



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

November 15, 2018

Board of Directors

Seattle Chinatown International District Preservation and Development Authority
Seattle, Washington

**Contracted CPA Firm's Audit Report on Financial Statements and
Federal Single Audit**

We have reviewed the audit report issued by a certified public accounting (CPA) firm on the Seattle Chinatown International District Preservation and Development Authority's financial statements and compliance with federal grant requirements for the fiscal year ended December 31, 2016. 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 or the Seattle Chinatown International District Preservation and Development Authority's compliance with federal grant agreements and, accordingly, we do not express an opinion on those financial statements or on compliance.

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 CHINATOWN-INTERNATIONAL
DISTRICT PRESERVATION AND
DEVELOPMENT AUTHORITY**

**FINANCIAL STATEMENTS
AND
YEAR ENDED DECEMBER 31, 2016**

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FINNEY, NEILL & COMPANY, P.S.
C E R T I F I E D P U B L I C A C C O U N T A N T S

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Seattle Chinatown-International District Preservation and Development Authority
Seattle, Washington

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities (primary government) and the aggregate discretely presented component units of the Seattle Chinatown-International District Preservation and Development Authority (the Authority) as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the 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.

Auditors' 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 and the aggregate discretely presented component units of the Seattle Chinatown-International District Preservation and Development Authority as of December 31, 2016, and the changes in financial position and cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITORS' REPORT, CONTINUED

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 to 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 audits 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and is not a required part of the financial statements. The schedules are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2017 on our consideration of the 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 the Authority's internal control over financial reporting and compliance.

Finney, Hill & Company, P.S.

September 25, 2017
Seattle, Washington

**SEATTLE CHINATOWN-INTERNATIONAL DISTRICT
PRESERVATION AND DEVELOPMENT AUTHORITY**

**Management's Discussion and Analysis
December 31, 2016**

OVERVIEW OF THE FINANCIAL STATEMENTS

The Seattle Chinatown International District Preservation and Development Authority (the Authority) is pleased to present its basic financial statements for the fiscal year ending December 31, 2016, which have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). GAAP requires the inclusion of three basic financial statements: The Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows. In addition, GAAP requires the inclusion of a Management's Discussion and Analysis (MD&A) section as required supplementary information.

There are three broad government fund categories: governmental, proprietary and fiduciary. Proprietary funds are used to account for services provided on a total or partial cost-recovery basis to parties outside the government. The Authority falls under the proprietary fund definition.

The basic financial statements provide both long-term and short-term information about the Authority's overall financial condition. The basic financial statements also include notes that explain some of the information in the basic financial statements and provide more detailed data.

As provided for under GAAP, the Authority uses the accrual basis of accounting to prepare its basic financial statements. Under this basis of accounting, revenues are recognized in the period in which they are earned and expenses, including depreciation, are recognized in the period in which they are incurred. All assets and liabilities associated with the operation of the Authority are included in the Statement of Net Position.

This section of the Authority's annual financial report presents our discussion and analysis of the Authority's financial performance during the fiscal year ending December 31, 2016 with comparative data from the year ending December 31, 2015. Please read it in conjunction with the Authority's basic financial statements, which immediately follow this section.

**SEATTLE CHINATOWN-INTERNATIONAL DISTRICT
PRESERVATION AND DEVELOPMENT AUTHORITY**

**Management's Discussion and Analysis
December 31, 2016**

FINANCIAL HIGHLIGHTS

- Assets of the Authority exceeded liabilities and deferred inflows of resources at December 31, 2016 by \$18,385,179 (net position). Of this amount, \$4,599,453 (unrestricted net position) may be used to meet the Authority's ongoing obligations.
- The Authority provided 205 unique clients 13,775 days of health and recreation activities through the Adult Day Program and served seniors 16,550 meals through the affordable meal program.
- \$751,672 of contributions and grants were received by the Authority in 2016 and used to directly benefit the neighborhood. The benefit included work with business technical assistance, management of building facade and alley improvement projects, neighborhood marketing, and public safety.
- In 2015, the Authority completed development of Hing Hay CoWorks, a business co-working space at the Bush Hotel occupying over 3,900 square feet. The space became operational in May of 2015. At the end of 2016, 6 small businesses were operating from Hing Hay CoWorks plus 7 individual memberships. During 2016, over 550 people attended events hosted in the space. Events included tax preparation classes, legal consultations and financial advice for startup companies, as well as an arts fair featuring local vendors, musicians, and food carts.
- The Authority develops real estate projects and also partners with other nonprofit agencies and private partners to assist with development projects. In 2016, the Authority began negotiations with a building ownership group to assist them in renovating their existing building into affordable residential units, entered into purchase discussions for a site for the Landmark project in Little Saigon, worked with a building owner to help secure a pre-construction loan for a mixed use project and began pre-development work on a site for a PACE program.
- In December 2015, SCIDpda reached the end of the compliance period for New Market Tax Credit financing for the New Central Hotel, LLC and SCIDpda Bush Hotel QALICB LLC. As a result, the investor partners exited these partnerships in January 2016 and SCIDpda became the sole owner and manager of these two entities. The Authority assumed the assets, as well as the debt and liabilities, to complete the merger which resulted in refinancing of debt for both entities.
- New Central Hotel, LLC was previously reported as a discretely presented component unit of the Authority and is now reported as a blended component unit. As such, comparative financial information for December 31, 2015 was restated (see Note 2).
- As part of the merger agreements related to SCIDpda Bush Hotel QALICB LLC, SCIDpda contributed its ownership interest in SCIDpda Bush Hotel Manager Inc. to the Chinatown International District Preservation and Development Association.

SEATTLE CHINATOWN-INTERNATIONAL DISTRICT PRESERVATION AND DEVELOPMENT AUTHORITY

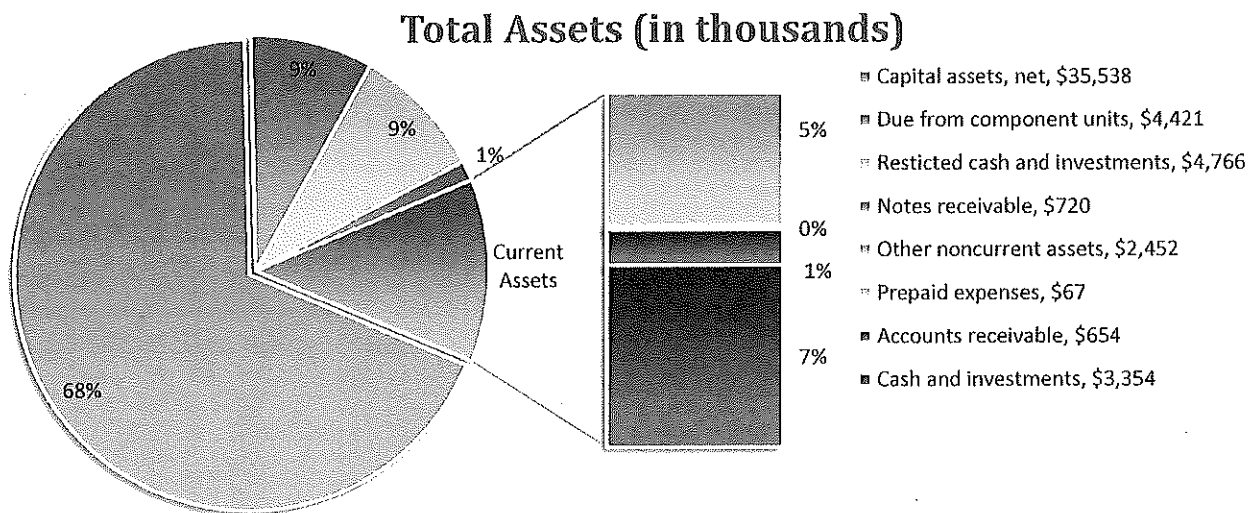
Management's Discussion and Analysis December 31, 2016

- Several loans with Commerce Bank matured December 31, 2015. SCIDpda completed the refinancing of these loans during 2016 with favorable interest rate savings. The loans have been presented with the new maturity dates and payment terms.

FINANCIAL ANALYSIS

Statement of Net Position

The Statement of Net Position presents the financial position of the Authority at the end of the fiscal year. The purpose of the Statement of Net Position is to give the financial statement readers a snapshot of the fiscal condition of the Authority as of a certain point in time. It presents end-of-year data for assets, liabilities and deferred inflow of resources and net position (assets minus liabilities plus deferred inflow of resources). Also shown is the sum of total liabilities, deferred inflow of resources and net position which equals total assets.

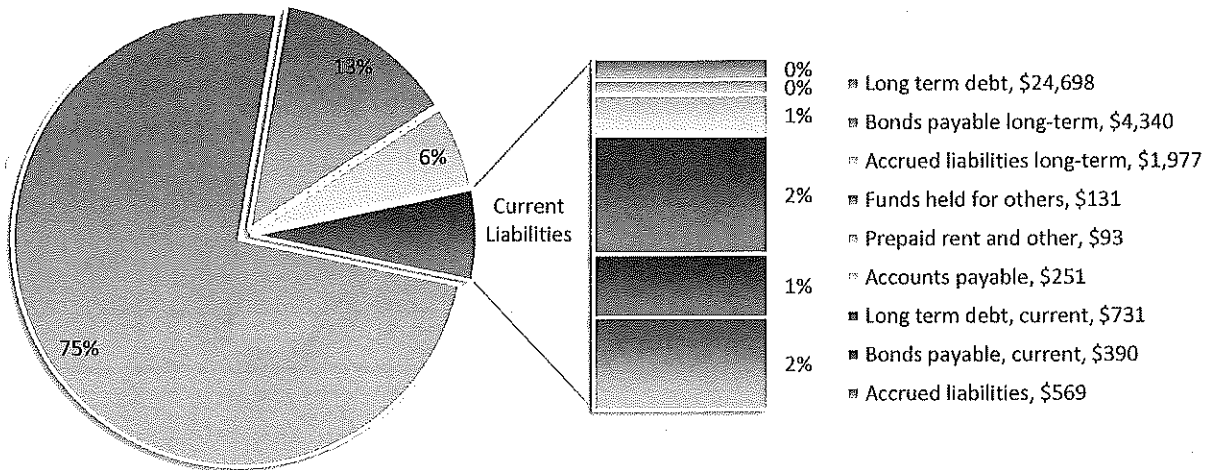


Total assets of the Authority were \$51,972,207 at December 31, 2016 compared to \$53,477,451 at December 31, 2015. Assets decreased by \$1,505,244. Current assets increased by over \$1.5M while Noncurrent Restricted cash and investments decreased by \$1.4M as cash was released from restricted funds and available for use by the Authority. Capital assets decreased due to the depreciation of assets held by the Authority and offset by capital asset purchases. Current assets are comprised of several categories. Cash and investments include the Authority's cash, cash equivalents and investment account balances. Accounts receivable include services contract receivables, grant receivables and receivables from tenants and other governments. Prepaid expenses are also assets of the Authority. The noncurrent assets are certain investments, capital assets, notes receivable and amounts due from related parties. Capital assets include land, buildings, and equipment and are shown net of accumulated depreciation.

