washington and the City of Seattle’s Landmarks Preservation Ordinance continued in 2017. On June 6, oral arguments were heard at the Washington State Supreme Court. UW claimed that it was exempt from the Landmarks Ordinance. On July 20, the State Supreme Court issued its unanimous decision in favor of the City of Seattle, Historic Seattle, DOCOMOMO Wewa, and the Washington Trust for Historic Preservation and overturned the lower court’s ruling.

In 2017, the advocacy team continued to tackle important building-specific advocacy issues such as the preservation and protection of Mama’s Mexican Kitchen, Crescent-Hamm and Campbell Buildings in West Seattle, and the Row House Café at 1170 Republican Street. Historic Seattle exhibited our loving and caring side when we “heartbombed” Key Arena in support of its landmark designation and protection. Dozens of individuals gathered with homemade valentines to show love for the building. The effort to protect Key Arena stemmed from the City of Seattle’s release of a Request for Proposal for the development of the building which included an option to demolish the iconic 1962 modernist icon.

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2017 HIGHLIGHTS, CONTINUED

REAL ESTATE OPERATIONS AND DEVELOPMENT

Historic Seattle continued to provide high quality stewardship of its properties including the Bel Boy Apartments, Cadillac Hotel, Dearborn House, Egan House, Good Shepherd Center, Heg-Phillips Apartments, Victorian Row Apartments, and Washington Hall.

2017 was an important year for the stabilization of operations at Washington Hall. Substantially completed in June 2016, the Hall's anchor partners, 206 Zulu, Voices Rising, and Hidmo Cypher, worked diligently throughout the year to curate their own programs while offering the space within the building to other arts, culture, and community organizations.

Kji Kelly and Kate Krafft traveled to Chicago in mid-November to accept the National Trust for Historic Preservation's Richard H. Driehaus Foundation National Preservation Award at their annual conference. The award, the highest national recognition bestowed upon a preservation project by the National Trust, recognized and celebrated Historic Seattle's work at Washington Hall.

Our apartment buildings, Bel Boy, Heg-Phillips, and Victorian Row continued to provide 41 affordable housing units to the low-income residents. The Good Shepherd Center continued to offer below-market office, classroom, and meeting space to a variety of tenants as well as six artist housing units with rents set as affordable for the low-income residents. The Cadillac Hotel continued to house the National Park Service's Klondike Gold Rush Museum, while rent from the single-family residence, Egan House, continued to support the stewardship of this mid-century modern City of Seattle Landmark. It should be noted that a very low vacancy rate was experienced across our portfolio of properties during 2017.

Historic Seattle staff spent much of 2017 looking for real estate opportunities. Projects throughout King County but outside of Seattle were of specific interest as staff attempted to activate the Preservation Action Fund, a \$2M grant awarded to Historic Seattle by 4Culture in 2016. Additional real estate opportunities were explored in the South Park, Georgetown, and Capitol Hill neighborhoods.

EDUCATIONAL PROGRAMMING

Mr. Larry Kreisman, our Program Director, oversaw a wonderful assemblage of successful educational programs in 2017. Architecture and history-focused lectures and tours led by local and out-of-state experts were presented throughout the year. Tours included the Living Computer Museum and Lab in SODO, the Last Resort Fire Department in Ballard, the Museum of Flight Restoration Center in Everett, Nucor Steel Plant, Olson Farm Dunn Gardens, and a walking tour of downtown Seattle conducted by author David Williams.

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2017 HIGHLIGHTS, CONTINUED

EDUCATIONAL PROGRAMMING, CONTINUED

Additional unique opportunities for behind-the-scenes tours included Pike Place Market, the garden at the Good Shepherd Center, and single room occupancy hotels throughout the International District.

Free quarterly members meetings brought the public to sites of historic and architectural interest, including the Anderson School in Bothell, Golden Gardens Bathhouse, Firland Sanatorium, and the Russian Community Center. Washington Hall served as a laboratory for participants to learn how to restore original double and single-hung wood windows. Grace Morrison, owner of Bear Wood Windows, taught 25 attendees how to repair wood, re-glaze, re-hang, and paint windows.

The "Digging Deeper" series gave attendees behind-the-scenes tours of unique collections including the Seattle Athenaeum, the Northwest Room at the Everett Public Library, and the Southwest Seattle Historical Society's Log House Museum. In honor and celebration of Larry Kreisman's 70th birthday, a concert and reception at the Northern Life Tower was held on May 31. Pianist Dawn Clement performed an array of classical pieces, ragtime, and American songbook standards from the 1920s.

COMMUNITY AFFAIRS

Historic Seattle continued to explore new and improved ways to engage, educate, and motivate our constituency in both print and electronic formats. Our quarterly newsletter, *Preservation News*, continued to offer timely and meaningful highlights of our activities. We found that a more focused communications strategy, that began in 2016, with attention to combining timely advocacy issues and organizational successes with fundraising appeals and programming began to pay off in 2017. We continued to use our website and social media platforms (Facebook, Instagram and the MAIn2 preservation blog) to reach the broader community.

Historic Seattle is committed to building partnerships with other organizations to produce and promote programs and events and to expand advocacy for, and education related to, historic preservation in King County and nationally. In 2017, these organizations included AIA Seattle, the National Trust for Historic Preservation, the City of Seattle, the University of Washington School of Architecture, the King County Historic Preservation Commission, Futurewise, Forterra, Friends of Mukai, the Southwest Seattle Historical Society, Historic Tacoma, the Preservation Green Lab, 4Culture, the Museum of History & Industry, History Link, DOCOMOMO WEGA, Washington Trust for Historic Preservation, and the Frye Art Museum.

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2017 HIGHLIGHTS, CONTINUED

COMMUNITY AFFAIRS, CONTINUED

In June, Historic Seattle and the Washington Trust for Historic Preservation worked together to host nearly 50 people representing similar preservation organizations from across the country. The "Partners Network" agenda consisted of business meetings, opportunities for social interaction, and tours of the Capitol Hill neighborhood, the Georgetown Steam Plant, First United Methodist Church, Washington Hall, and MOHAI.

In response to the need for Historic Seattle to be more effective in all aspects of the organization's work while addressing the ever-increasing difficulties associated with preserving buildings in Seattle, Historic Seattle began to discuss the development of a 5-year strategic plan. The development of the public outreach phase of plan development began during the last quarter of 2017.

VOLUNTEERS

Historic Seattle volunteers contributed hundreds of hours of service on the Historic Seattle Council, Historic Seattle Preservation Foundation Board, and on committees including Real Estate, Audit, Advocacy/Education, Awards Benefit, and Executive.

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INTRODUCTION TO THE FINANCIAL STATEMENTS

The financial statements include the activities of Historic Seattle, Historic Seattle Preservation Foundation (the Foundation), Cadillac Rehabilitation LLC, and Washington Hall QALICB. The operations of Historic Seattle, the Foundation, Cadillac Rehabilitation Services LLC, and Washington Hall QALICB are grouped into one business-type fund for financial reporting purposes.

All statements are prepared on the accrual basis of accounting. This means that financial transactions are recognized and reported in the financial statements when the transactions occur, regardless of the timing of related cash flows. This audit report is for the years 2017 and 2016.

USING THIS ANNUAL REPORT

In addition to the Management's Discussion and Analysis, this annual report consists of a series of financial statements. The Balance Sheet provides information on the assets and liabilities of Historic Seattle. The Statement of Revenues, Expenses and Changes in Net Position presents information on how Historic Seattle's position changed during the year. Also included is the Statement of Cash Flows. These statements appear on pages 13 through 17.

