



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

September 20, 2018

Board of Directors
Seattle Indian Services Commission
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 Seattle Indian Services Commission's financial statements for the fiscal year ended December 31, 2016. The Commission 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

SEATTLE INDIAN SERVICES COMMISSION

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

SEATTLE INDIAN SERVICES COMMISSION
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WATSON & McDONELL, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Seattle Indian Services Commission
Seattle, Washington

We have audited the accompanying financial statements of the business-type activities of Seattle Indian Services Commission (the Commission), as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Commission'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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Seattle Indian Services Commission, as of December 31, 2016, and the changes in financial position and cash flows thereof for the year 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 3–8 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.

Watson & McDowell, PLLC

May 17, 2017

SEATTLE INDIAN SERVICES COMMISSION
Management's Discussion and Analysis
For the Year Ended December 31, 2016

MANAGEMENT DISCUSSION AND ANALYSIS

This discussion and analysis of the financial performance of the Seattle Indian Services Commission (the Commission) presents a narrative overview and analysis of the financial activities for the year ending December 31, 2016. The reader is encouraged to consider the information presented here in conjunction with the Commission's financial statements.

Overview of the Financial Statements

The Management's Discussion and Analysis (MD&A) is intended to serve as an introduction to the Commission's financial statements. The following statements are included:

- Balance Sheet -- presents information on all of the Commission's assets and liabilities. Over time, increases or decreases in net position may serve as an indicator of whether the financial position of the Commission is improving or deteriorating.
- Statement of Revenues, Expenses and Changes in Net Position -- shows how the Commission's net position changed during the period regardless of when cash is received or paid.
- Statement of Cash Flows -- reports the Commission's cash flows from operating, investing, and capital and related financing activities.

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the Commission's financial statements.

Financial Highlights

- Total assets of the Commission as of December 31, 2016, were \$3,087,179. For purposes of this report, total assets are reported in two major categories. The first category, current assets consists of cash and cash equivalents, and prepaid insurance. The second category, noncurrent assets consists of property and equipment owned by the Commission, net of accumulated depreciation, capitalized predevelopment costs, and funds held by paying agents. Funds held by paying agents have external limitations on the way they may be used (funds held by paying agents for the purpose of making payments on the Commission's outstanding bond debt).

SEATTLE INDIAN SERVICES COMMISSION
Management's Discussion and Analysis
For the Year Ended December 31, 2016

Financial Highlights, Continued

- Total liabilities of the Commission as of December 31, 2016, were \$3,859,789, and included current and long-term liabilities. Current liabilities include accounts payable, accrued interest and current portions of long-term debt. Non-current (or long-term) liabilities consist of the long-term portion of bond debt on the Pearl Warren Building and amounts due to the City of Seattle.
- At December 31, 2016, the Commission's total liabilities exceeded its total assets by \$772,610. This is an increase of \$161,491 over the year, and is due to loss of rental revenue from the Seattle Indian Health Board and Seattle Indian Center.

Financial Analysis of the Commission

The Commission's condensed financials for the year ending December 31, 2016 and 18-month period ending December 31, 2015, are presented as follows:

Condensed Balance Sheet

	December 31, 2016	December 31, 2015
Other assets	\$ 595,426	\$ 586,314
Capital assets	<u>2,491,753</u>	<u>2,512,121</u>
Total Assets	<u>\$ 3,087,179</u>	<u>\$ 3,098,435</u>
Current liabilities	\$ 347,531	\$ 330,764
Long-term liabilities	<u>3,512,258</u>	<u>3,378,790</u>
Total Liabilities	<u>3,859,789</u>	<u>3,709,554</u>
Invested in capital assets, net of related debt	(443,247)	(722,879)
Restricted for repayment of debt – held by paying agent	334,326	333,749
Restricted for other purposes	9,243	10,000
Unrestricted	<u>(672,932)</u>	<u>(231,989)</u>
Total Net Position	<u>(772,610)</u>	<u>(611,119)</u>
Total Liabilities and Net Position	<u>\$ 3,087,179</u>	<u>\$ 3,098,435</u>

- The Commission's total operating revenue for the year ending December 31, 2016, was \$111,167 compared to \$257,342 for the 18-month period ending December 31, 2015. Total operating expenses were \$129,940 for the year ending December 31, 2016 compared to \$213,176 for the 18-month period ending December 31, 2015.