SEATTLE CHINATOWN-INTERNATIONAL DISTRICT PRESERVATION AND DEVELOPMENT AUTHORITY

Management's Discussion and Analysis December 31, 2016

Total Liabilities (in thousands)



Total liabilities of the Authority were \$33,179,569 at December 31, 2016 compared to \$34,242,211 at December 31, 2015. Liabilities decreased by \$1,062,642 due to payments made reducing outstanding debt. Current liabilities decreased due to the reduction of unearned revenues. Current liabilities include accounts payable and other accrued liabilities, funds held for others, prepaid rent, and the current portions of long term debt. A liability is considered to be current if it is due within one year. Noncurrent liabilities are made up of the long-term portion of the accrued liabilities, long term debt and bonds payable.

Deferred inflow of resources represents a deferred gain resulting from the advanced refunding of the Authority's Series 2002 Special Obligation Bonds. The advanced refunding resulted in a difference between the reacquisition price and the net carrying amount of the debt. This gain is amortized over the shorter of the life of the refunded or refunding debt.

Net position represents the Authority's equity, a portion of which is restricted for certain uses. Net position is divided into three major categories. The first category, invested in capital assets, net of related debt shows the Authority's equity in land, structures, construction in progress and equipment, net of related capital debt outstanding. The next net position category is restricted net position. These assets have external limitations on the way in which they may be used. The last category is unrestricted net position. Unrestricted net position represents assets that are available to be used for any lawful and prudent purpose.

**SEATTLE CHINATOWN-INTERNATIONAL DISTRICT
PRESERVATION AND DEVELOPMENT AUTHORITY**

**Management's Discussion and Analysis
December 31, 2016**

Condensed Statement of Net Position

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Assets:		
Current assets	\$5,058,582	\$3,526,626
LT Restricted cash and investments	3,783,009	5,203,739
Capital assets, net	35,538,447	36,847,583
Other assets	<u>7,592,169</u>	<u>7,899,503</u>
Total assets	<u>51,972,207</u>	<u>53,477,451</u>
Liabilities		
Current liabilities	2,164,521	2,186,072
Noncurrent liabilities	<u>31,015,048</u>	<u>32,056,139</u>
Total liabilities	<u>33,179,569</u>	<u>34,242,211</u>
Deferred inflow of resources	407,459	434,133
Net Position		
Invested in capital assets, net of debt	9,019,827	7,985,123
Restricted	4,765,899	6,057,838
Unrestricted	<u>4,599,453</u>	<u>4,758,146</u>
Total net position, as restated	<u>18,385,179</u>	<u>18,801,107</u>
Total liabilities, net position and deferred inflows	<u>\$51,972,207</u>	<u>\$53,477,451</u>

**SEATTLE CHINATOWN-INTERNATIONAL DISTRICT
PRESERVATION AND DEVELOPMENT AUTHORITY**

**Management's Discussion and Analysis
December 31, 2016**

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

The purpose of the Statement of Revenues, Expenses and Changes in Net Position is to present the revenues earned by the Authority, both operating and non-operating, and the expenses incurred, operating and non-operating and any other revenues, expenses, gains, and losses received or spent by the Authority.

The Authority considers operating revenues and expenses to be generated by service agreements, rental operations and the provision of administrative services to third parties. Service agreements revenue includes services provided by the Authority to seniors in assisted living, daytime health and recreation services and an affordable meal program. These revenues are offset by the senior care operations and nutrition services expenses. Service agreements revenue also includes revenue earned by the Authority in connection with property development projects. Rental income represents amounts received for providing housing to the Authority's tenants as well as subsidies received from the U.S. Department of Housing and Urban Development (HUD). Rental operations expenses are those incurred to maintain the housing units and provide other services for the tenants of the Authority. Revenues and expenses for administrative fees and property management services represent amounts earned and expended by the Authority for property management services.

Nonoperating revenues include funds received for which goods and services are not provided, for example, contributions, interest income and investment income. Revenues from grants are also included in this category. The Authority receives grant funding from federal, state and local governments as well as from corporations. Nonoperating expenses include interest expense, debt forgiveness and gains or losses from investments. Capital contributions represent funds received from individuals, foundations, corporations and other government entities for the Authority's capital activities.

**SEATTLE CHINATOWN-INTERNATIONAL DISTRICT
PRESERVATION AND DEVELOPMENT AUTHORITY**

**Management's Discussion and Analysis
December 31, 2016**

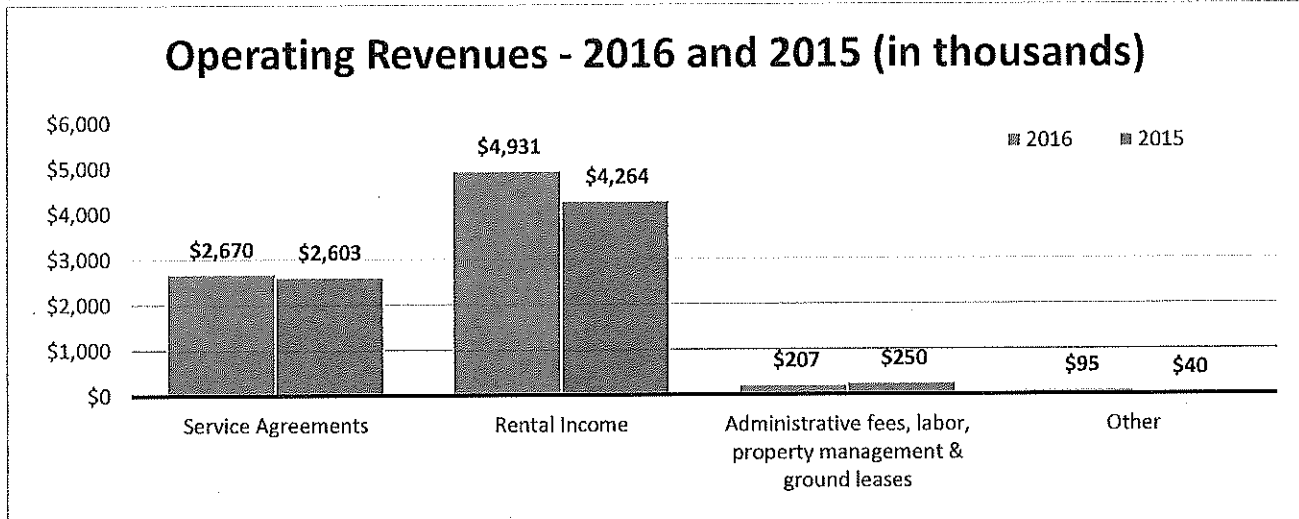
Statement of Revenues, Expenses, and Changes in Net Position

	Years Ended December 31	
	2016	2015
Operating revenues:		
Service agreements	\$ 2,670,578	\$ 2,603,115
Rental income	4,930,594	4,263,479
Administrative fees, property management and ground leases	207,108	250,462
Other	<u>94,680</u>	<u>40,384</u>
Total operating revenues	<u>7,902,960</u>	<u>7,157,440</u>
Operating expenses:		
Rental operations	2,166,069	2,175,471
Property management, project and community development	1,483,883	1,271,361
Senior care operations	2,244,096	2,288,618
Nutrition services	75,801	64,223
General administration	780,235	597,353
Depreciation and amortization	<u>1,353,397</u>	<u>938,790</u>
Total operating expenses	<u>8,103,481</u>	<u>7,335,816</u>
Income (loss) from operations before other income (expense)	(200,521)	(178,376)
Nonoperating revenues (expenses):		
Contributions and grants - operational support	751,672	741,524
Interest income	260,258	311,711
Interest expense	(864,514)	(756,199)
Other	<u>(362,823)</u>	<u>(66,424)</u>
Other income (expense), net	<u>(215,407)</u>	<u>230,612</u>
Change in net position	<u>(415,928)</u>	<u>52,236</u>
Net position, beginning of year (restated)	<u>18,801,107</u>	<u>18,748,871</u>
Net position, end of year	<u>\$ 18,385,179</u>	<u>\$ 18,801,107</u>

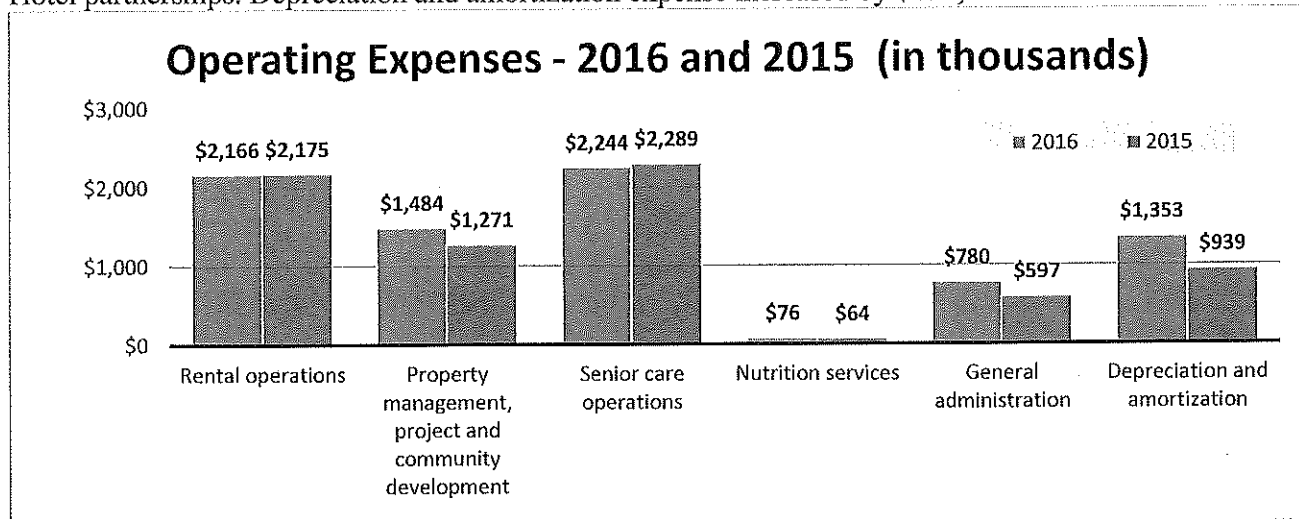
SEATTLE CHINATOWN-INTERNATIONAL DISTRICT PRESERVATION AND DEVELOPMENT AUTHORITY

Management's Discussion and Analysis December 31, 2016

Overall, operating revenues increased 10.4% or \$745,518 from 2016 to 2015. Rental income increased \$667,113 from the prior year due to increased rental rates for both residential and commercial properties. Service agreements revenue slightly increased due to lower vacancy days at our assisted living facility. Administrative fees, labor, property management & ground leases were slightly reduced and offset by an increase in Other revenue.