BASIC FINANCIAL STATEMENTS

The Balance Sheet presents a snapshot view of information on the assets of Historic Seattle, the liabilities they owe, and the net difference. This statement measures Historic Seattle's financial position, assets, liabilities, amounts owed, and resulting net position. All changes in net position are reported as soon as they occur, regardless of the timing of related cash flows. Over time, increases or decreases in Historic Seattle's net position can be one indicator of whether Historic Seattle's financial condition is improving or deteriorating. Other non-financial factors need to be taken into consideration to assess the overall financial health of Historic Seattle, such as changes in funding and the condition of operating assets.

The notes to the financial statements provide additional disclosures required by governmental accounting standards and provide information to assist the reader in understanding Historic Seattle's financial position.

HISTORIC SEATTLE
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FINANCIAL ANALYSIS

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Current assets	\$ 1,666,977	\$ 1,583,647	\$ 2,580,460
Non-current assets	6,695,412	6,609,136	7,530,522
Capital assets, net	<u>19,384,678</u>	<u>19,839,735</u>	<u>18,966,617</u>
Total assets	<u>\$ 27,747,067</u>	<u>\$ 28,032,518</u>	<u>\$ 29,077,599</u>
Current liabilities	\$ 560,264	\$ 596,220	\$ 2,504,193
Long-term liabilities	<u>16,712,241</u>	<u>16,761,582</u>	<u>17,042,010</u>
Total liabilities	<u>\$ 17,272,505</u>	<u>\$ 17,357,802</u>	<u>\$ 19,546,203</u>
Net position:			
Invested in capital assets, net of related debt	\$ 3,003,594	\$ 3,502,804	\$ 3,231,048
Restricted	431,935	526,601	288,088
Unrestricted	<u>7,039,033</u>	<u>6,645,311</u>	<u>6,012,260</u>
Total net position	<u>\$ 10,474,562</u>	<u>\$ 10,674,716</u>	<u>\$ 9,531,396</u>

The assets of Historic Seattle consist primarily of capital assets, its buildings and building improvements. This is consistent with Historic Seattle's mission to preserve and rehabilitate historic buildings, landscapes and architectural artifacts. Capital assets are shown net of depreciation. Other assets include cash reserves for repairs and replacements, restricted cash and debt service as required by our lenders.

The liabilities consist primarily of long-term debt that was used to purchase, develop and rehabilitate historic buildings. Many of these loans, provided by governmental entities, have below market interest rates and do not require annual debt service. See Note 11 for a more complete discussion.

The difference between total assets and total liabilities, net position, is one indicator of financial health. Net position decreased by \$200,154 in 2017 and increased by \$1,143,320 in 2016. The decrease in net position during 2017 as compared to 2016, was primarily attributable to a decrease in receipt of grants and contributions for capital activities after completion of the work on Washington Hall. The increase in net position during 2016 as compared to 2015, was attributable to an increase in receipt of grants and contributions for operating and capital activities, and a decrease in interest expense and loan closing costs.

HISTORIC SEATTLE
PRESERVATION AND DEVELOPMENT AUTHORITY
Management's Discussion and Analysis
For the Years Ended December 31, 2017 and 2016

FINANCIAL ANALYSIS, CONTINUED

The results of operations for Historic Seattle are presented below:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Operating revenues:			
Commercial and residential tenant revenues	\$ 2,563,864	\$ 2,402,394	\$ 2,344,905
Event fees and membership dues	71,310	97,281	85,127
Grants and donations	187,141	61,627	33,988
Consulting fees	1,582	6,937	8,029
Other	(52)	1,592	2,743
Operating expenses:			
Salaries, benefits and payroll taxes	(974,441)	(943,327)	(866,846)
Operating, maintenance and utilities	(983,980)	(813,557)	(752,222)
Other operating expenses	(243,346)	(202,895)	(200,786)
Depreciation	(726,928)	(663,419)	(596,443)
Net operating gain (loss)	<u>(104,850)</u>	<u>(53,367)</u>	<u>58,495</u>
Non-operating revenues:			
Grants and donations, including forgiveness of debt and deferred loan interest	106,457	71,744	810,950
Interest income, and gain on beneficial interest in assets held by community foundations	89,919	87,902	47,185
Non-operating expenses:			
Interest expense	<u>(379,581)</u>	<u>(358,107)</u>	<u>(895,203)</u>
Net non-operating loss	<u>(183,205)</u>	<u>(198,461)</u>	<u>(37,068)</u>
Gain (loss) before capital contributions	(288,055)	(251,828)	21,427

HISTORIC SEATTLE
PRESERVATION AND DEVELOPMENT AUTHORITY
Management's Discussion and Analysis
For the Years Ended December 31, 2017 and 2016

FINANCIAL ANALYSIS, CONTINUED

The results of operations for Historic Seattle, continued:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Capital contributions	\$ 87,901	\$ 1,395,148	\$ 1,318,330
Change in net position	(200,154)	1,143,320	1,339,757
Net position, beginning of year	<u>10,674,716</u>	<u>9,531,396</u>	<u>8,191,639</u>
Net position, end of year	<u>\$ 10,474,562</u>	<u>\$ 10,674,716</u>	<u>\$ 9,531,396</u>

Operating revenues are generated principally from rental income, as well as event and membership fees, and consulting fees. In addition, it is typical for Historic Seattle to raise non-operating and capital grants to fund renovations at the real estate properties that it owns.

Salaries, benefits and payroll taxes, operating, maintenance and utilities are the largest operating expenses of Historic Seattle. Other operating expenses include insurance, office expenses, professional fees and event expenses. Interest expense, primarily from the long-term financing of the properties owned by Historic Seattle, is also a significant expense. A portion of the interest expense, under the terms of the financing, is deferred and will eventually be forgiven as the properties are managed in compliance with the loan agreements.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Historic Seattle's investment in capital assets as of December 31, 2017 and 2016, amounts to \$19,384,678 and \$19,839,735, respectively. This investment in capital assets includes real estate, furniture and equipment, and other assets. Additional information on Historic Seattle's capital assets can be found in Note 8.

Historic Seattle's real estate activity is financed, in part, by long-term debt secured by real estate. Historic Seattle had \$16,614,154 and \$16,668,313 of outstanding debt at December 31, 2017 and 2016, respectively. Additional information on Historic Seattle's debt can be found in Note 11.

HISTORIC SEATTLE
PRESERVATION AND DEVELOPMENT AUTHORITY
Management's Discussion and Analysis
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REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of Historic Seattle's finances for all those with an interest in Historic Seattle's finances. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to Historic Seattle Preservation and Development Authority, 1117 Minor Ave, Seattle, Washington 98101.

HISTORIC SEATTLE
PRESERVATION AND DEVELOPMENT AUTHORITY
Balance Sheets
December 31, 2017 and 2016

ASSETS

	<u>2017</u>	<u>2016</u>
Current assets:		
Cash and cash equivalents	\$ 1,431,104	\$ 1,333,802
Security deposits	16,302	15,976
Accounts receivable	125,777	168,880
Pledges receivable, net of allowance of \$5,625 in 2016	400	5,000
Prepaid expenses	65,732	30,489
Inventory	<u>27,662</u>	<u>29,500</u>
	<u>1,666,977</u>	<u>1,583,647</u>
Non-current assets:		
Deferred rent asset	65,350	48,925
Reserves	404,843	233,722
Restricted cash	233,070	335,685
Note receivable	5,981,400	5,981,400
Beneficial interest in assets held by community foundation	10,749	9,404
Capital assets, net (Note 8)	<u>19,384,678</u>	<u>19,839,735</u>
	<u>26,080,090</u>	<u>26,448,871</u>
	<u>\$ 27,747,067</u>	<u>\$ 28,032,518</u>

The accompanying notes should be read with these financial statements.