SEATTLE INDIAN SERVICES COMMISSION
Management's Discussion and Analysis
For the Year Ended December 31, 2016

Financial Analysis of the Commission, Continued

- Total operating loss was \$18,773 for the year ending December 31, 2016. This represented a decrease of \$62,939 over the 18-month period ending December 31, 2015. The decrease in operating income is due to the loss of rental income from the Commission's two prior major tenants.

Condensed Statement of Revenues, Expenses and Changes in Net Position

	(12 months) 2016	(18-Months) 2015
Rental income	\$ 96,850	\$ 219,675
Other income	<u>14,317</u>	<u>37,667</u>
Total Revenue	<u>111,167</u>	<u>257,342</u>
Operating expenses	104,472	168,556
Depreciation	<u>25,468</u>	<u>44,620</u>
Total Operating Expenses	<u>129,940</u>	<u>213,176</u>
Operating Income	(18,773)	44,166
Nonoperating revenues (expenses):		
Other revenue (expenses)	<u>(142,718)</u>	<u>(224,964)</u>
Change in Net Position	(161,491)	(180,798)
Total Net Position, Beginning of Period	<u>(611,119)</u>	<u>(430,321)</u>
Total Net Position, End of Period	<u>\$ (772,610)</u>	<u>\$ (611,119)</u>

Revenues are derived from several sources with approximately 87% received as direct rent from tenants, and 13% from other sources.

The Commission's most significant expenses are operating expenses and interest on bonds payable.

Net position and changes in net position may be used as a measure of the financial health of an organization. During the year ending December 31, 2016, the Commission's change in net position was a decrease of \$161,491 compared to a decrease of \$180,798 for the 18-Month period ending December 31, 2015.

SEATTLE INDIAN SERVICES COMMISSION
Management's Discussion and Analysis
For the Year Ended December 31, 2016

Financial Analysis of the Commission, Continued

Capital Assets and Debt Administration

Capital assets

Detailed information regarding the Commission's capital assets may be found in Note 4 to the financial statements. The following table summarizes the changes in capital assets between the reporting periods ending December 31:

	<u>2016</u>	<u>2015</u>	<u>Net Change</u>
Land	\$ 2,270,370	\$ 2,270,370	\$
Building and improvements	439,900	439,900	
Community tech lab equipment	89,679	89,679	
Furniture and fixtures	<u>43,155</u>	<u>43,155</u>	
Totals	2,843,104	2,843,104	
Less accumulated depreciation	(356,451)	(330,983)	(25,468)
Capitalized predevelopment costs	<u>5,100</u>		<u>5,100</u>
Capital assets, net	<u>\$ 2,491,753</u>	<u>\$ 2,512,121</u>	<u>\$ (20,368)</u>

The Commission's main capital asset is the Pearl Warren Building, which consists of the Commission's administrative offices.

The following table summarizes the changes in other assets between the reporting periods ending December 31:

Other Assets

	<u>2016</u>	<u>2015</u>	<u>Net Change</u>
Cash and cash equivalents	\$ 257,314	\$ 250,731	\$ 6,583
Accounts receivable		500	(500)
Prepaid insurance	3,786	1,334	2,452
Restricted assets – held by paying agents	<u>334,326</u>	<u>333,749</u>	<u>577</u>
Total	<u>\$ 595,426</u>	<u>\$ 586,314</u>	<u>\$ 9,112</u>

Restricted assets are used by the Commission's paying agents (Bank of New York) to make the semiannual payments of principal and interest on the Commission's outstanding bonds.

SEATTLE INDIAN SERVICES COMMISSION
Management's Discussion and Analysis
For the Year Ended December 31, 2016

Long-Term Liabilities

See Note 3 to the financial statements for detailed information regarding the Commission's long-term liabilities. The following table summarizes the changes in the Commission's long-term liabilities between the periods ending December 31:

	<u>2016</u>	<u>2015</u>	<u>Net Change</u>
Bonds Payable - 2004 Pearl Warren	2,620,000	2,935,000	(315,000)
Loan Payable - City of Seattle	880,070	441,102	438,968
Accrued Interest - City of Seattle	12,188	2,688	9,500
Total	<u>\$ 3,512,258</u>	<u>\$ 3,378,790</u>	<u>\$ 133,468</u>

The Commission's real estate activities are financed, in part, by long-term debt secured by real estate on the Pearl Warren Building. The bonds issued for the construction of the Commission's property are guaranteed by the City of Seattle. The Commission had \$2,935,000 of outstanding bond debt as of December 31, 2016, of which \$315,000 was classified as current.