Operating expenses increased by 10.5% or \$767,665 from 2016 to 2015. Rental operations expense remained constant while Property management, project and community development expenses increased by \$212,522 due to legal fees associated with the refinancing of the New Central Hotel debt and increases in operating costs. Senior care operating expenses decreased by \$44,522 due to restructuring of personnel. Nutrition services expenses increased due to increased labor, food and supplies costs. General administration expenses increased by \$182,882 due to costs incurred to exit the New Central and Bush Hotel partnerships. Depreciation and amortization expense increased by \$414,607.

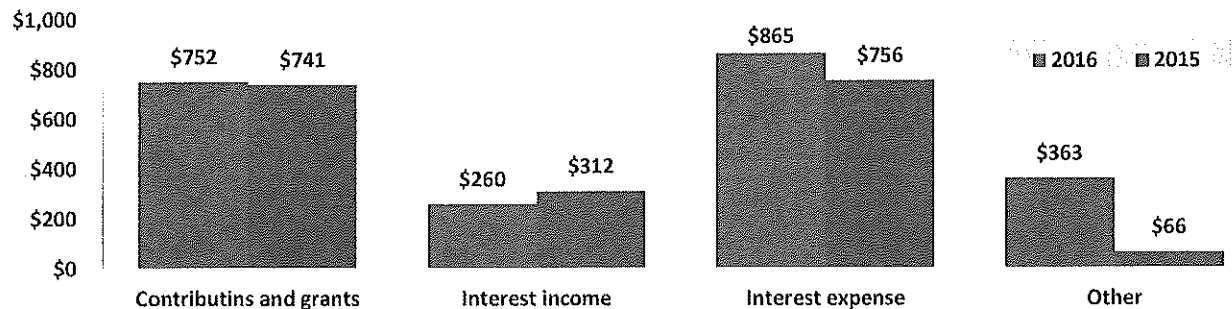


SEATTLE CHINATOWN-INTERNATIONAL DISTRICT PRESERVATION AND DEVELOPMENT AUTHORITY

Management's Discussion and Analysis December 31, 2016

Nonoperating revenues (expenses) represent income earned and expenses incurred that are derived from sources not related to the typical activities of the Authority. Contributions and grants revenue comes from amounts contributed to the Authority by individuals and businesses, as well as city, state and federal government agencies. Interest income is generated from investment activity while interest expense represents the cost of borrowing. Other expense include gains or losses from investments. In 2016, Other expense includes the losses incurred from the transfer of ownership of the New Central Hotel LLC.

Nonoperating Revenues (Expenses) - 2016 and 2015 (in thousands)



CAPITAL ASSET AND DEBT ADMINISTRATION

The table below shows the Authority's capital assets, net of depreciation, at the end of the fiscal year as compared to the end of the previous fiscal year.

	December 31, 2016	December 31, 2015
Capital assets not being depreciated:		
Land	\$1,234,600	\$1,234,600
Depreciable capital assets:		
Buildings and improvements	49,934,002	49,916,970
Furniture and equipment	1,011,594	990,266
	<u>50,945,596</u>	<u>50,907,236</u>
Less accumulated depreciation	<u>(16,641,749)</u>	<u>(15,294,253)</u>
Total capital assets being depreciated, net	<u>34,303,847</u>	<u>35,612,983</u>
Total capital assets, net	<u><u>\$35,538,447</u></u>	<u><u>\$36,847,583</u></u>

Note 7 to the Authority's basic financial statements provides additional detail regarding the changes in capital assets during the year ended December 31, 2016

**SEATTLE CHINATOWN-INTERNATIONAL DISTRICT
PRESERVATION AND DEVELOPMENT AUTHORITY**

**Management's Discussion and Analysis
December 31, 2016**

The table below shows the Authority's debt, at the end of the fiscal year as compared to the end of the previous fiscal year.

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Long-term debt	\$ 25,164,341	\$ 25,807,958
Special Obligation Bonds - 2007	<u>4,730,000</u>	<u>5,105,000</u>
	<u>\$ 29,894,341</u>	<u>\$ 30,912,958</u>

Note 9 to the Authority's basic financial statements provides additional detail regarding the debt changes during the year ended December 31, 2016.

ECONOMIC FACTORS AFFECTING THE AUTHORITY'S FUTURE

The Authority is primarily at risk from economic, political and governmental decisions beyond its control. Three factors that could impact the Authority's ongoing stability are changes to the HUD Section 8 operating subsidies, the Medicaid reimbursements for assisted living and adult day programs, and the mandated increase to the City of Seattle minimum wage. Although the development, ownership, and management of low income affordable housing remain stable, the margins are slim. The Authority would be challenged by decisions of the city, state or federal governments to reduce either subsidies or reimbursements or increase unfunded mandates.

The Authority is seeing renewed development interest with the continued improvement of the economy. Because of its proximity to downtown and the football and baseball stadiums, as well as the transit richness of the neighborhood, Chinatown is an area ripe for development. In 2016, the Authority began working with a building ownership group in the neighborhood to assist them in renovating their existing building into affordable residential units, helped secure a pre-construction loan for a mixed use project with a building owner in Chinatown, entered into purchase discussions for a site for the Landmark project in Little Saigon and assisted a private developer with community outreach on a mixed use building. In 2014, the City of Seattle awarded the Authority \$295,000 to conduct a feasibility study for a mixed use project incorporating health care, senior housing and other services to support seniors in the community. Most of the funding was used to hire consultants to ascertain the viability of such a project in the neighborhood. The feasibility study was complete in 2015 and the Authority is currently working with another organization to develop an interim facility for this program as well as doing pre-development work on a site that has been identified as the location to house this mixed use project. Construction is expected to begin in 2020.

In addition to increased development activity, the Authority has been able to take advantage of favorable interest rates on borrowed funds through downward interest rate adjustments on notes payable as well as a 2014 bond refunding of the 2002 bond series and 2017 bond refunding of the 2007 bond series. Some of the economic relief gained through the bond refundings was used to pay down existing debt and make improvements to facilities in an effort to benefit residents and lower ongoing operating costs.

This financial report is designed to provide a general overview of the Authority's finances for all those interested. Questions concerning any of the information presented in this report or requests for addition information, including copies of component unit audit reports, should be addressed to Veronica Wood, Deputy Director, SCIDpda, P.O. Box 3302, Seattle, WA 98114.

**SEATTLE CHINATOWN-INTERNATIONAL DISTRICT
PRESERVATION AND DEVELOPMENT AUTHORITY**
STATEMENT OF NET POSITION
December 31, 2016

ASSETS

	Primary Government	Component Units
Current assets:		
Cash and cash equivalents	\$ 2,938,728	223,904
Investments	415,430	-
Restricted cash and investments	982,890	-
Receivables:		
Grants, contributions and contracts	269,811	-
Property management	384,411	3,286
Prepaid expenses and deposits	67,312	1,243
Total current assets	<u>5,058,582</u>	<u>228,433</u>
Noncurrent assets:		
Restricted cash and investments	3,783,009	121,302
Capital assets, net	35,538,447	5,862,075
Notes receivable	719,640	-
Due from component units	4,421,029	-
Other noncurrent assets	2,451,500	813,497
Total noncurrent assets	<u>46,913,625</u>	<u>6,796,874</u>
Total assets	<u>\$ 51,972,207</u>	<u>7,025,307</u>

(continued)

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

SEATTLE CHINATOWN-INTERNATIONAL DISTRICT
PRESERVATION AND DEVELOPMENT AUTHORITY
STATEMENT OF NET POSITION – CONTINUED
December 31, 2016

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

	<u>Primary Government</u>	<u>Component Units</u>
Current liabilities:		
Current portion of long-term debt and bonds payable	\$ 856,042	-
Line of credit payable	265,000	-
Accounts payable	250,742	65,975
Accrued liabilities	568,769	44,366
Tenant security deposits	130,669	-
Prepaid rent and other	93,299	-
Total current liabilities	<u>2,164,521</u>	<u>110,341</u>
Long-term liabilities:		
Accrued liabilities	1,976,749	-
Bonds payable, net of current portion	4,340,000	-
Long-term debt, net of current portion	<u>24,698,299</u>	<u>4,379,083</u>
Total long-term liabilities	<u>31,015,048</u>	<u>4,379,083</u>
Total liabilities	<u>33,179,569</u>	<u>4,489,424</u>
Deferred inflows of resources:		
Deferred bond refunding gain	<u>407,459</u>	<u>-</u>
Net position:		
Invested in capital assets, net of debt	9,019,827	1,482,992
Restricted	4,765,899	121,302
Unrestricted	<u>4,599,453</u>	<u>931,589</u>
Total net position	<u>18,385,179</u>	<u>2,535,883</u>
Total liabilities, net position and deferred inflows of resources	<u>\$ 51,972,207</u>	<u>7,025,307</u>

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

**SEATTLE CHINATOWN-INTERNATIONAL DISTRICT
PRESERVATION AND DEVELOPMENT AUTHORITY**
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
Year Ended December 31, 2016

	Primary Government	Component Units
Operating revenues:		
Service agreements	\$ 2,670,578	-
Rental income	4,237,427	441,852
Administrative fees, property management and ground leases	207,108	-
Reimbursed expenses	693,165	-
Other	94,680	2,159
Total operating revenues	<u>7,902,958</u>	<u>444,011</u>
Operating expenses:		
Rental operations	2,166,069	-
Property management, project and community development	1,483,883	-
Senior care operations	2,244,096	-
Nutrition services	75,801	-
General administration	780,235	29,494
Depreciation	1,353,397	179,238
Total operating expenses	<u>8,103,481</u>	<u>208,732</u>
Operating income (loss)	(200,523)	235,279
Nonoperating revenues (expenses):		
Contributions and grants	751,672	130,359
Interest income	260,258	-
Interest expense	(864,514)	(207,792)
Other	(362,823)	(76,570)
Total nonoperating revenues (expenses), net	<u>(215,407)</u>	<u>(154,003)</u>
Change in net position	(415,930)	81,276
Net position, beginning of year - restated	18,801,109	2,454,607
Net position, end of year	<u>\$ 18,385,179</u>	<u>2,535,883</u>