HISTORIC SEATTLE
PRESERVATION AND DEVELOPMENT AUTHORITY
Balance Sheets, Continued
December 31, 2017 and 2016

LIABILITIES AND NET POSITION

	<u>2017</u>	<u>2016</u>
Current liabilities:		
Accounts payable	\$ 74,812	\$ 98,831
Accrued expenses	63,695	72,084
Construction costs payable		4,303
Security deposits	58,574	56,265
Prepaid rent and event fees	54,832	63,298
Current portion notes payable	<u>308,351</u>	<u>301,439</u>
	<u>560,264</u>	<u>596,220</u>
Long-term liabilities:		
Deferred interest	406,438	394,708
Notes payable	<u>16,305,803</u>	<u>16,366,874</u>
	<u>16,712,241</u>	<u>16,761,582</u>
	<u>17,272,505</u>	<u>17,357,802</u>
Net position:		
Invested in capital assets, net of related debt	3,003,594	3,502,804
Restricted	431,935	526,601
Unrestricted	<u>7,039,033</u>	<u>6,645,311</u>
	<u>10,474,562</u>	<u>10,674,716</u>
	<u>\$ 27,747,067</u>	<u>\$ 28,032,518</u>

The accompanying notes should be read with these financial statements.

HISTORIC SEATTLE
PRESERVATION AND DEVELOPMENT AUTHORITY
Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating revenues:		
Rents	\$ 2,563,864	\$ 2,402,394
Consulting fees	1,582	6,937
Membership dues	31,790	35,269
Operating grants and donations	187,141	61,627
Event revenue	39,520	62,012
Other	<u>(52)</u>	<u>1,592</u>
	<u>2,823,845</u>	<u>2,569,831</u>
Operating expenses:		
Salaries, benefits and taxes	974,441	943,327
Professional fees	61,090	34,803
Property management fees	170,586	126,579
Office expense and other	114,341	103,758
Event expense	55,092	53,570
Insurance and taxes	144,539	144,042
Conferences and training	8,764	9,694
Depreciation	726,928	663,419
Maintenance and utilities	668,855	542,936
Bad debt expense	<u>4,059</u>	<u>1,070</u>
	<u>2,928,695</u>	<u>2,623,198</u>
Change in net position from operations	<u>(104,850)</u>	<u>(53,367)</u>
Non-operating revenues (expenses):		
Grants and donations	102,305	67,592
Interest revenue	87,815	87,185
Forgiveness of deferred loan interest	4,152	4,152
Gain on beneficial interest in assets held by community foundation	2,104	717
Interest expense and loan closing costs	<u>(379,581)</u>	<u>(358,107)</u>
Total non-operating income (loss) before capital grants and contributions	<u>(183,205)</u>	<u>(198,461)</u>
Capital grants and contributions	<u>87,901</u>	<u>1,395,148</u>
Change in net position	(200,154)	1,143,320
Net position, beginning of year	<u>10,674,716</u>	<u>9,531,396</u>
Net position, end of year	<u>\$ 10,474,562</u>	<u>\$ 10,674,716</u>

The accompanying notes should be read with these financial statements.

HISTORIC SEATTLE
PRESERVATION AND DEVELOPMENT AUTHORITY
Statements of Cash Flows
For the Years Ended December 31, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from tenants	\$ 2,583,773	\$ 2,324,960
Receipts from donors and fundraising events	187,141	73,627
Receipts from members and customers	72,840	105,810
Payments to suppliers	(1,284,464)	(947,840)
Payments to employees	(982,830)	(947,212)
Net cash provided by operating activities	<u>576,460</u>	<u>609,345</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Receipts from donors	<u>102,305</u>	<u>67,592</u>
Net cash provided (used) by non-capital financing activities	<u>102,305</u>	<u>67,592</u>
CASH FLOWS FROM CAPITAL AND FINANCING ACTIVITIES:		
Receipt of grants and donations restricted for capital purposes	92,501	2,222,005
Payments for land, buildings, furniture and equipment	(271,871)	(1,536,537)
Payments for construction costs	(4,303)	(746,976)
Proceeds from notes payable	499,311	
Payments on notes payable	(553,470)	(1,514,347)
Interest and loan closing costs paid on capital debt	(363,699)	(342,225)
Net cash provided (used) by capital and financing activities	<u>(601,531)</u>	<u>(1,918,080)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Withdrawals from (deposits to) restricted cash	102,615	1,431,841
Deposits to reserves	(177,606)	(26,779)
Withdrawals from reserves	6,485	2,323
Interest received	<u>88,574</u>	<u>87,497</u>
Net cash provided (used) by investing activities	<u>20,068</u>	<u>1,494,882</u>
Net increase (decrease) in cash and cash equivalents	97,302	253,739
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,333,802</u>	<u>1,080,063</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 1,431,104</u>	<u>\$ 1,333,802</u>

The accompanying notes should be read with these financial statements.

HISTORIC SEATTLE
PRESERVATION AND DEVELOPMENT AUTHORITY
Statements of Cash Flows, Continued
For the Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
RECONCILIATION OF CHANGE IN NET POSITION TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Change in net position from operations	\$ (104,850)	\$ (53,367)
Adjustments to reconcile change in net position from operations to net cash provided by operating activities:		
Depreciation	726,928	663,419
Deferred rent asset change	(16,425)	(16,360)
Decrease (increase) in operating assets:		
Accounts receivable	43,103	(83,723)
Grants receivable		12,000
Prepaid expenses	(35,243)	23,107
Inventory	1,838	3,125
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(32,408)	38,209
Security deposits, net	1,983	3,758
Prepaid rent and event fees	(8,466)	19,177
Net cash provided by operating activities	<u>\$ 576,460</u>	<u>\$ 609,345</u>
NON-CASH FINANCING AND INVESTING ACTIVITIES		
Land, buildings, furniture and equipment financed with construction costs payable	<u>\$ -</u>	<u>\$ 4,303</u>

The accompanying notes should be read with these financial statements.

HISTORIC SEATTLE
PRESERVATION AND DEVELOPMENT AUTHORITY
Notes to Financial Statements
For the Years Ended December 31, 2017 and 2016

NOTE 1 - NATURE OF THE ORGANIZATION

Historic Seattle Preservation and Development Authority (Historic Seattle or HSPDA) is a public governmental corporation established by a charter issued by the City of Seattle for the preservation and enhancement of historic sites and structures within Seattle. Historic Seattle can buy, own and sell real property, borrow or lend funds, receive and administer federal, state, local or private funds, and collect charges for services rendered.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

These statements include the accounts of Historic Seattle and its component units: Historic Seattle Preservation Foundation (the Foundation), Cadillac Rehabilitation LLC, and Washington Hall QALICB. These entities are reported as blended component units because their activities exclusively benefit Historic Seattle.

Washington Hall QALICB was formed in April 2015, in conjunction with the New Markets Tax Credit financing transaction that closed on June 17, 2015 (Note 16). Washington Hall QALICB holds the Washington Hall building and underlying land as assets and leases the building to community organizations and other entities for performance, gathering, rehearsal, meeting and office space.

Basis of accounting

The financial statements of Historic Seattle have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. These financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Revenue is recognized when earned and expenses are recorded when incurred, regardless of the timing of cash flows. The Government Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Restricted net position

Net position has been reported as restricted for building improvements and other projects due to constraints that are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments, or imposed by law through constitutional provisions or enabling legislation. Historic Seattle's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted resources are available.