The following table summarizes the changes in other liabilities between the reporting periods ending December 31:

Other Liabilities

	<u>2016</u>	<u>2015</u>	<u>Net Change</u>
Accounts payable	\$ 11,411	\$ 7,696	\$ 3,715
Accrued interest payable	21,120	23,068	(1,948)
Bonds payable, current portion	315,000	300,000	15,000
Total	<u>\$ 347,531</u>	<u>\$ 330,764</u>	<u>\$ 16,767</u>

SEATTLE INDIAN SERVICES COMMISSION
Management's Discussion and Analysis
For the Year Ended December 31, 2016

Economic Factors and Future Outlook

Management has identified several significant factors that can affect the future viability of the Commission:

- The loss of rental income from the Commission's two major tenants resulted in the Commission's inability to meet its annual obligations on the remaining series 2004 bonds. In response to this event, the City of Seattle, under the terms of the Cooperative Agreement with the Commission, allocated adequate funds in its 2015-16 budget to cover the Commission's debt service obligations starting January 2015.
- Several lease agreements were signed for parking, community space and overnight use of the facilities for a homeless shelter.
- On February 1, 2017, the Commission entered a long-term lease agreement with the City of Seattle for the Pearl Warren Building. Under the terms of the lease, the City of Seattle will lease the building for a period of 84-months, starting January 1, 2017 through January 31, 2024. This period covers the term of the remaining outstanding bonds on the property. Under the terms of the Agreement, City's lease payment covers the outstanding monthly bond debt, forgives the amount due to the City for debt service payments made on behalf of the Commission and accrued interest on a monthly basis throughout the term of the agreement, and provides an annual payment to the Commission. The Agreement also requires the City to pay for all utilities, maintenance and other services associated with the management of the Pearl Warren Building. This Agreement frees the Commission of all property management responsibilities and provides a small revenue source to cover future Commission activities. The Commission has the right to terminate the agreement upon 180 days written notice to the City if certain conditions are met. The termination provision may not be used during the initial 36 months of the agreement.
- During 2016 the Pearl Warren property received an appraisal with a value of \$10,800,000

Requests for Information

This financial report is designed to provide citizens, clients, businesses and creditors with a general overview of the Seattle Indian Services Commission's finances and to show accountability for the money it receives. Questions concerning any of the information found in this report or requests for additional financial information should be directed to:

Seattle Indian Services Commission
815 1st Avenue #113
Seattle, WA 98104

SEATTLE INDIAN SERVICES COMMISSION

Balance Sheet December 31, 2016

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 257,314
Prepaid insurance	3,786
TOTAL CURRENT ASSETS	<u>261,100</u>

Funds held by paying agents	334,326
Capitalized predevelopment costs	5,100
Property and equipment, net of accumulated depreciation	<u>2,486,653</u>
TOTAL ASSETS	<u><u>\$ 3,087,179</u></u>

LIABILITIES AND NET POSITION

CURRENT LIABILITIES

Accounts payable	\$ 11,411
Accrued interest payable	21,120
Bonds payable, current portion	<u>315,000</u>
TOTAL CURRENT LIABILITIES	347,531

Loan payable - City of Seattle	880,070
Accrued interest - City of Seattle	12,188
Bonds payable	<u>2,620,000</u>
TOTAL LIABILITIES	<u>3,859,789</u>

NET POSITION

Net investment in capital assets	(443,247)
Restricted (held by paying agents for debt service)	334,326
Restricted for other purposes	9,243
Unrestricted	<u>(672,932)</u>
TOTAL NET POSITION	<u>(772,610)</u>

TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 3,087,179</u></u>
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The accompanying notes should be read with these financial statements.