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

**SEATTLE CHINATOWN-INTERNATIONAL DISTRICT
PRESERVATION AND DEVELOPMENT AUTHORITY**
STATEMENT OF CASH FLOWS
Increase (Decrease) In Cash and Cash Equivalents
Year Ended December 31, 2016

	<u>Primary Government</u>	<u>Component Units</u>
Cash flows from operating activities:		
Cash received from service agreements and tenants	\$ 7,493,575	347,590
Cash paid for goods, services and employees	<u>(6,611,623)</u>	<u>(13,404)</u>
Net cash provided by (used in) operating activities	<u>881,952</u>	<u>334,186</u>
Cash flows from noncapital financing activities:		
Borrowing (repayment) on line of credit	(20,000)	-
Borrowing on note payable	200,059	-
Contributions, net	<u>751,672</u>	<u>53,789</u>
Net cash provided by (used in) noncapital financing activities	<u>931,731</u>	<u>53,789</u>
Cash flows from capital financing activities:		
Payments of bonds and notes payable	(1,245,350)	(140,981)
Capital expenditures	(38,360)	-
Payments of interest	<u>(864,514)</u>	<u>(207,792)</u>
Net cash provided by (used in) capital financing activities	<u>(2,148,224)</u>	<u>(348,773)</u>
Cash flows from investing activities:		
Sale (purchase) of investments, net	1,291,497	7,743
Repayment from (advances to) limited partnership and LLC	301,435	-
Interest on investments	<u>260,258</u>	<u>-</u>
Net cash provided by (used in) investing activities	<u>1,853,190</u>	<u>7,743</u>
Net increase (decrease) in cash and cash equivalents	1,518,649	46,945
Cash and cash equivalents at beginning of year - restated	<u>1,420,079</u>	<u>176,959</u>
Cash and cash equivalents at end of year	<u>\$ 2,938,728</u>	<u>223,904</u>
RECONCILIATION OF NET OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Net operating income (loss)	\$ (200,523)	235,279
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Depreciation	1,353,397	179,238
(Increase) decrease in assets:		
Receivables	92,068	(96,423)
Prepaid expenses, deposits and other	23,858	(2,327)
Increase (decrease) in liabilities:		
Accounts payable	90,857	18,419
Accrued liabilities	<u>(477,705)</u>	<u>-</u>
Total adjustments	<u>1,082,475</u>	<u>98,907</u>
Net cash provided by (used in) operating activities	<u>\$ 881,952</u>	<u>334,186</u>

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

**SEATTLE CHINATOWN-INTERNATIONAL DISTRICT
PRESERVATION AND DEVELOPMENT AUTHORITY**
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 1 - ORIGIN, PURPOSE AND AUTHORITY

The Seattle Chinatown-International District Preservation and Development Authority (SCIDpda) is a public authority. The SCIDpda was established by a charter issued by the City of Seattle (City) on December 16, 1975. The purpose of the SCIDpda is to preserve, promote and develop the Seattle Chinatown-International District as a vibrant community and unique ethnic neighborhood.

The SCIDpda has the power to acquire, improve, sponsor, manage, construct and lease real estate projects, sell or transfer its real or personal property, lend and borrow money, and issue bonds or secure financial assistance, including securing of matching funds from the Federal Government for SCIDpda projects and activities.

The SCIDpda operates several properties and programs under the following descriptions:

^ **Legacy House**

Legacy House provides multi-cultural senior housing and services. Legacy House offers a unique model in the State of Washington by serving 100% low income seniors, integrating assisted living and adult day health and care programs while offering culturally appropriate services to an ethnically diverse clientele. Legacy House programs include 75 independent and assisted living apartments and an on-site day health/care program. All of the Legacy House residents/clients are Asian, the majority of whom are limited and/or non-English speaking.

^ **Nutrition Services**

The SCIDpda's Nutrition Services program meets the nutritional and social needs of over 300 low-income community elders a year by providing fresh and affordable Asian-style meals each weekday through a Congregate Meal Program.

^ **International District Village Square Phase 1**

The International District Village Square 1 facility was opened in June of 1998. The facility provides centralized resources for health and dental care, mental health, social services, pre-school and childcare, employment, senior advocacy, supportive care and housing. The facility is a mixed-use project containing low-income elderly housing, retail uses and social and health service agency offices.

^ **International District Village Square Phase 2**

The International District Village Square Phase 2 was opened in May of 2004. The facility is a mixed-use project containing low-income housing, community center, library, parking and commercial space.

^ **Property Management**

SCIDpda manages over 400 units of low income housing and over 200,000 square feet of affordable commercial/retail space.

^ **Real Estate Development**

SCIDpda develops real estate projects such as International District Village Square Phase 1 and 2, the New Central Hotel and the Bush Hotel. SCIDpda also partners with other agencies to assist with development projects both within the Chinatown International District and outside. Some of those projects include a health care clinic in North Seattle, a Landmark project in Little Saigon and the build out of Hing Hay Coworks.

^ **Hing Hay Coworks**

Hing Hay Coworks is a productive gathering place for small business owners centrally located in the Bush Hotel in the heart of Seattle's Chinatown. The build out of the co-working space was possible due to a grant obtained from the Washington State Department of Commerce. The focus of the co-working space is to bring small business entrepreneurs together to work creatively and collaboratively to grow their businesses.

^ **IDEA Space**

SCIDpda started a design/resource center to serve as a catalyst for responsible neighborhood investment and a vehicle for strengthening community involvement in revitalization efforts.

^ **Core Services Department**

The Core Services Department promotes non-profit social services and cultural arts programs, enhances the Asian character and economic vitality of the community's retail/commercial area, and meets the housing needs of low-income residents.

These notes are an integral part of the financial statements.

**SEATTLE CHINATOWN-INTERNATIONAL DISTRICT
PRESERVATION AND DEVELOPMENT AUTHORITY**
NOTES TO FINANCIAL STATEMENTS, Continued

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The SCIDpda is governed by a Board of up to seventeen members. Four of the Board members are appointed by the Mayor of the City of Seattle, the remaining Board members shall be elected by a majority vote of the Board. All members of the SCIDpda's Board must be confirmed by the Seattle City Council. The City of Seattle does not consider the SCIDpda to be a component unit of the City of Seattle.

Financial Statement Presentation

The financial statements of the SCIDpda have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) as established by the Governmental Accounting Standards Board (GASB). For financial reporting purposes the Authority is considered a special-purpose government engaged in business-type activities. The financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis method of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

In determining how to define the reporting entity, management has considered all potential component units. The determination to include a component unit in the reporting entity was made by applying the criteria set forth in Governmental Accounting and Financial Reporting Standards and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and No. 34*. These criteria include: financial accountability; appointment of a voting majority; imposition of will; financial benefit to or burden on a primary organization; financial accountability as a result of fiscal dependency; potential for dual inclusion; and organizations included in the reporting entity although the primary organization is not financially accountable.

During 2016, there was only a single fund in existence, the operating fund. The operating fund includes unrestricted resources and represents the portion of funds that are available for support of SCIDpda operations. The operating fund has been divided into several properties and programs: Property Management, Real Estate Development, Legacy House, Nutrition Services, Fundraising, IDEA Space, Bush Hotel (blended component unit), New Central Hotel (blended component unit), International District Village Square Phase 1 and the International District Village Square Phase 2. Inter-departmental charges for rent, utility charges and administrative fees have been eliminated in the accompanying statement of revenues, expenses, and changes in net position. Inter-departmental receivable and payable balances have also been eliminated in the accompanying statement of net position.

The financial statements include the accounts of SCIDpda's blended component units, SCIDpda New Central Manager, Inc., SCIDpda New Central Apartments, Inc., SCIDpda New Central Commercial, Inc., SCIDpda Bush Residential, LLC, Bush Hotel Fund, Bush Hotel Master Tenant LLC, New Central Master Tenant LLC, SCIDpda Bush Hotel Commercial, Inc. and IDVS2 Family Housing LLC (see Note 14). These wholly owned entities were created to provide a mechanism for SCIDpda's redevelopment of various properties in the international district and are considered to be direct extensions of the SCIDpda. SCIDpda exercises complete management and financial control over these entities and their financial activities are blended into SCIDpda's basic financial statements.

The Chinatown International District Preservation and Development Association (CIDPDA) is a legally separate tax-exempt component unit of the SCIDpda (see Note 13). The CIDPDA acts primarily as a fund-raising organization to supplement the resources that are available to SCIDpda and because its resources can only be used by or for the benefit of SCIDpda, the CIDPDA is considered a component unit of the SCIDpda and is discretely presented in SCIDpda's financial statements.

The SCIDpda serves as general partner and managing member in several partnerships/LLCs (see Note 13). These partnerships/LLCs constitute component units of SCIDpda because they are separate legal entities and subject to SCIDpda's will and financial accountability. As the general partner/managing member, SCIDpda has issued debt instruments to finance the purchase and renovation of rental housing on behalf of the partnerships/LLCs. SCIDpda also oversees the day-to-day operation of these properties. These partnerships/LLCs are discretely presented in SCIDpda's financial statements. Financial statements for these entities can be obtained from the SCIDpda administrative offices.

These notes are an integral part of the financial statements.

**SEATTLE CHINATOWN-INTERNATIONAL DISTRICT
PRESERVATION AND DEVELOPMENT AUTHORITY**
NOTES TO FINANCIAL STATEMENTS, Continued

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New Central Hotel LLC and SCIDpda Bush Hotel QALICB LLC were legally separate entities formed to take advantage of tax credits necessary to finance the projects. The Authority entered into various agreements with the limited members which withdrew from the LLC's and transferred their ownership interest to the Authority, which assumed certain debt and liabilities to complete the merger transactions. As part of the merger agreements, SCIDpda contributed its ownership interest in SCIDpda Bush Hotel Manager Inc. to the Chinatown International District Preservation and Development Association. Prior to the mergers, the New Central Hotel LLC was previously reported as a discretely presented component unit of the Authority and is now reported as a blended component unit.

GASB Statement No. 65, Items Previously Reported as Assets and Liabilities (GASB 65), amends or supersedes the accounting and financial reporting guidance for certain items previously required to be reported as assets or liabilities. The objective is to either properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or recognize certain items that were previously reported as assets and liabilities as outflows of resources or inflows of resources. The application of GASB 65 to assets received as part of the merger resulted in a reduction of \$300,726 of beginning net position.