HISTORIC SEATTLE
PRESERVATION AND DEVELOPMENT AUTHORITY
Notes to Financial Statements
For the Years Ended December 31, 2017 and 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Restricted net position, continued

Resources were restricted for the following purposes at December 31:

	<u>2017</u>	<u>2016</u>
Restoration projects	\$ 258,330	\$ 473,659
Other projects	<u>173,605</u>	<u>52,942</u>
	<u>\$ 431,935</u>	<u>\$ 526,601</u>

Cash and cash equivalents

For the purpose of the statement of cash flows, Historic Seattle considers all highly liquid debt instruments purchased with maturities of three months or less to be cash equivalents.

Inventory

Inventory, valued at cost, consists of materials and costs related to a publication released in 2014.

Capital assets and depreciation

Property and equipment are recorded at cost. Improvements with a cost of more than \$5,000 are capitalized, while expenditures for maintenance and repairs are charged to expense as incurred. Upon disposal of depreciable property, the appropriate property accounts are reduced by the related costs and accumulated depreciation. Interest costs incurred during the construction period are capitalized and added to the cost of the related building. Interest costs of \$27,555 were capitalized during 2016. Depreciation has been computed on the straight-line basis for furnishings and equipment over five to seven years and for buildings and improvements over 10 to 40 years.

Historic Seattle 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 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. No impairment losses were recognized in 2017 and 2016.

Donated property, equipment and services

Donations of property, equipment, and services are recorded as support at their estimated fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose.

HISTORIC SEATTLE
PRESERVATION AND DEVELOPMENT AUTHORITY
Notes to Financial Statements
For the Years Ended December 31, 2017 and 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Federal income tax

Historic Seattle was granted tax-exempt status in 1985 under Section 115 of the Internal Revenue Code. Accordingly, no provision for federal income taxes is included in the accompanying financial statements.

Classification of revenues and expenses

Historic Seattle distinguishes operating revenues and expenses from non-operating and capital items in the preparation of its financial statements. Operating revenues and expenses generally result from providing public programs, and residential and commercial rental services in connection with Historic Seattle's principal ongoing operations. The principal operating revenues include rental and management fees. The operating expenses include property management, professional fees and other expenses related to providing rental services. Revenues and expenses not meeting this broad definition are reported as non-operating and capital revenues and expenses.

Revenue recognition

Rent is recorded at gross rental revenue at full occupancy. Vacancy loss is deducted from gross rent potential to reflect actual occupancy. Rental revenue is recognized monthly as earned.

Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with governmental 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 disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 3 - SECURITY DEPOSITS

Security deposits for commercial tenants are included with cash and cash equivalents pursuant to the lease agreements. Security deposits for residential tenants are segregated in a separate bank account; the balance at December 31, 2017 and 2016, was \$16,302 and \$15,976, respectively.

HISTORIC SEATTLE
PRESERVATION AND DEVELOPMENT AUTHORITY
Notes to Financial Statements
For the Years Ended December 31, 2017 and 2016

NOTE 4 - PLEDGES RECEIVABLE

In 2012, Historic Seattle launched a capital campaign to raise funds for the restoration of Washington Hall. Unconditional pledges receivable are recorded when the pledges are received. No discount has been applied as it is immaterial. Historic Seattle records an allowance for estimated uncollectible accounts in an amount approximating anticipated losses. Individual uncollectible accounts are written off against the allowance when collection of the individual accounts appears doubtful. At December 31, 2016, an allowance for doubtful accounts of \$5,625 was recorded.

Pledges are expected to be collected in the following periods:

	<u>2017</u>	<u>2016</u>
Less than one year	\$ 6,025	\$ 10,625
Less: allowance	<u>(5,625)</u>	<u>(5,625)</u>
	<u>\$ 400</u>	<u>\$ 5,000</u>

NOTE 5 - RESERVES

Historic Seattle is required, under certain loan agreements, to fund from available cash flows replacement and operating reserves for its various buildings. The balance of these reserves at December 31, 2017 and 2016, was \$404,843 and \$233,722, respectively.

NOTE 6 - RESTRICTED CASH

Related to the New Markets Tax Credit financing for the renovation of Washington Hall, and certain loans received, Washington Hall QALICB is required to maintain restricted cash accounts. Funds in the loan disbursement account were restricted for rehabilitation costs of Washington Hall and required approvals per the disbursing agreement. Funds in the fee and expense reserve account are restricted for paying certain fees during the seven-year New Markets Tax Credit compliance period and are released according to the fee and expense agreement.

The accounts had the following balance at December 31:

	<u>2017</u>	<u>2016</u>
Fee and expense reserve account	\$ 233,070	\$ 335,685

This account serves as collateral for the notes payable to Seattle Subsidiary Investment Fund IX, LLC (Note 11).

HISTORIC SEATTLE
PRESERVATION AND DEVELOPMENT AUTHORITY
Notes to Financial Statements
For the Years Ended December 31, 2017 and 2016

NOTE 7 - NOTE RECEIVABLE

Historic Seattle Preservation Foundation acted as the Leverage Lender to the New Markets Tax Credit financing transaction which provided funding for the rehabilitation of Washington Hall. On June 17, 2015, the Foundation entered into a loan agreement with Twain Investment Fund 81, LLC, lending the LLC \$5,981,400. The principal amount of the loan represents the appraised value of the Washington Hall property and the sum of funds raised through our Capital Campaign to assist with the cost of the rehabilitation. The note matures June 30, 2048, and bears interest at 1.4363 percent. Payments are semi-annual, on June 10 and December 10. Payments are interest only through December 10, 2022. Beginning with the payment due on June 10, 2023, semi-annual amortizing payments of \$140,484 are due on each payment date. The note is collateralized by an assignment of Twain Investment Fund 81, LLCs membership interest in Seattle Subsidiary Investment Fund IX, LLC, the sub-CDE (Community Development Entity) that provided the New Markets Tax Credit allocation to the Washington Hall transaction. If the requirements of the New Markets Tax Credit program are met during the required seven-year holding period, this loan will be forgiven in 2022.

NOTE 8 - CAPITAL ASSETS

The activity in the capital asset accounts for Historic Seattle for 2017 and 2016 was as follows:

	Beginning Balance 2017	Increases	Decreases	Ending Balance 2017
Buildings	\$ 26,747,643	\$ 150,978		\$ 26,898,621
Land	2,115,434			2,115,434
Furniture and equipment	197,094	8,082		205,176
Non-depreciable assets – historical artifacts and preservation easement	68,047			68,047
Construction in progress	<u>24,891</u>	<u>217,463</u>	<u>\$ (104,652)</u>	<u>137,702</u>
	<u>\$ 29,153,109</u>	<u>\$ 376,523</u>	<u>\$ (104,652)</u>	<u>\$ 29,424,980</u>

HISTORIC SEATTLE
PRESERVATION AND DEVELOPMENT AUTHORITY
Notes to Financial Statements
For the Years Ended December 31, 2017 and 2016

NOTE 8 - CAPITAL ASSETS, CONTINUED

	Beginning Balance 2017	Increases	Decreases	Ending Balance 2017
Accumulated depreciation, buildings	\$ 9,222,427	\$ 736,595	(20,020)	\$ 9,939,002
Accumulated depreciation, furniture and equipment	90,947	13,909	\$ (3,556)	101,300
	<u>\$ 9,313,374</u>	<u>\$ 750,504</u>	<u>\$ (23,576)</u>	<u>\$ 10,040,302</u>
Capital assets, net				<u>\$ 19,384,678</u>
	Beginning Balance 2016	Increases	Decreases	Ending Balance 2016
Buildings	\$ 21,605,844	\$ 5,141,799		\$ 26,747,643
Land	2,115,434			2,115,434
Furniture and equipment	179,845	35,695	\$ (18,446)	197,094
Non-depreciable assets – historical artifacts and preservation easement	68,047			68,047
Construction in progress	3,665,848	1,559,425	(5,200,382)	24,891
	<u>\$ 27,635,018</u>	<u>\$ 6,736,919</u>	<u>\$ (5,218,828)</u>	<u>\$ 29,153,109</u>
	Beginning Balance 2016	Increases	Decreases	Ending Balance 2016
Accumulated depreciation, buildings	\$ 8,566,559	\$ 655,868		\$ 9,222,427
Accumulated depreciation, furniture and equipment	101,842	7,551	\$ (18,446)	90,947
	<u>\$ 8,668,401</u>	<u>\$ 663,419</u>	<u>\$ (18,446)</u>	<u>\$ 9,313,374</u>
Capital assets, net				<u>\$ 19,839,735</u>

HISTORIC SEATTLE
PRESERVATION AND DEVELOPMENT AUTHORITY
Notes to Financial Statements
For the Years Ended December 31, 2017 and 2016

NOTE 9 - LEASES

Mutual Life Building

Historic Seattle leases the Mutual Life building under an operating lease. The lease provides an option to purchase which may be exercised by the tenant at any time during the term of the lease or within 30 days after the expiration of the lease. The lease expires December 31, 2033.