SEATTLE INDIAN SERVICES COMMISSION

Statement of Revenues, Expenses and Changes in Net Position

For the Year Ended December 31, 2016

OPERATING REVENUE

Rental income	\$ 96,850
Community space rental - Pearl Warren	825
In-kind contributions	11,752
Other income	1,520
Interest income	<u>220</u>
TOTAL OPERATING REVENUE	<u>111,167</u>

OPERATING EXPENSES

Utilities	23,113
Maintenance, repair and supplies	15,795
Taxes and insurance	8,767
Management fees	14,393
Administration	
Office expenses	6,845
Professional fees	35,559
Depreciation	<u>25,468</u>
TOTAL OPERATING EXPENSES	<u>129,940</u>
OPERATING INCOME (LOSS)	<u>(18,773)</u>

NONOPERATING REVENUE (EXPENSES)

Interest on bonds payable	(136,469)
Interest on City of Seattle loan	(9,500)
Bond service charges	<u>(1,749)</u>
TOTAL NONOPERATING INCOME (LOSS) BEFORE CAPITAL GRANTS AND CONTRIBUTIONS	<u>(147,718)</u>

Capital contributions	<u>5,000</u>
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CHANGE IN NET POSITION (161,491)

NET POSITION, BEGINNING OF YEAR (611,119)

NET POSITION, END OF YEAR \$ (772,610)

The accompanying notes should be read with these financial statements.

SEATTLE INDIAN SERVICES COMMISSION
Statement of Cash Flows
For the Year Ended December 31, 2016

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from tenants	\$ 111,447
Cash received from interest	220
Cash paid to vendors for goods and services	<u>(103,209)</u>
Cash provided (used) by operating activities	<u>8,458</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Capitalized predevelopment costs	(5,100)
Decrease (increase) in cash and cash equivalents held by paying agents	<u>(577)</u>
Cash provided (used) by investing activities	<u>(5,677)</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Capital grants and contributions	5,000
Principal paid on maturity of bonds payable	(300,000)
Bond service charges	(1,749)
Interest paid on bonds payable	(138,417)
Proceeds from City of Seattle loan	<u>438,968</u>
Cash provided (used) by capital and related financing activities:	<u>3,802</u>

Net increase (decrease) in cash	6,583
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Cash and cash equivalents, beginning of year	<u>250,731</u>
Cash and cash equivalents, end of year	<u><u>\$ 257,314</u></u>

The accompanying notes should be read with these financial statements.

SEATTLE INDIAN SERVICES COMMISSION
Statement of Cash Flows, Continued
For the Year Ended December 31, 2016

RECONCILIATION OF OPERATING INCOME TO NET
CASH PROVIDED BY OPERATING ACTIVITIES

Operating income	\$ (18,773)
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation expense	25,468
Changes in assets and liabilities	
Decrease (increase) in amount due from Seattle Indian Health Board	500
Increase (decrease) in accounts payable	3,715
Increase (decrease) in prepaid insurance	<u>(2,452)</u>
Cash provided by operating activities	<u>\$ 8,458</u>

The accompanying notes should be read with these financial statements.

SUPPLEMENTARY INFORMATION

SEATTLE INDIAN SERVICES COMMISSION
Notes to the Financial Statements
For the Year Ended December 31, 2016

NOTE 1 – NATURE OF THE ORGANIZATION

Seattle Indian Services Commission (the Commission) is a public corporation, as defined in City of Seattle Ordinance No. 103387, formed in 1972 to carry out certain objectives of the Seattle Model City Program. The Commission is a public development authority chartered by The City of Seattle that is not a component unit of The City of Seattle. The Commission Governing Council is comprised of five members: one member appointed by the Mayor of Seattle, who serves as Chair; and four members appointed by majority vote of the Governing Council members. All members must be confirmed by the Seattle City Council. The financial statements of the Commission do not include any accounts of the appointing authorities.

The Commission was formed for the purpose of obtaining a Seattle Model City Program grant of \$600,000 to purchase a building for use as a center for Indian service organizations. Any future earnings are intended to be used for Indian community service programs as required by the Commission charter.

The Seattle City Council has the authority to terminate the Commission and, upon termination, any remaining assets of the Commission would be distributed in accordance with the terms of Ordinance No. 103387.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

The financial statements of the Commission have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. These financials have been prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized at the time liabilities are incurred, regardless of when the related cash transactions take place. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Cash and cash equivalents

The Commission considers all highly liquid investments with maturities of three months or less, when purchased, to be cash equivalents. At times cash deposits exceed the federally insured limits of the financial institution and expose the Commission to credit risk. At December 31, 2016, there was \$4,144 over the federally insured limits. The Commission believes it is not exposed to any significant risk of loss on these funds.

SEATTLE INDIAN SERVICES COMMISSION
Notes to the Financial Statements
For the Year Ended December 31, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Funds held by paying agents

Funds held by paying agents consist of cash and money market funds recorded at fair value.