The transactions resulted in the following increases and decreases in the January 1, 2016 amounts reported for the primary government and component units:

	Primary Government	Component Units
Current assets	\$ 149,112	(121,184)
Capital assets, net	6,409,118	(6,409,118)
Noncurrent assets	3,923,275	(938,309)
Current liabilities	-	20,948
Accrued liabilities	996,306	262,623
Long term debt	(6,625,794)	4,287,815
Net Position	<u>\$ 4,852,017</u>	<u>(2,897,225)</u>
Net position, beginning of year	\$ 13,949,092	5,351,832
Change in component unit	2,897,225	(2,897,225)
Merged entities	2,255,518	
GASB 65 restatement	<u>(300,726)</u>	<u>-</u>
Net position, as restated	<u>\$ 18,801,109</u>	<u>2,454,607</u>

Recently Adopted Accounting Principles

GASB Statement No. 72, *Fair Value Measurement and Application*, defines fair value and describes how fair value should be measured, what assets and liabilities should be measured at fair value, and what information about fair value should be presented in the notes to the financial statements. This statement establishes a three level hierarchy of inputs to valuation techniques used to measure fair value and requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. There was no impact to the fair value measurements presented in the Statement of Net Position or Statements of Revenues, Expenses and Changes in Net Position of the Authority as a result of implementing this Statement.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, improves financial reporting and comparability of financial statement information among governments by providing clear guidance on how to apply financial reporting guidance. There was no impact to the Authority's financial statements as a result of implementing this statement.

**SEATTLE CHINATOWN-INTERNATIONAL DISTRICT
PRESERVATION AND DEVELOPMENT AUTHORITY**
NOTES TO FINANCIAL STATEMENTS, Continued

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New Accounting Standards To Be Adopted in Future Years

GASB Statement No. 80, *Blending Requirements for Certain Component Units*, improves financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity*, as amended. The provisions of this Statement are effective for periods beginning after June 15, 2016.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)*, addresses accounting and financial reporting for OPEB that is provided to employees of state and local governmental employers. The provisions of this Statement are effective for periods beginning after June 15, 2017.

GASB Statement No. 82, *Pension Issues*, will address certain issues that have been raised regarding GASB Statements No. 67, No. 68, and No. 73. The requirements of this statement are effective for periods beginning after June 15, 2017.

The SCIDpda management is currently evaluating these new standards to determine what impact, if any, they will have on the authority.

Capital Assets and Depreciation

Land, buildings, building improvements, office equipment and furniture are stated at cost. The buildings, equipment and furniture are depreciated using the straight-line method over the estimated useful lives of the respective assets, as follows:

Equipment	3 to 10 years
Building improvements	10 to 50 years
Buildings	23 to 50 years

The SCIDpda follows a policy of capitalizing all capital asset additions which exceed \$5,000 and the expected lives exceed one year.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Rental Operation Costs

All costs incurred in the rental operation of a project are expensed as incurred.

Capitalized Interest

The SCIDpda has a policy of capitalizing interest as a component of the cost of buildings constructed for its own use. During 2016, total interest incurred by the SCIDpda was \$864,514, all of which was charged to nonoperating expenses.

Deferred Outflows/Inflows of Resources

In addition to assets and liabilities, the Statement of Net Position, when applicable, will report a section for deferred outflows or inflows of resources. The SCIDpda has a deferred gain on refunding debt which qualifies for reporting as a deferred inflow of resources. A deferred gain on refunding debt results from the difference in the carrying value of the refunded debt and its reacquisition price. The amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

**SEATTLE CHINATOWN-INTERNATIONAL DISTRICT
PRESERVATION AND DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS, Continued**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Development Costs

The SCIDpda has a policy of capitalizing as a cost of that property certain project costs which are clearly associated with the acquisition, development and construction of the real estate project.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the SCIDpda considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Notes Receivable and Notes Payable

Many of the notes carry below market interest rates and/or contain provisions for deferral or forgiveness of interest or principal. Such notes and related interest amounts are recorded in the financial statements according to the terms of the notes. No adjustment to market rates has been made due to the compliance requirements that must be met for forgiveness or deferral to occur. Forgiveness of debt and related accrued interest for notes payable will be recorded as income in accordance with terms of the various loan agreements.

Revenue Recognition

The SCIDpda records revenue for all exchange and non-exchange transactions earned and in which all eligibility requirements have been satisfied, if measurable and probable of collection. The SCIDpda considers operating revenues and expenses to be those generated by service agreements, rental operations and the provision of administrative services to third parties.

Rental Expense Recognition

Rent expense for leases of the primary government meeting specified criteria is recognized on a straight-line basis over the lease term rather than in accordance with the lease payment schedules. Differences between the straight-line rents recorded and the amounts actually paid are accounted for as unearned rent payable and included in accrued liabilities. The impact of the straight line adjustment increased rental expense by \$69,352 for the year ended December 31, 2016.

Donated Materials and Equipment

Donated materials or equipment, when received, are reflected as contributions in the accompanying financial statements at their estimated fair market values at the date of receipt.

Compensated Absences

SCIDpda employees are entitled to certain compensated absences based upon their length of employment. The SCIDpda accrues compensated absences as they are earned.

Fair Value of Financial Instruments

The SCIDpda has accounted for all investments at fair value on the statement of net position. Cash deposits are carried at cost, which approximates fair value.

Budgets

The SCIDpda's Board formally reviews and approves the annual budget, however, it is not a legally adopted budget.

NOTE 3 - CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the SCIDpda to concentrations of credit risk consist principally of cash and cash equivalents. The SCIDpda places cash and cash equivalents with various financial institutions. Accounts at each institution are insured up to limits established by the Federal Deposit Insurance Corporation. The SCIDpda has not experienced any losses and believes it is not exposed to any significant credit risk on cash and cash equivalents.

NOTE 4 - CASH, RESTRICTED CASH AND INVESTMENTS

The SCIDpda is authorized to invest in obligations of the U.S. Treasury and U.S. agencies, government money market funds, repurchase agreements, reverse repurchase agreements, certificates of deposit and bankers' acceptances.

**SEATTLE CHINATOWN-INTERNATIONAL DISTRICT
PRESERVATION AND DEVELOPMENT AUTHORITY**
NOTES TO FINANCIAL STATEMENTS, Continued

NOTE 4 - CASH, RESTRICTED CASH AND INVESTMENTS (continued)

Classification

Cash and investments held as long-term operating reserves or for the future payment of long-term liabilities are classified as non-current assets. Cash and investments legally or contractually restricted as to their use are classified as restricted.

Cash, cash equivalents and investments held by the SCIDpda at December 31, 2016 were:

	Cash and Cash Equivalents	Investments	Total
Deposits - unrestricted	\$ 2,938,728	-	2,938,728
Deposits - restricted	2,176,962	-	2,176,962
Certificates of deposit - unrestricted	-	415,430	415,430
Certificates of deposit - restricted	-	184,036	184,036
Government money market funds - restricted	2,404,901	-	2,404,901
	<u>\$ 7,520,591</u>	<u>599,466</u>	<u>8,120,057</u>

Investment Risk Factors

There are many factors that can affect the value of investments. Some, such as custodial risk, concentration of credit risk, and foreign currency risk may affect both equity and fixed-income securities. Equity securities respond to such factors as economic conditions, individual company earnings performance, and market liquidity, while fixed income securities are particularly sensitive to credit risks and changes in interest rates. The SCIDpda's cash and investments are subject to several types of risk, which are examined in more detail below:

Credit Risk

Fixed-income securities are subject to credit risk, which is the risk that a bond issuer will fail to pay interest or principal in a timely manner, or that negative perceptions of the issuer's ability to make these payments will cause prices to decline. The circumstances may arise due to a variety of factors such as financial weakness, bankruptcy, litigation, and/or adverse political developments. A bond's credit quality is an assessment of the issuer's ability to pay interest on the bond, and ultimately, to pay the principal. Credit quality is evaluated by one of the independent bond rating agencies such as Moody's Investors Service or Standard and Poor's. The lower the rating, the greater the chance that the bond issuer will default or fail to meet its payment obligations. Generally, the lower a bond's credit rating, the higher its yield should be to compensate for the additional risk. Certain fixed income securities, including obligations of the U.S. government or those explicitly guaranteed by the U.S. government and certificates of deposit, are not considered to have credit risk and therefore are not rated.

The SCIDpda has no investment policy that would limit its investment choices, except as noted in the State statute.

Custodial Credit Risk of Investments

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the SCIDpda will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The SCIDpda does not have a policy for custodial credit risk. At year end, SCIDpda did not have any securities which were held by the counterparty's trust department or agent but not in the SCIDpda's name.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss associated with a lack of diversification of having too much invested in a few individual issuers, thereby exposing the organization to greater risks resulting from adverse economic, political, regulatory, geographic, or credit developments. Securities issued or explicitly guaranteed by the U.S. government, mutual funds, external investment pools, and other pooled investments are excluded from this review. Investments in the various investment pools managed by the State are external investment pools and are not subject to concentration of credit risk. There is no concentration of any single individual issuer of equity or non-U.S. government fixed income securities that comprise more than five percent of total investments. The SCIDpda does not have a policy regarding concentration of credit risk.

Foreign Currency Risk

Foreign currency risk is the possibility that changes in exchange rates between the U.S. dollar and foreign currencies could adversely affect a deposit or investment's fair value. The SCIDpda has no exposure to foreign currency risk.

These notes are an integral part of the financial statements.

**SEATTLE CHINATOWN-INTERNATIONAL DISTRICT
PRESERVATION AND DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS, Continued**

NOTE 4 - CASH, RESTRICTED CASH AND INVESTMENTS (continued)

Interest Rate Risk

Interest rate risk is the risk that the value of fixed-income securities will decline because of rising interest rates. The prices of fixed-income securities with a longer time to maturity tend to be more sensitive to changes in interest rates and, therefore, more volatile than those with shorter maturities. The SCIDpda's investment policy does not restrict investment maturities. At year end, all accounts had a maturity less than one year.

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the SCIDpda's deposits may not be returned to it. The SCIDpda does not have a deposit policy for custodial credit risk. At year end, the SCIDpda had \$7,520,591 of bank deposits (checking accounts, savings accounts, and government money market funds). All deposits in excess of FDIC insurance limit of \$250,000 are covered by the Public Deposit Protection Commission of the State of Washington established under Chapter 39.58 of the Revised Code of Washington.

Fair Value Measurement

GASB Statement No. 72, "Fair Value Measurement and Application" provides guidance for determining a fair value measurement for reporting purposes and applying fair value to certain investments and disclosures related to all fair value measurements. The Authority categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets, Level 2 inputs are significant other observable inputs, and Level 3 inputs are significant unobservable inputs.

The Authority's money market funds are classified as Level 1 measurement and Certificates of Deposit are valued at the initial investment cost plus accrued interest.