Minimum rentals to be received from the cancelable operating lease are as follows:

2018	\$ 16,873
2019	17,548
2020	18,250
2021	18,980
2022	19,739
2023 - 2027	111,189
2028 - 2032	135,279
2033	30,387
	<u>\$ 368,245</u>

Good Shepherd Center

Historic Seattle owns the Good Shepherd Center, a historic building in the Wallingford district of Seattle. It is used primarily as office space for nonprofit organizations and schools as well as residential artist studios. Historic Seattle leases the building to 32 tenants. The leases, the majority of which expire over the next three years, contain rent escalation clauses of three to five percent per year.

Other properties

Historic Seattle also owns other properties, including three residential properties providing affordable housing, a single family residence, a commercial building and a performance hall, which are leased to an additional 48 individuals or businesses.

The cost and carrying amount of Historic Seattle's leased assets at December 31, 2017, was \$28,405,235 and \$19,151,237, respectively. At December 31, 2016, the cost and carrying amount was \$28,246,177 and \$19,704,074, respectively. Depreciation expense for 2017 and 2016, related to the leased assets, was \$711,896 and \$663,419, respectively.

HISTORIC SEATTLE
PRESERVATION AND DEVELOPMENT AUTHORITY
Notes to Financial Statements
For the Years Ended December 31, 2017 and 2016

NOTE 9 - LEASES, CONTINUED

Minimum rentals to be received from cancelable and noncancelable operating leases are as follows:

2018	\$ 1,942,400
2019	1,790,637
2020	1,662,380
2021	1,581,598
2022	1,321,739
2023 - 2025	<u>2,644,338</u>
	<u>\$ 10,943,092</u>

NOTE 10 - BENEFICIAL INTEREST IN ASSETS HELD BY COMMUNITY FOUNDATION

Historic Seattle Preservation Foundation (the Foundation) has established The Historic Seattle Preservation Foundation Designated Fund (the Fund) at The Seattle Foundation, whereby the Foundation is the sole beneficiary. The Seattle Foundation has authority and control over the assets of the Fund, and the income derived therefrom, and also has the sole discretion to determine the timing and amount of distributions from the assets of the Fund.

At December 31, 2017 and 2016, the value of the fund was \$10,749 and \$9,404, respectively. During 2017 and 2016, a gain of \$2,104 and \$717, respectively, was recorded in these statements. Administrative fees, for 2017 and 2016, were \$326 and \$312, respectively.

NOTE 11 - NOTES PAYABLE

Cadillac Rehabilitation LLC:

Note payable, Beneficial State Bank, original amount \$4,650,000, issued December 15, 2015, bears interest at 4.4%; monthly payments of \$35,479 began January 2016; matures December 2030

<u>2017</u>	<u>2016</u>
\$ 4,189,956	\$ 4,423,107

Egan House

Note payable, Union Bank, bears interest at the "3-year amortizing intermediate/long-term advance rate" plus 4%; monthly payments are \$769; paid off November 16, 2017

83,843

HISTORIC SEATTLE
PRESERVATION AND DEVELOPMENT AUTHORITY
Notes to Financial Statements
For the Years Ended December 31, 2017 and 2016

NOTE 11 - NOTES PAYABLE, CONTINUED

	<u>2017</u>	<u>2016</u>
<u>Egan House, continued</u>		
Note payable, Beneficial Bank, original amount \$150,000; monthly payment of principal and interest of \$840 with interest rate of 4.5% for the first 60 months starting December 15, 2017, then 59 consecutive monthly payments of principal and interest of \$852 with interest rate of Five Year Treasury Constant Maturity plus 2.75%, which was 4.98% at December 31, 2017; interest rate on final payment based on Five Year Treasury Constant Maturity; matures November 15, 2027; collateralized by the Egan House	\$ 149,742	
<u>Good Shepherd Center</u>		
Note payable, Key Bank, bears interest at 4.32%; monthly payments of \$5,509; matures June 22, 2022	865,671	\$ 893,207
Note payable, City of Seattle, bears interest at 1%; if Historic Seattle remains in compliance with the terms of the loan, no further interest accrues after July 2021; lender will forgive repayment of 5% of the interest beginning July 2022 and for each year thereafter; matures July 2, 2041, or earlier without penalty; the borrower may extend the maturity date for up to 7, 5-year periods; in 2076, the unpaid principal and any remaining interest will be forgiven	475,299	475,299
Note payable, Washington State Department of Commerce, interest at 1%; payments were deferred until August 31, 2008, at which time annual payments of \$5,200 began and continue for 39 years, to August 31, 2047	134,219	138,039
<u>Bel Boy Apartments</u>		
Note payable, City of Seattle, bears interest at 1%; interest accrued the first 20 years through December 2009; if Historic Seattle remains in compliance with the terms of the loan agreement, lender will forgive repayment of 5% of the interest beginning 2010 and for each year thereafter until maturity, December 22, 2029; the borrower may extend the maturity date for up to four, 5-year periods; in year 20, the unpaid principal and any remaining interest will be payable	415,087	415,087

HISTORIC SEATTLE
PRESERVATION AND DEVELOPMENT AUTHORITY
Notes to Financial Statements
For the Years Ended December 31, 2017 and 2016

NOTE 11 - NOTES PAYABLE, CONTINUED

	<u>2017</u>	<u>2016</u>
<u>Victorian Row Apartments</u>		
Note payable, City of Seattle, bears interest at 1%; principal and accrued interest due at maturity, July 22, 2032	\$ 672,841	\$ 672,841
Note payable, Key Bank, bears interest at 3.42%; monthly payments of \$1,675, paid off November 16, 2017		185,876
Note payable, Beneficial Bank, original amount \$350,000; monthly payment of principal and interest of \$1,789 with interest rate of 4.5% for the first 84 months starting December 15, 2017, then monthly payments of principal and interest of \$1,831 with interest rate of Seven Year Treasury Constant Maturity plus 2.5%, which was 4.83% at December 31, 2017; rate to adjust every seven years based on rate at date of last payment in the cycle; matures November 15, 2047; collateralized by the Victorian Row Apartments	349,569	
<u>William B. Phillips/Heg House Apartments</u>		
Note payable, City of Seattle, bears interest at 1% simple interest per annum, principal and interest due at maturity, December 4, 2032, secured by deed of trust	440,003	440,003
Note payable to Washington State Department of Commerce, noninterest bearing, annual payments of \$4,000, remaining principal due at maturity, December 31, 2044	104,000	108,000
<u>Washington Hall</u>		
Note payable (Loan A), Seattle Subsidiary Investment Fund IX, LLC, original amount of \$5,981,400, issued June 17, 2015, interest at 1%; semi-annual interest only payments through December 2022, semi-annual amortizing payments of \$253,335 beginning June 2023 until maturity, December 2049; if requirements of the New Markets Tax Credit financing are met during the required seven-year holding period, loan will be forgiven 2022	5,981,400	5,981,400