Interest and dividends on cash and cash equivalents, and funds held by paying agents are classified as investing activities. Gains and losses on funds held by paying agents are also classified as investing activities.

Operating revenues and expenses

Operating revenues include income from tenant rents and rental of community space. Operating expenses are those expenses incurred in association with rental activities. Operating expenses also include costs of Indian community service programs. All other revenues and expenses are considered non-operating.

Government grants are recognized as revenues in the period the funds are used for the purpose designated in the grants. Rental and investment revenues are recognized when earned.

Restricted net position

Net position displays three components – invested in capital assets, net of related debt, restricted, and unrestricted. The Commission's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Property and equipment

Property and equipment are stated at cost. Improvements with a cost of \$1,500 or more are capitalized, while expenditures for maintenance and repairs are charged to expense as incurred. Depreciation is calculated on the straight-line method based on the following useful lives:

Buildings	30 years
Building improvements	27 and 7 years
Equipment, furniture and fixtures	3 and 5 years
Roof replacements	20 years

In-kind contributions

Donated assets are recognized as contributions at their estimated fair market value when received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills and are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received.

SEATTLE INDIAN SERVICES COMMISSION
Notes to the Financial Statements
For the Year Ended December 31, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Real estate impairment

The Commission 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 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. No impairment loss has been recognized during the year ended December 31, 2016.

Federal income tax

The Commission has been notified by the Internal Revenue Service that it is exempt from federal income taxes as an entity described in Section 115 of the Internal Revenue Code. The Organization's income tax filings are subject to examination by various taxing authorities.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 3 - BONDS PAYABLE AND FUNDS HELD BY PAYING AGENTS

Special Obligation Revenue Refunding Bonds, Series 2004

The amount of Special Obligation Revenue Refunding Bonds, Series 2004, outstanding at December 31, 2016, was \$2,935,000. The revenue refunding bonds bear interest at 3.0 to 4.50 percent with maturities from 2008 to 2024. The Special Obligation Revenue Refunding Bonds, Series 2004 are special obligations of the Commission secured by rental income of the financed property. The Commission has entered into a Cooperation Agreement with The City of Seattle. The Debt Service Reserve Account was established with the paying agent for the purpose of depositing funds to pay the principal and interest on the Special Obligation Revenue Refunding Bonds, Series 2004. The funds held by the paying agent consisted of units of J. P. Morgan U. S. Government Money Market Funds at December 31, 2016.

SEATTLE INDIAN SERVICES COMMISSION
Notes to the Financial Statements
For the Year Ended December 31, 2016

NOTE 3 - BONDS PAYABLE AND FUNDS HELD BY PAYING AGENTS, CONTINUED

These funds are segregated in the following accounts at December 31, 2016:

Debt Service Account - for deposit of interest and principal payments	\$ 110,538
Debt Service Reserve Account - for deposit of an amount equal to one-half the maximum amount of annual debt service due in any future calendar year, which paying agent established as being \$223,787	<u>223,788</u>
Total	<u>\$ 334,326</u>

The Commission also established a Capital Reserve Fund. Annual deposits are required by the bond resolution in an amount equal to the Commission's budgeted capital expenses associated with the rental of the financed property. At December 31, 2016, no funds were deposited.

Pursuant to the Cooperation Agreement with The City of Seattle, the City is unconditionally obligated to make debt service payments in the event the Commission is unable to meet its obligation due to insufficient revenues. Any amounts expended by the City pursuant to the Cooperation Agreement are considered a loan to the Commission, with an annual interest rate equal to the greater of the cost of funds to the City or the annualized earnings rate of the City's general fund, which rate was 1.4 percent at December 31, 2016. The Commission is obligated to repay amounts funded by the City from other available revenues. At December 31, 2016, the amount due to the City for debt service payments made on behalf of the Commission and accrued interest was \$880,070 and \$12,188, respectively. Debt maturities on the amount due to the City are not included in the schedule below since the amounts are not specified in the agreement.