Restricted Cash and Investments

In accordance with the SCIDpda's bond resolutions and other agreements, separate restricted asset accounts have been established. These assets are restricted for specific purposes, including refunds to tenants, debt service payments, coverage of operating deficits and funding of capital projects or repairs. At December 31, 2016, the carrying amount, which approximates market, and composition of the restricted cash, cash equivalents and investments is as follows:

	Cash and Equivalents	Certificates of Deposit	Total
Bond reserve accounts	\$ 1,338,761	-	1,338,761
Operating and capital reserve accounts	3,112,433	184,036	3,296,469
Tenant security deposits	130,669	-	130,669
	<u>\$ 4,581,863</u>	<u>184,036</u>	<u>4,765,899</u>

NOTE 5 - FEDERAL INCOME TAX

The SCIDpda has received a ruling from the Internal Revenue Service stating it is a nonprofit public authority and:

1. The income received or generated by the SCIDpda's activities is exempt from Federal income tax under Section 115(a)(1) of the Internal Revenue Code of 1954, as amended.
2. Obligations issued by the SCIDpda shall be considered issued on behalf of the City of Seattle, a political subdivision of the State of Washington, pursuant to Section 1.103-1(b) of the income tax regulations; and the interest paid thereon will be excludable from the gross income of the recipients pursuant to Section 103(a)(1) of the Internal Revenue code of 1954, as amended.

NOTE 6 - AGENCY SERVICE AGREEMENTS AND GRANTS

The SCIDpda receives funding under a variety of grants and service agreements from HUD, State of Washington, City of Seattle and other organizations and grantors. SCIDpda received contributions and grants totaling \$1,098,614, of which \$346,942 was received on behalf of and disbursed to the Ethics Business Coalition.

Contributions and grants	\$ 1,098,614
Passed through to subrecipient	(346,942)
Contributions and grants, net	<u>\$ 751,672</u>

These notes are an integral part of the financial statements.

**SEATTLE CHINATOWN-INTERNATIONAL DISTRICT
PRESERVATION AND DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS, Continued**

NOTE 7 – CAPITAL ASSETS

The capital assets (buildings, land and equipment) are stated at cost. Depreciation expense for 2016 was \$1,353,397. Capital assets as of December 31, 2016 are as follows:

	Primary Government	Component Units
Land	\$ 1,234,600	39,341
Building and improvements	49,934,002	7,089,148
Furniture and equipment	1,011,594	-
	52,180,196	7,128,489
Less accumulated depreciation	(16,641,749)	(1,266,414)
	35,538,447	5,862,075
Construction in progress	-	-
Capital assets, net	\$ 35,538,447	5,862,075

The following is a summary of the changes in capital assets of the SCIDpda:

	Balance January 1, 2016	Additions	Dispositions and Transfers	Balance December 31, 2016
Capital assets not being depreciated:				
Land	\$ 1,234,600	-	-	1,234,600
Construction in progress	-	-	-	-
Depreciable capital assets:				
Buildings and improvements	49,916,970	17,032	-	49,934,002
Furniture and equipment	990,266	21,328	-	1,011,594
	50,907,236	38,360	-	50,945,596
Accumulated depreciation	(15,294,253)	(1,347,496)	-	(16,641,749)
Total capital assets being depreciated, net	35,612,983	(1,309,136)	-	34,303,847
Total capital assets, net	\$ 36,847,583	(1,309,136)	-	35,538,447

NOTE 8 – LINE OF CREDIT AND FINANCING COMMITMENT

SCIDpda established a line of credit with The Commerce Bank in the amount of \$500,000, which matures December 31, 2017. At December 31, 2016, SCIDpda had outstanding borrowings of \$265,000 and bears interest at the rate of 3.75%.

	Balance January 1, 2016	Additions	Payments	Balance December 31, 2016
Line of Credit	285,000	-	(20,000)	265,000

SCIDpda entered into an agreement with Impact Capital for a loan of up to \$750,000 to assist with the preconstruction costs related to renovation of a property owned by a third party within the Seattle Chinatown International District. The loan bears interest at 6% and is guaranteed to be repaid by the property owner, secured by a deed of trust. The loan matures March 31, 2018. At December 31, 2016, SCIDpda had an outstanding balance of \$617,150.

**SEATTLE CHINATOWN-INTERNATIONAL DISTRICT
PRESERVATION AND DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS, Continued**

NOTE 9 – LONG-TERM DEBT

Long-term debt as of December 31, 2016, consisted of the following:

	<u>Current</u>	<u>Long-Term</u>	<u>Total</u>
<u>Core Services:</u>			
0.0% CDBG loan of \$93,534 from the City of Seattle, dated May 27, 1998. The note is due May 27, 2038 and is secured by a deed of trust.	\$ -	93,534	93,534
0.0% CDBG loan of \$93,567 from the City of Seattle, dated December, 1997. The note is due December 2037 and is secured by a deed of trust.	-	93,567	93,567
0.0% International District Neighborhood Strategy Area (IDNSA) Program loan of \$633,407 from the Dept. of Community Development of Seattle dated September 28, 1982, for renovation of New Central Project. The note is due and payable April 30, 2057.	-	633,407	633,407
Commerce Bank loan dated December 17, 2008. The note is due December 31, 2021. Until July 2016, interest on the note was 5.5% per annum. Thereafter the note bears interest at 3.5% annually.	35,357	750,806	786,163
Impact Capital loan dated September 22, 2015 for preconstruction costs related to renovation of a property owned by a third party within the Seattle Chinatown International District. The loan bears interest at 6% and is guaranteed to be repaid by the property owner, secured by a deed of trust. The loan is due March 31, 2018.	-	617,150	617,150
HUD 108 Loan payable to the City of Seattle dated December 17, 2008. The loan is secured by a deed of trust and bears interest at a variable rate based upon the City's repayment schedule. The note requires annual payments of principal in interest and matures on July 15, 2027.	91,000	1,248,001	1,339,001
<u>ID Village Square Phase 1:</u>			
Housing Assistance Program loan from the State of Washington Department of Commerce, \$1,500,000 commitment for construction of assisted housing in IDVS1 project, payable in annual installments over 50 years of \$38,135 including principal and interest at 1%, beginning June 30, 1999.	27,673	1,018,540	1,046,213
Note payable to the City of Seattle for the construction of assisted living in the IDVS1 project. The \$1,904,761 note bears interest at 1% per year. The principal and interest is due in 40 years, but the maturity date may be extended for an additional seven five-year periods. The note is dated November 29, 1995 and secured by a deed of trust on the IDVS1.	-	1,359,432	1,359,432
Present value of the claim settlement payable to a general contractor. Annual payments of \$38,877 through 2026 and a final payment of \$653,405 according to the payment terms established in the Settlement Agreement.	-	517,806	517,806
Note payable to the City of Seattle for the construction of a clinic in the IDVS1 project. The \$952,371 note bears interest at 0% per year. The principal is due in forty years. The note is dated September 27, 1996 and secured by a deed of trust on the IDVS1.	-	952,371	952,371
<u>Nutrition Services:</u>			
Note payable up to \$120,000 to the City of Seattle. Contingent upon compliance with all related terms and conditions, the note accrues no interest and is forgivable on the maturity date. After the maturity date or upon default, the principal balance accrues interest at 12% per annum, and principal is due and payable on March 26, 2026.	-	120,000	120,000
Note payable up to \$196,000 to the City of Seattle. Contingent upon compliance with all related terms and conditions, the note accrues no interest and is forgivable on the maturity date. After the maturity date or upon default, the principal balance accrues interest at 12% per annum, and principal is due and payable on March 31, 2026.	-	196,000	196,000
<u>ID Village Square Phase 2:</u>			
Note payable to JP Morgan Chase to finance the office and retail portion of the project. The loan bears interest at 6.6% and requires monthly payments of \$5,662 of principal and interest. The note is due in full by January 1, 2018. The note is secured by a deed of trust on the property.	17,641	728,101	745,742
Note payable to the City of Seattle. The loan bears interest between 3% and 5.125% and requires periodic payments of principal and interest as outlined in the note agreement. The note is due in full by October 2032. The note is secured by a deed of trust on the property.	90,000	4,000,000	4,090,000

These notes are an integral part of the financial statements.

**SEATTLE CHINATOWN-INTERNATIONAL DISTRICT
PRESERVATION AND DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS, Continued**

NOTE 9 - LONG-TERM DEBT (continued)

	<u>Current</u>	<u>Long-Term</u>	<u>Total</u>
<u>DVA</u>			
1.0% note payable to the City of Seattle, Office of Housing. Annual payments are due annually on June 30 in an amount equal to 50% of Net Cash Flow of the preceeding calendar year, as defined in the note. The note contains numerous regulatory requirements governing the use of the property. The note matures in 2052, but may be extended for an additional 25 years.	-	2,268,037	2,268,037
1.0% note payable to the Seattle Housing Authority. All payments are deferred until the note matures on December 31, 2043, at which time the outstanding principal and accrued interest are due. The non-recourse note is secured by a deed of trust.	-	1,622,878	1,622,878
1.0% note payable to the State of Washington Housing Trust Fund. The note is amortized over 40 years and requires quarterly payments of \$14,423. The note contains numerous regulatory requirements governing the use of the property. The note matures September 30, 2045. The non-recourse note is secured by a deed of trust.	43,892	1,352,546	1,396,438
<u>NC Hotel LLC</u>			
Note payable to Wells Fargo dated December 30, 2015 for \$3,500,000. The note requires monthly payments of principal and interest at the rate of 4.47% and matures January 10, 2026. The note is secured by a deed of trust.	80,494	3,350,070	3,430,564
<u>Bush Residential:</u>			
SCIDpda Bush Residential LLC, refinanced \$407,171 in outstanding principal on the note payable to The Commerce Bank. The new note bears interest at 3.5%, requires a monthly payment of \$4,064 and matures on December 31, 2021. Secured by a deed of trust.	38,595	354,836	393,431
1.0% Urban Development Action Grant dated August 8, 1980. In June, 1992, the loan was renegotiated from the original interest rate of 3.0% and terms were modified. Under the revised agreement, the loan is payable in monthly installments of \$1,605 with interest at 1% beginning July 1, 1992. The total balance renegotiated included the outstanding principal and interest balance of \$634,622 as of June 30, 1992. The note is secured by a deed of trust on the Bush Hotel real property and is due June 20, 2032.	16,557	259,740	276,297
\$1,000,000 note payable to Washington State Department of Commerce for the rehabilitation of the Bush Hotel, under the affordable housing program. The loan bears interest at a rate of .5% annually. The loan is payable in annual installments of principal and interest of \$27,588 beginning August 31, 1998. The outstanding loan balance is due August 31, 2037. The note is secured by a deed of trust on the Bush Hotel.	24,833	525,046	549,879
0.0% rehabilitation loan for Bush Hotel from the City of Seattle dated December 20, 1985. Due December 19, 2036, secured by deed of trust.	-	672,920	672,920
1.0% rehabilitation loan for Bush Hotel from City of Seattle, Multifamily Code Repair Program dated March 17, 1994. Principal and interest due December 19, 2036. Secured by deed of trust.	-	105,351	105,351
\$1,858,162 note payable to the City of Seattle for the rehabilitation of the Bush Hotel. The note bears interest at a rate of 1% per year in years one through twenty. The note does not accrue interest after the twentieth year. The principal and accrued interest is due on December 19, 2036. Secured by deed of trust.	-	1,858,160	1,858,160
Totals	\$ 466,042	24,698,299	25,164,341

These notes are an integral part of the financial statements.