HISTORIC SEATTLE
PRESERVATION AND DEVELOPMENT AUTHORITY
Notes to Financial Statements
For the Years Ended December 31, 2017 and 2016

NOTE 11 - NOTES PAYABLE, CONTINUED

	<u>2017</u>	<u>2016</u>
<u>Washington Hall, continued</u>		
Note payable (Loan B), Seattle Subsidiary Investment Fund IX, LLC, original amount of \$2,658,600, issued June 17, 2015, interest at 1%; semi-annual interest only payments through December 2022, semi-annual amortizing payments of \$112,602 beginning June 2023 until maturity, December 2049; if requirements of the New Markets Tax Credit financing are met during the required seven-year holding period, loan will be forgiven 2022	\$ 2,658,600	\$ 2,658,600
Non-revolving line of credit, Beneficial State Bank, original amount of \$1,950,000, issued April 27, 2015; variable interest based upon the Federal Reserve Bank's Three Year Treasury Constant Maturity Index plus 3%, with a floor of 4.25%, at December 31, 2017, interest rate was 4.25%; monthly interest only payments through October 2016, principal was paid down as Washington Hall capital campaign contributions were collected from funders and donors; converted to term loan November 2016 with monthly amortizing payments sufficient to fully repay remaining principal and interest by maturity, April 2026; collateralized by the Dearborn House	<u>177,767</u>	<u>193,011</u>
	16,614,154	16,668,313
Less: current portion	<u>(308,351)</u>	<u>(301,439)</u>
Total notes payable	<u>\$ 16,305,803</u>	<u>\$ 16,366,874</u>

HSPDA had a second non-revolving line of credit with Beneficial State Bank in the original amount of \$1,150,000, which was issued April 27, 2015. This line of credit had required monthly payments of interest only at 4.25% through maturity, and was cancelled on November 16, 2017, prior to maturity.

HSPDA opened a revolving line of credit with Beneficial State Bank in the amount of \$1,000,000, which was issued September 26, 2017. This line of credit bears interest at prime rate, which was 4.5% at December 31, 2017, and at prime plus one percent on any unpaid principal balance of the loan. Required monthly payments are interest only through maturity. The line of credit matures September 26, 2020 and is collateralized by the Dearborn House. No balance was outstanding on the loan as of December 31, 2017.

HISTORIC SEATTLE
PRESERVATION AND DEVELOPMENT AUTHORITY
Notes to Financial Statements
For the Years Ended December 31, 2017 and 2016

NOTE 11 - NOTES PAYABLE, CONTINUED

Substantially all loans are secured by deeds of trust on the related buildings. Interest has not been imputed on any of the above notes payable that carry below-market rate interest as they are payable to governmental entities and carry legal restrictions.

Following are the changes in notes payable for the year ended December 31, 2017:

Notes payable	Balance December 31, 2016	Additions	Reductions	Balance December 31, 2017	Current Portion
Cadillac Hotel					
Beneficial State Bank	\$ 4,423,107		\$ 233,151	\$ 4,189,956	\$ 243,789
Egan House					
Union Bank	83,843		83,843		
Beneficial Bank		\$ 149,742		149,742	3,313
Good Shepherd Center					
Key Bank	893,207		27,536	865,671	29,341
City of Seattle	475,299			475,299	
Washington State	138,039		3,820	134,219	3,858
BelBoy Apartments					
City of Seattle	415,087			415,087	
Victorian Row Apartments					
City of Seattle	672,841			672,841	
Key Bank	185,876		185,876		
Beneficial Bank		349,569		349,569	5,619
William B. Phillips/Heg					
House Apartments					
City of Seattle	440,003			440,003	
Washington State	108,000		4,000	104,000	4,000
Washington Hall					
Seattle Subsidiary					
Investment Fund IX, LLC	5,981,400			5,981,400	
Seattle Subsidiary					
Investment Fund IX, LLC	2,658,600			2,658,600	
Beneficial State Bank	193,011		15,244	177,767	18,431
Total notes payable	<u>\$ 16,668,313</u>	<u>\$ 499,311</u>	<u>\$ 553,470</u>	<u>\$ 16,614,154</u>	<u>\$ 308,351</u>

HISTORIC SEATTLE
PRESERVATION AND DEVELOPMENT AUTHORITY
Notes to Financial Statements
For the Years Ended December 31, 2017 and 2016

NOTE 11 - NOTES PAYABLE, CONTINUED

Following are the changes in notes payable for the year ended December 31, 2016:

<u>Notes payable</u>	<u>Balance December 31, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance December 31, 2016</u>	<u>Current Portion</u>
Cadillac Hotel					
Beneficial State Bank	\$ 4,650,000		226,893	\$ 4,423,107	\$ 233,171
Egan House					
Union Bank	86,048		2,205	83,843	2,870
Good Shepherd Center					
Key Bank	919,455		26,248	893,207	28,103
City of Seattle	475,299			475,299	
Washington State	141,821		3,782	138,039	3,820
BelBoy Apartments					
City of Seattle	415,087			415,087	
Victorian Row Apartments					
City of Seattle	672,841			672,841	
Key Bank	199,262		13,386	185,876	13,919
William B. Phillips/Heg House Apartments					
City of Seattle	440,003			440,003	
Washington State	112,000		4,000	108,000	4,000
Washington Hall					
Seattle Subsidiary					
Investment Fund IX, LLC	5,981,400			5,981,400	
Seattle Subsidiary					
Investment Fund IX, LLC	2,658,600			2,658,600	
Beneficial State Bank	1,430,844		1,237,833	193,011	15,556
Total notes payable	<u>\$ 18,182,660</u>		<u>\$ 1,514,347</u>	<u>\$ 16,668,313</u>	<u>\$ 301,439</u>

HISTORIC SEATTLE
PRESERVATION AND DEVELOPMENT AUTHORITY
Notes to Financial Statements
For the Years Ended December 31, 2017 and 2016

NOTE 11 - NOTES PAYABLE, CONTINUED

Future principal and interest payments are as follows:

	<u>Principal</u>	<u>Interest</u>
2018	\$ 308,351	\$ 329,062
2019	321,977	316,214
2020	335,694	303,306
2021	351,077	288,767
2022	1,072,084	261,258
2023 - 2027	3,385,570	962,354
2028 - 2032	3,195,766	925,058
2033 - 2037	2,796,179	299,603
2038 - 2042	1,780,876	202,061
2043 - 2047	1,868,466	96,186
2048 - 2049	<u>722,815</u>	<u>9,058</u>
	<u>\$16,138,855</u>	<u>\$ 3,992,927</u>

The above schedule does not reflect forgivable principal and interest owed to the City of Seattle. A loan of \$475,299 is expected to be forgiven July 2076 and during the years 2018 through 2041, a total of \$149,642 of interest is expected to be forgiven.

NOTE 12 - DEFERRED COMPENSATION PLAN

Historic Seattle offers all regular full-time and part-time employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. Historic Seattle contributes three percent of all full-time employees' salaries. Full-time employees are eligible after six months of employment. Historic Seattle's contributions in 2017 and 2016 totaled \$15,006 and \$12,908, respectively.

HISTORIC SEATTLE
PRESERVATION AND DEVELOPMENT AUTHORITY
Notes to Financial Statements
For the Years Ended December 31, 2017 and 2016

NOTE 13 - CONCENTRATION OF CREDIT RISK

Historic Seattle maintains cash balances at several financial institutions. Accounts at each financial institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. The Organization has not experienced any losses in such accounts. The Organization believes it is not exposed to any significant credit risk on its cash balances. At December 31, 2017 and 2016, the uninsured cash balances totaled \$802,078 and \$720,346, respectively.