Following are the changes in bonds and loans payable and accrued interest for the year ended December 31, 2016:

<u>Bonds/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>
Special Obligation Revenue					
Refunding Bonds,					
Series 2004	\$ 3,235,000	\$ -	\$ 300,000	\$ 2,935,000	\$ 315,000
City of Seattle	<u>441,102</u>	<u>438,968</u>	<u> </u>	<u>880,070</u>	<u>-</u>
Total	<u>\$ 3,676,102</u>	<u>\$ 438,968</u>	<u>\$ 300,000</u>	<u>\$ 3,815,070</u>	<u>\$ 315,000</u>

SEATTLE INDIAN SERVICES COMMISSION
Notes to the Financial Statements
For the Year Ended December 31, 2016

NOTE 3 - BONDS PAYABLE AND FUNDS HELD BY PAYING AGENTS, CONTINUED

<u>Accrued interest payable</u>	<u>Balance December 31, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance December 31, 2016</u>
Series 2004 Bonds	\$ 23,068	\$ 136,469	\$ 138,417	\$ 21,120
City of Seattle	<u>2,688</u>	<u>9,500</u>	<u> </u>	<u>12,188</u>
Total	<u>\$ 25,756</u>	<u>\$ 145,969</u>	<u>\$ 138,417</u>	<u>\$ 33,308</u>

Future annual payments on the Special Obligation Revenue Refunding Bonds, Series 2004 for each of the next five years ending December 31, and thereafter, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Outstanding Principal Balance</u>
2017	\$ 315,000	\$ 126,718	\$ 2,620,000
2018	330,000	114,117	2,290,000
2019	340,000	100,588	1,950,000
2020	355,000	86,307	1,595,000
2021	370,000	71,220	1,225,000
2022-2024	<u>1,225,000</u>	<u>111,825</u>	-
Total	<u>\$ 2,935,000</u>	<u>\$ 610,775</u>	

Portions of the Special Obligation Revenue Refunding Bonds, Series 2004 that are due in 2024 are subject to mandatory redemption prior to maturity.

Pursuant to the Cooperation Agreement with The City of Seattle, the City is unconditionally obligated to make certain payments into the Special Obligation Revenue Refunding Bond Fund.

SEATTLE INDIAN SERVICES COMMISSION
Notes to the Financial Statements
For the Year Ended December 31, 2016

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31, 2016:

Land - The Pearl Warren Building site	\$ 2,270,370
Building - The Pearl Warren Building	429,630
Building improvements - The Pearl Warren Building	10,270
Equipment, furniture and fixtures	<u>132,834</u>
	2,843,104
Less accumulated depreciation	<u>(356,451)</u>
Total	<u>\$ 2,486,653</u>

NOTE 5 – CAPITALIZED PREDEVELOPMENT COSTS

Capitalized predevelopment costs consisted of a housing needs assessment in support of the proposed redevelopment of the Pearl Warren Building site at December 31, 2016.

NOTE 6 –LEASE INCOME

The Commission leases space for parking, community space and overnight use of the facilities for a homeless shelter under non-cancelable operating leases with terms ranging from month-to-month to three years. Rental income of \$96,850 was recognized during the year ending December 31, 2016. Future minimum rentals under the leases consist of \$9,200 during 2017.

NOTE 7 - RELATED PARTY TRANSACTIONS

During 2016, the City of Seattle paid \$11,752 of bookkeeping and property management services on behalf of the Commission.

The City of Seattle, under the cooperative agreement with the Commission, began making payments of principal and interest on the Series 2004 bonds beginning January 2015. As discussed in Note 3, At December 31, 2016, the amount due to the City for debt service payments made on behalf of the Commission and accrued interest was \$880,070 and \$12,188, respectively.

SEATTLE INDIAN SERVICES COMMISSION
Notes to the Financial Statements
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NOTE 8 - SUBSEQUENT EVENTS

The Commission has evaluated subsequent events through May 17, 2017, which is the date the financial statements were available to be issued, and has determined that there are no subsequent events that require disclosure, other than the following:

On February 1, 2017, the Commission entered a long-term lease agreement with the City of Seattle for the Pearl Warren Building. Under the terms of the lease, the City of Seattle will lease the building for a period of 84 months, starting January 1, 2017 through January 31, 2024. This period covers the term of the remaining outstanding bonds on the property. Under the terms of the Agreement, City's lease payment covers the outstanding monthly bond debt, forgives the amount due to the City for debt service payments made on behalf of the Commission and accrued interest on a monthly basis throughout the term of the agreement, and provides an annual payment to the Commission. The Agreement also requires the City to pay for all utilities, maintenance and other services associated with the management of the Pearl Warren Building. The Commission has the right to terminate the agreement upon 180 days written notice to the City if certain conditions are met. The termination provision may not be used during the initial 36 months of the agreement.