**SEATTLE CHINATOWN-INTERNATIONAL DISTRICT
PRESERVATION AND DEVELOPMENT AUTHORITY**
NOTES TO FINANCIAL STATEMENTS, Continued

NOTE 9 - LONG-TERM DEBT (continued)

Maturities of Long Term Liabilities

Aggregate maturities of long-term liabilities are as follows for years ending December 31:

<u>Years</u>	<u>Notes Payable</u>	<u>Special Obligation Bonds - 2007</u>	<u>Total Principal</u>	<u>Total Interest</u>
2017	\$ 466,042	390,000	856,042	748,423
2018	1,859,312	405,000	2,264,312	667,618
2019	581,522	420,000	1,001,522	631,283
2020	598,786	440,000	1,038,786	592,318
2021	1,433,160	455,000	1,888,160	550,603
2022 - 2026	5,844,284	2,620,000	8,464,284	1,826,907
2027 - 2031	2,907,332	-	2,907,332	474,265
2032 - 2036	5,867,066	-	5,867,066	947,316
2037 - 2041	661,668	-	661,668	33,630
2042 - 2046	1,960,120	-	1,960,120	219,979
2047 - 2051	2,351,642	-	2,351,642	290,005
2052 - 2056	-	-	-	-
2057 - 2061	633,407	-	633,407	-
	<u>\$ 25,164,341</u>	<u>4,730,000</u>	<u>29,894,341</u>	<u>6,982,347</u>

These amounts are reported in the financial statements in the following line items:

Current portion of long-term debt and bonds payable	\$ 856,042
Bonds payable, net of current portion	4,340,000
Long-term debt, net of current portion	<u>24,698,299</u>
	<u>\$ 29,894,341</u>

The following is a summary of changes in long-term debt:

	<u>Balance January 1, 2016</u>	<u>Proceeds</u>	<u>Assignments and Repayments</u>	<u>Balance December 31, 2016</u>
Notes payable	\$ 25,807,958	200,059	(843,676)	25,164,341
Special Obligation Bonds - 2007	<u>5,105,000</u>	<u>-</u>	<u>(375,000)</u>	<u>4,730,000</u>
	<u>\$ 30,912,958</u>	<u>200,059</u>	<u>(1,218,676)</u>	<u>29,894,341</u>

These notes are an integral part of the financial statements.

**SEATTLE CHINATOWN-INTERNATIONAL DISTRICT
PRESERVATION AND DEVELOPMENT AUTHORITY**
NOTES TO FINANCIAL STATEMENTS, Continued

NOTE 9 - LONG-TERM DEBT (continued)

Special Obligation Refunding Bonds, Series 2007

On August 1, 2007, the SCIDpda issued \$7,355,000 of Special Obligation Refunding Bonds, Series 2007. The proceeds of the bonds were used to retire the outstanding amounts of the Special Obligation Bonds, Series 1996. The bonds were issued with a net premium of \$134,243 which is being amortized over the life of the bonds. The bonds mature August 1, 2009 through August 1, 2026, bearing interest at stated rates of 4.0% to 5.0%.

The bonds are obligations of the SCIDpda and secured by an agreement with the City of Seattle. The City has unconditionally obligated itself to levy an ad valorem tax in order to make payments to the Bond Depository if the SCIDpda's revenues for such purposes as provided in the agreement are not sufficient. This obligation constitutes an unconditional general obligation of the City of Seattle.

The bonds were dated August 1, 2007 and bear interest from that date. Interest on the bonds was payable February 1, 2008, and semiannually thereafter on August 1 and February 1 of each year.

NOTE 10 – TENANT SECURITY DEPOSITS

Security deposits and trust funds at December 31, 2016 consisted of tenant Residential and Commercial Lease Deposits for the properties owned and managed by SCIDpda.

**SEATTLE CHINATOWN-INTERNATIONAL DISTRICT
PRESERVATION AND DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS, Continued**

NOTE 11 - COMMITMENTS AND CONTINGENCIES

Commercial Lease Agreements:

The SCIDpda has entered into lease agreements to lease office space to various commercial and social agency tenants in its facilities. As of December 31, 2016, the SCIDpda has entered into numerous separate lease agreements with terms ranging from \$411 per month to \$59,182 per month over periods ranging from one to ten years.

The future minimum lease payments for the above leases as of and for the years ending December 31 are:

	<u>BH Commercial</u>	<u>IDVS1</u>	<u>IDVS2 Com</u>	<u>IDVS2LP</u>	<u>NCC</u>	<u>Total</u>
2017	\$ 143,934	890,150	104,445	191,539	116,004	1,446,072
2018	75,899	871,132	102,720	194,924	63,384	1,308,059
2019	14,151	872,778	102,720	92,382	60,384	1,142,415
2020	-	885,330	102,720	93,767	60,384	1,142,201
2021	-	851,828	102,720	95,174	57,909	1,107,631
Thereafter	-	1,658,618	296,160	1,563,522	203,283	3,721,583
	<u>\$ 233,984</u>	<u>6,029,836</u>	<u>811,485</u>	<u>2,231,308</u>	<u>561,348</u>	<u>9,867,961</u>

Lease Commitments

New Central Hotel LLC

In 1980 a fifty-one year lease was established for the New Central Hotel real property, and in 1982 it was amended to a seventy-five year lease - the lease expires December 31, 2059. The lease payments are divided between Apartment 1, commercial, and Apartment 2, housing. The future minimum monthly rents for Apartments 1 and 2 have been established for the first fifty years, January 1980 through December 2030. The rent for each apartment is the greater of the minimum monthly amount of \$950 or 7% of the apartment's prior month's gross rent.

The future minimum lease payments as of December 31, 2016, for the years ending December 31 are:

2017	\$ 11,400
2018	11,400
2019	11,400
2020	11,400
2021	11,400
Thereafter	<u>102,600</u>
	<u>\$ 159,600</u>

Rent expense for 2016 for the above leases was \$49,409.

**SEATTLE CHINATOWN-INTERNATIONAL DISTRICT
PRESERVATION AND DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS, Continued**

NOTE 11 - COMMITMENTS AND CONTINGENCIES (continued)

Other Commitments and Contingencies

1. **Contract and Regulatory Compliance**

The SCIDpda is subject to numerous contractual and regulatory compliance requirements. Violation of these contractual and regulatory compliance requirements could subject the SCIDpda to substantial adverse financial consequences.

Under the terms of grants and loans with the State of Washington, City of Seattle and others, periodic compliance audits are required and certain costs may be questioned as not being appropriate expenditures under the agreements. Such audits could lead to reimbursements to the funding/lending agency. Management believes disallowances, if any, will be immaterial.

2. **Risk Management**

The SCIDpda maintains insurance against most normal hazards. Coverage is provided through individually purchased commercial insurance policies with nominal per loss deductibles. There have been no significant reductions in insurance coverage. Settled claims have not exceeded coverage purchased during the past three years.

3. **Legacy House and ID Village Square**

The mission of Legacy House is to enhance the quality of life for low income seniors in a culturally responsive environment. The target resident population and rent levels at Legacy House must be maintained as described in various funding source regulatory agreements which expire in 2053. The regulatory agreements are with the City of Seattle, Federal Home Loan Bank, King County, and the State of Washington.

4. **ID Village Square 1**

On February 17, 2000, the SCIDpda entered into a Settlement Agreement. Under the terms of the agreement, the SCIDpda agreed to pay (1) once each year for the term of the International District Village Square Debt Service Subaccount an amount equal to all interest accrued, at the rate of 5.95%, from such fund beginning January 1, 2001 that is transferred to the Revenue Fund of the project. The annual payment is currently estimated to be \$38,877; and (2) whenever the reserve requirement is reduced in accordance with the Bond Resolution or by prepayment or refunding, an amount equal to the difference between the previous reserve requirement and the new reserve requirement. Long-term debt includes the present value of the estimated future minimum payments required under the Settlement Agreement.

The present value of the estimated minimum payments required under the Settlement Agreement as of December 31, 2016 for the years ending December 31 are as follows:

<u>Year</u>	
2017	\$ 38,877
2018	38,877
2019	38,877
2020	38,877
2021	38,877
Thereafter	<u>860,265</u>
Total estimated payments	1,054,650
Less: amount representing interest	<u>(536,844)</u>
Present value of estimated minimum payments	\$ <u>517,806</u>

**SEATTLE CHINATOWN-INTERNATIONAL DISTRICT
PRESERVATION AND DEVELOPMENT AUTHORITY**
NOTES TO FINANCIAL STATEMENTS, Continued

NOTE 11 - COMMITMENTS AND CONTINGENCIES (continued)

Other Commitments and Contingencies (continued)

5. ID Village Square 2

The SCIDpda owns certain property located on Eighth Avenue South, between Dearborn and Lane Streets, in Seattle, Washington. During 2004 the SCIDpda completed the development of a five-unit condominium (the Condominium), one unit of which contains office and retail space, one of which contains a community center, one of which contains a parking garage, one of which contains a public library, and one of which contains 57-units of residential rental housing for low-income individuals (the Residential Unit). In December 2002, the SCIDpda prepared a Declaration of Condominium for the property and formed the IDVS 2 Condominium Association, a State of Washington Non-profit corporation. During 2006 the condo containing the community center was sold to the City of Seattle.

The SCIDpda and the IDVS 2 Family Housing LLC have entered into a regulatory agreement with the City of Seattle Office of Housing to maintain the Residential Unit Condominium to serve low income and very low income families. The regulatory agreement contains certain terms and conditions for the SCIDpda and the LLC.

The project was financed with the sale of tax exempt special obligation bonds, loans from the City of Seattle, State of Washington, the Housing Authority of the City of Seattle, an award of funds from the Federal Home Loan Bank of Seattle, equity investments made by the SCIDpda, loans from the SCIDpda and other private and public funding sources. The bonds were issued and guaranteed by the SCIDpda and the City of Seattle.