NOTE 14 - RISK MANAGEMENT

Historic Seattle is exposed to risks commonly associated with the ownership and rental of real property. Risks including bodily injury, property damage by fire and forces of nature; loss of assets from theft and employee dishonesty; and liability for employees' conduct are mitigated by a combination of insurance, training and policies and procedures.

Historic Seattle has obtained insurance coverage through a commercial insurance broker with the exception of workers compensation insurance and unemployment insurance which are provided by agencies of the State of Washington. Insurance coverage has not significantly changed from prior years. Property loss coverage is on a historical replacement cost basis with a deductible of \$25,000 per occurrence. Settled claims have not exceeded coverage purchased during the past three years.

NOTE 15 - COMMITMENTS AND CONTINGENCIES

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 Historic Seattle. 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 of the government agency. During the years ended December 31, 2017 and 2016, no such adjustments were made.

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NOTE 16 - NEW MARKETS TAX CREDIT FINANCING

In June 2015, the Organization entered into a New Markets Tax Credit (NMTC) transaction to help finance the rehabilitation of Washington Hall. As mentioned in Note 2, Washington Hall QALICB was formed for the purpose of facilitating the NMTC transaction as a Qualified Active Low Income Community Business (QALICB).

The New Markets Tax Credit Program was designed to stimulate investment and economic growth in low-income communities by offering a seven-year, 39 percent federal tax credit for Qualified Equity Investments (QEI) made through investment vehicles known as Community Development Entities (CDE). CDEs use capital derived from tax credits to make loans to or investments in businesses and projects in low-income areas.

As part of the transaction, the Foundation committed to lend \$5,981,400 to Twain Investment Fund 81, LLC (Investment Fund) (Note 7). The amount borrowed at closing on June 17, 2015; amounted to \$8,640,000 (Loan A for \$5,981,400 and Loan B for \$2,658,600, see Note 11). This transaction generated \$2,658,600 of funding for the rehabilitation of the Washington Hall building.

The Organization (collectively Historic Seattle, the Foundation, and Washington Hall QALICB) has no control or economic interest in the assets of either the QEI or the CDEs. The QEI is controlled and wholly owned by U.S. Bancorp Community Development Corporation (U.S. Bancorp CDC) and the Investment Fund controls and funds the CDE.

To earn the tax credit the QEI must remain invested in the CDE for a seven-year period. The Foundation and U.S. Bancorp CDC have entered into a put/call option agreement to take place at the end of the seven-year period. Under the agreement, U.S. Bancorp CDC can exercise a put option to sell all interest in the QEI for \$1,000 to the Foundation. If U.S. Bancorp CDC does not exercise the put option within 180 days of the seven-year period, the Foundation can exercise a call option to purchase the interest of the QEI at an appraised fair market value.

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NOTE 17 - CONDENSED COMBINING INFORMATION

The following is the condensed combining information for the blended component units of Historic Seattle for the years ended December 31, 2017 and 2016.

Condensed balance sheet, December 31, 2017:

	Historic Seattle	Foundation	Cadillac Rehabilitation LLC	Washington Hall QALICB	Eliminations	Total December 31, 2017
Current assets	\$ 488,931	\$ 726,392	\$ 242,225	\$ 209,430	\$ (1)	\$ 1,666,977
Non-current assets	401,321	5,992,149	48,775	253,167		6,695,412
Non-current assets, related party	4,862,340	50,000			(4,912,340)	
Capital assets, net	<u>4,866,684</u>	<u>6,611</u>	<u>6,482,060</u>	<u>8,935,047</u>	<u>(905,724)</u>	<u>19,384,678</u>
Total assets	<u>\$ 10,619,276</u>	<u>\$ 6,775,152</u>	<u>\$ 6,773,060</u>	<u>\$ 9,397,644</u>	<u>\$ (5,818,065)</u>	<u>\$ 27,747,067</u>
Current liabilities	\$ 277,804	\$ 2,874	\$ 251,900	\$ 27,686		\$ 560,264
Long-term liabilities	4,176,074		4,610,045	8,640,000	\$ (713,878)	16,712,241
Long-term liabilities, related party		2,287,348	1,062,652		(3,350,000)	
Total liabilities	<u>\$ 4,453,878</u>	<u>\$ 2,290,222</u>	<u>\$ 5,924,597</u>	<u>\$ 8,667,686</u>	<u>\$ (4,063,878)</u>	<u>\$ 17,272,505</u>
Net position:						
Invested in capital assets, net of related debt	\$ 1,032,486	\$ 6,611	\$ 987,014	\$ 528,117	\$ 449,366	\$ 3,003,594
Restricted		431,935				431,935
Unrestricted	<u>5,132,912</u>	<u>4,046,384</u>	<u>(138,551)</u>	<u>201,841</u>	<u>(2,203,553)</u>	<u>7,039,033</u>
Total net position	<u>\$ 6,165,398</u>	<u>\$ 4,484,930</u>	<u>\$ 848,463</u>	<u>\$ 729,958</u>	<u>\$ (1,754,187)</u>	<u>\$ 10,474,562</u>

HISTORIC SEATTLE
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NOTE 17 - CONDENSED COMBINING INFORMATION, CONTINUED

Condensed statement of revenues, expenses and changes in net position, December 31, 2017:

	Historic Seattle	Foundation	Cadillac Rehabilitation LLC	Washington Hall QALICB	Eliminations	Total December 31, 2017
Operating revenues:						
Tenant revenues	\$ 1,682,129		\$ 746,956	\$ 134,779		\$ 2,563,864
Event fees and membership dues	346	\$ 70,964				71,310
Grants and donations	13,750	173,391				187,141
Consulting fees	58,884				\$ (57,302)	1,582
Other		(52)				(52)
Operating expenses	(1,766,160)	(102,140)	(196,039)	(194,730)	57,302	(2,201,767)
Depreciation	(325,736)		(234,595)	(190,173)	23,576	(726,928)
Net operating gain (loss)	(336,787)	142,163	316,322	(250,124)	23,576	(104,850)
Non-operating revenues:						
Grants and donations	181,918	102,305		340,070	(517,836)	106,457
Interest income, and gain on beneficial interest in assets held by community foundation	106,263	89,093	342	241	(106,020)	89,919
Gain on investment in limited liability company	50,901				(50,901)	
Non-operating expenses:						
Interest expense	(100,585)	(32,853)	(265,763)	(86,400)	106,020	(379,581)
Grant expense	(85,911)	(431,925)			517,836	
Net non-operating gain (loss)	152,586	(273,380)	(265,421)	253,911	(50,901)	(183,205)
Gain (loss) before capital contributions	(184,201)	(131,217)	50,901	3,787	(27,325)	(288,055)
Capital contributions	14,590	41,409		31,902		87,901
Change in net position	(169,611)	(89,808)	50,901	35,689	(27,325)	(200,154)
Net position, beginning of year	6,335,009	4,574,738	797,562	694,269	(1,726,862)	10,674,716
Net position, end of year	\$ 6,165,398	\$ 4,484,930	\$ 848,463	\$ 729,958	\$ (1,754,187)	\$ 10,474,562

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PRESERVATION AND DEVELOPMENT AUTHORITY
Notes to Financial Statements
For the Years Ended December 31, 2017 and 2016

NOTE 17 - CONDENSED COMBINING INFORMATION, CONTINUED

Condensed statement of cash flows, December 31, 2017:

	<u>Historic Seattle</u>	<u>Foundation</u>	<u>Cadillac Rehabilitation LLC</u>	<u>Washington Hall QALICB</u>	<u>Eliminations</u>	<u>Total December 31, 2017</u>
Net cash provided (used) by:						
Operating activities	\$ 344,456	\$ 144,260	\$ 180,244	\$ (92,500)		\$ 576,460
Non-capital financing activities	91,855	(329,620)		340,070		102,305
Capital and related financing activities	(396,646)	13,156	(144,853)	(229,208)	\$ 156,020	(601,531)
Investing activities	<u>(5,363)</u>	<u>87,748</u>	<u>(4,451)</u>	<u>98,154</u>	<u>(156,020)</u>	<u>20,068</u>
Net increase (dec) in cash and cash equivalents	34,302	(84,456)	30,940	116,516		97,302
Beginning cash and cash equivalents	<u>397,239</u>	<u>762,399</u>	<u>143,544</u>	<u>30,620</u>		<u>1,333,802</u>
Ending cash and cash equivalents	<u>\$ 431,541</u>	<u>\$ 677,943</u>	<u>\$ 174,484</u>	<u>\$ 147,136</u>	<u>\$ -</u>	<u>\$ 1,431,104</u>

HISTORIC SEATTLE
PRESERVATION AND DEVELOPMENT AUTHORITY
Notes to Financial Statements
For the Years Ended December 31, 2017 and 2016

NOTE 17 - CONDENSED COMBINING INFORMATION, CONTINUED

Condensed balance sheet, December 31, 2016:

	Historic Seattle	Foundation	Cadillac Rehabilitation LLC	Washington Hall QALICB	Eliminations	Total December 31, 2016
Current assets	\$ 455,109	\$ 820,125	\$ 274,869	\$ 33,544		\$ 1,583,647
Non-current assets	221,152	5,990,804	43,982	353,198		6,609,136
Non-current assets, related party	4,828,246	50,000			\$ (4,878,246)	
Capital assets, net	<u>5,099,038</u>	<u>6,611</u>	<u>6,708,573</u>	<u>8,954,813</u>	<u>(929,300)</u>	<u>19,839,735</u>
Total assets	<u>\$ 10,603,545</u>	<u>\$ 6,867,540</u>	<u>\$ 7,027,424</u>	<u>\$ 9,341,555</u>	<u>\$ (5,807,546)</u>	<u>\$ 28,032,518</u>
Current liabilities	\$ 286,890	\$ 5,454	\$ 296,590	\$ 7,286		\$ 596,220
Long-term liabilities	3,981,646		4,853,814	8,640,000	\$ (713,878)	16,761,582
Long-term liabilities, related party		<u>2,287,348</u>	<u>1,079,458</u>		<u>(3,366,806)</u>	
Total liabilities	<u>\$ 4,268,536</u>	<u>\$ 2,292,802</u>	<u>\$ 6,229,862</u>	<u>\$ 8,647,286</u>	<u>\$ (4,080,684)</u>	<u>\$ 17,357,802</u>
Net position:						
Invested in capital assets, net of related debt	\$ 1,443,832	\$ 6,611	\$ 930,376	\$ 646,195	\$ 475,790	\$ 3,502,804
Restricted		526,601				526,601
Unrestricted	<u>4,891,177</u>	<u>4,041,526</u>	<u>(132,814)</u>	<u>48,074</u>	<u>(2,202,652)</u>	<u>6,645,311</u>
Total net position	<u>\$ 6,335,009</u>	<u>\$ 4,574,738</u>	<u>\$ 797,562</u>	<u>\$ 694,269</u>	<u>\$ (1,726,862)</u>	<u>\$ 10,674,716</u>

HISTORIC SEATTLE
PRESERVATION AND DEVELOPMENT AUTHORITY
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For the Years Ended December 31, 2017 and 2016

NOTE 17 - CONDENSED COMBINING INFORMATION, CONTINUED

Condensed statement of revenues, expenses and changes in net position, December 31, 2016:

	Historic Seattle	Foundation	Cadillac Rehabilitation LLC	Washington Hall QALICB	Eliminations	Total December 31, 2016
Operating revenues:						
Tenant revenues	\$ 1,616,322		\$ 748,796	\$ 37,276		\$ 2,402,394
Event fees and membership dues	519	\$ 96,762				97,281
Grants and donations	12,000	49,627				61,627
Consulting fees	299,825				\$ (292,888)	6,937
Other		1,592				1,592
Operating expenses	(1,615,291)	(91,459)	(171,238)	(132,329)	50,538	(1,959,779)
Depreciation	(331,482)		(235,045)	(110,645)	13,753	(663,419)
Net operating gain (loss)	(18,107)	56,522	342,513	(205,698)	(228,597)	(53,367)
Non-operating revenues:						
Grants and donations	38,071	67,592		144,411	(178,330)	71,744
Interest income, and gain on beneficial interest in assets held by community foundation	109,310	87,361	275	67	(109,111)	87,902
Gain on investment in limited liability company	67,678				(67,678)	
Non-operating expenses:						
Interest expense	(100,408)	(32,853)	(275,112)	(58,845)	109,111	(358,107)
Grant expense		(178,330)			178,330	
Net non-operating gain (loss)	114,651	(56,230)	(274,837)	85,633	(67,678)	(198,461)
Gain (loss) before capital contributions	96,544	292	67,676	(120,065)	(296,275)	(251,828)
Capital contributions	421,991	285,304		687,853		1,395,148
Change in net position	518,535	285,596	67,676	567,788	(296,275)	1,143,320
Net position, beginning of year	5,816,474	4,289,142	729,886	126,481	(1,430,587)	9,531,396
Net position, end of year	\$ 6,335,009	\$ 4,574,738	\$ 797,562	\$ 694,269	\$ (1,726,862)	\$ 10,674,716

HISTORIC SEATTLE
PRESERVATION AND DEVELOPMENT AUTHORITY
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For the Years Ended December 31, 2017 and 2016

NOTE 17 - CONDENSED COMBINING INFORMATION, CONTINUED

Condensed statement of cash flows, December 31, 2016:

	Historic Seattle	Foundation	Cadillac Rehabilitation LLC	Washington Hall QALICB	Eliminations	Total December 31, 2016
Net cash provided (used) by:						
Operating activities	\$ 302,932	\$ 47,062	\$ 599,577	\$ (340,226)		\$ 609,345
Non-capital financing activities	33,919	(110,738)		144,411		67,592
Capital and related financing activities	(554,559)	257,451	(552,004)	(1,228,079)	\$ 159,111	(1,918,080)
Investing activities	<u>143,733</u>	<u>86,956</u>	<u>16,879</u>	<u>1,406,425</u>	<u>(159,111)</u>	<u>1,494,882</u>
Net increase in cash and cash equivalents	(73,975)	280,731	64,452	(17,469)		253,739
Beginning cash and cash equivalents	<u>471,214</u>	<u>481,668</u>	<u>79,092</u>	<u>48,089</u>		<u>1,080,063</u>
Ending cash and cash equivalents	<u>\$ 397,239</u>	<u>\$ 762,399</u>	<u>\$ 143,544</u>	<u>\$ 30,620</u>	<u>\$ -</u>	<u>\$ 1,333,802</u>

WATSON & McDONELL, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

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*

Council
Historic Seattle Preservation and Development Authority
Seattle, Washington

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities of Historic Seattle Preservation and Development Authority (the Organization) as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise Historic Seattle Preservation and Development Authority's basic financial statements, and have issued our report thereon dated July 19, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Historic Seattle Preservation and Development Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

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

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

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*, Page 2

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Historic Seattle Preservation and Development Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization'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 Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Watson & McDowell, PLLC

July 19, 2018