6. Bush Hotel Commercial Condominium

As part of the financing for the Bush Hotel Commercial Condominium renovations, the City of Seattle made a loan to the investment fund, Renaissance Finance VII Investment Fund LLC, in the amount of \$1,667,000. The loan was guaranteed by HUD. Related to this loan, the City of Seattle made a grant to SCIDpda in the amount of \$333,400. In the grant agreement, SCIDpda agreed to pay all the costs of the loan to the investment fund, including a loan fee of \$33,400. In addition, SCIDpda agreed to deposit by July 1 of each year \$46,857 into a loan repayment reserve account, starting 2009 and ending July 1, 2015. The reserve funded the August 2016 principal payment of \$328,000.

7. Guarantees for Component Units

The SCIDpda has entered into agreements with the blended and discretely presented component units whereby the SCIDpda has agreed to loan to the projects any funds required to fund operating deficits of the projects. The SCIDpda has also agreed to guarantee and pay any unpaid deferred development fees. All payments made by the SCIDpda to the project will be made without any right of repayment.

In addition, the SCIDpda has guaranteed the repayment of any tax credit recapture event that is triggered by the filing of a tax return claiming less credits than the amounts allowed per the agreements or as a result of an audit by the Internal Revenue Service which results in the assessment of a tax deficiency. No recapture events occurred in 2016.

NOTE 12 - ECONOMIC DEPENDENCY

The SCIDpda receives a substantial amount of funding from the State of Washington, City of Seattle and Impact Capital in the form of grants, service agreements and loans.

**SEATTLE CHINATOWN-INTERNATIONAL DISTRICT
PRESERVATION AND DEVELOPMENT AUTHORITY**
NOTES TO FINANCIAL STATEMENTS, Continued

NOTE 13 – DISCRETELY PRESENTED COMPONENT UNITS

1. Chinatown International District Preservation and Development Association

The Chinatown International District Preservation and Development Association (CIDPDA) was incorporated June 14, 1994 for the purpose of raising funds for the planning, development and operations of SCIDpda projects and programs. CIDPDA is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The SCIDpda has agreed to provide administrative staff support, office space, utilities, telephone and supplies. In return, SCIDpda will receive the benefits of the fundraising efforts. In 2016, SCIDpda recorded \$751,671 in support from the CIDPDA.

2. SCIDpda Bush Hotel QALICB LLC

During 2008 SCIDpda completed the financing for the renovation of the commercial condominium of the Bush Hotel. As part of the Bush Hotel commercial redevelopment project, the SCIDpda established several new entities.

SCIDpda's 43% ownership interest in SCIDPDA Bush Hotel QALICB LLC is held by SCIDpda Bush Hotel Master Tenant, LLC, which was established as part of the New Market Tax Credit (NMTTC) financing. SCIDpda Bush Hotel Master Tenant, LLC has executed a lease agreement for the commercial condominium of the Bush Hotel from SCIDpda Bush Hotel QALICB LLC. The SCIDpda established a wholly owned subsidiary, SCIDpda Bush Hotel Commercial, Inc. This entity executed a sub-lease agreement with SCIDpda Bush Hotel Master Tenant, LLC to lease the commercial space.

The SCIDpda entered into a development services agreement with SCIDpda Bush Hotel QALICB LLC to perform project planning, project management and construction management of the Project. The fees under this agreement total \$1,239,000, and are payable under various terms as specified in the agreement. As of December 31, 2016, the outstanding balance is \$41,946 which is recorded as a note receivable.

SCIDpda has two notes receivable from SCIDpda Bush Hotel QALICB LLC:

Note A - \$1,667,000 carries an interest rate of 4.7899% per annum with payments of interest due monthly. The note is due and payable in full on July 14, 2027. The note has an outstanding balance of \$1,248,000 as of December 31, 2016.

Note B - \$2,750,000 carries an interest rate of 4.7899% per annum with payments of interest due monthly. The note is due and payable in full on December 31, 2043. The note has an outstanding balance of \$2,712,083 as of December 31, 2016.

**SEATTLE CHINATOWN-INTERNATIONAL DISTRICT
PRESERVATION AND DEVELOPMENT AUTHORITY**
NOTES TO FINANCIAL STATEMENTS, Continued

NOTE 13 – DISCRETELY PRESENTED COMPONENT UNITS (continued)

Summarized discretely presented component unit statement of net position information at December 31, 2016:

	SCIDpda Bush Hotel QALICB LLC	CIDPDA	Total
Current assets:			
Cash and cash equivalents	104,404	119,500	223,904
Investments	-	-	-
Restricted cash and investments	-	-	-
Accounts receivable	-	3,286	3,286
Prepaid expenses and deposits	-	1,243	1,243
Total current assets	<u>104,404</u>	<u>124,029</u>	<u>228,433</u>
Noncurrent assets:			
Restricted cash and investments	121,302	-	121,302
Capital assets, net	5,862,075	-	5,862,075
Capitalized costs, net	-	-	-
Other noncurrent assets	<u>786,427</u>	<u>27,070</u>	<u>813,497</u>
Total noncurrent assets	<u>6,769,804</u>	<u>27,070</u>	<u>6,796,874</u>
Total assets	<u>6,874,208</u>	<u>151,099</u>	<u>7,025,307</u>
Current liabilities:			
Current portion of long-term debt	-	-	-
Accounts payable	387	65,588	65,975
Accrued liabilities	41,946	2,420	44,366
Deposits and trust funds	-	-	-
Deferred revenue	-	-	-
Total current liabilities	<u>42,333</u>	<u>68,008</u>	<u>110,341</u>
Long-term liabilities:			
Accrued liabilities	-	-	-
Long-term debt, net of current portion	<u>4,379,083</u>	-	<u>4,379,083</u>
Total long-term liabilities	<u>4,379,083</u>	-	<u>4,379,083</u>
Total liabilities	<u>4,421,416</u>	<u>68,008</u>	<u>4,489,424</u>
Net position:			
Invested in capital assets, net of debt	1,482,992	-	1,482,992
Restricted	121,302	-	121,302
Unrestricted	<u>848,498</u>	<u>83,091</u>	<u>931,589</u>
Total net position	<u>2,452,792</u>	<u>83,091</u>	<u>2,535,883</u>
Total liabilities and net position	<u>6,874,208</u>	<u>151,099</u>	<u>7,025,307</u>

These notes are an integral part of the financial statements.

**SEATTLE CHINATOWN-INTERNATIONAL DISTRICT
PRESERVATION AND DEVELOPMENT AUTHORITY**
NOTES TO FINANCIAL STATEMENTS, Continued

NOTE 13 – DISCRETELY PRESENTED COMPONENT UNITS (continued)

Summarized discretely presented component unit statement of revenues, expenses, and changes in net position information for the year ended December 31, 2016:

	SCIDpda Bush Hotel QALICB LLC	CIDPDA	Total
Operating revenues:			
Service agreements	-	-	-
Rental income	441,852	-	441,852
Other	-	2,159	2,159
Total operating revenues	441,852	2,159	444,011
Operating expenses:			
Rental operations	-	-	-
General administration	14,533	14,961	29,494
Depreciation and amortization	179,238	-	179,238
Total operating expenses	193,771	14,961	208,732
Operating income (loss)	248,081	(12,802)	235,279
Nonoperating revenues (expenses):			
Contributions and grants - operational support	-	882,030	882,030
Contributions and grants - operational support		(751,671)	(751,671)
Interest income		-	-
Interest expense	(207,792)	-	(207,792)
Other	-	(76,570)	(76,570)
Total nonoperating revenues (expenses), net	(207,792)	53,789	(154,003)
Change in net position	40,289	40,987	81,276
Net position, beginning of year	2,412,503	42,104	2,454,607
Net position, end of year	2,452,792	83,091	2,535,883

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE 14 – BLENDED COMPONENT UNITS SUMMARY FINANCIAL INFORMATION

Condensed Statement of Net Position									
	Bush Hotel Commercial	Bush Residential	New Central Apartments	New Central Commercial	New Central Manager	IDYS2 Family Housing	BH Fund	NC Master Tenant LLC	BH Master Tenant LLC
Assets:									
Current assets	\$ 27,820	711,565	220,983	73,683	34,084	1,188,942	145,749	45,540	404,323
Capital assets, net	7,686	4,688,448	55,550	-	-	9,852,423	-	-	6,252,814
Other assets	(112,600)	-	(131,954)	(163,454)	83,675	54,000	6,381,317	2,312,820	580,325
Total assets	\$ (77,094)	5,400,013	144,579	(89,771)	117,759	11,095,365	6,527,066	2,358,360	7,237,462
Liabilities									
Current liabilities	\$ 1,252,157	561,024	82,256	39,096	-	890,157	2,636,838	12,891	54,535
Noncurrent liabilities	-	4,589,203	-	-	-	8,238,856	1,248,001	-	3,430,564
Total liabilities	1,252,157	5,150,227	82,256	39,096	-	9,129,013	3,884,839	12,891	3,485,099
Net Position									
Invested in capital assets, net of related debt	7,686	22,161	55,550	-	-	1,480,111	(1,339,001)	-	2,822,250
Restricted	19,110	455,519	109,680	23,830	-	505,189	37,917	-	160,654
Unrestricted	(1,356,047)	(227,894)	(102,906)	(152,696)	117,759	(18,948)	3,943,311	2,345,469	769,459
Total net position	(1,329,251)	249,786	62,324	(128,866)	117,759	1,966,352	2,642,227	2,345,469	3,752,363
Total liabilities and net position	\$ (77,094)	5,400,013	144,580	(89,770)	117,759	11,095,365	6,527,066	2,358,360	7,237,462

Condensed Statement of Revenues, Expenses, and Changes in Net Position

	Bush Hotel Commercial	Bush Residential	New Central Apartments	New Central Commercial	New Central Manager	IDV52 Family Housing	BH Fund	NC Master Tenant LLC	NC Hotel LLC	BH Master Tenant LLC
Operating revenues	\$ 410,812	669,885	446,716	307,586	(110,065)	795,838	(29,121)	(105,748)	34,263	17,122
Operating expenses:	(565,695)	(428,562)	(372,117)	(335,264)	(1,046)	(484,067)	36,355	(26,784)	76,923	(97,366)
Depreciation and amortization	(2,245)	(126,844)	(2,543)		-	(321,854)	-	-	(156,305)	-
Operating income (loss)	(157,128)	114,479	72,056	(27,678)	(111,111)	(10,083)	7,234	(132,532)	(45,119)	(80,244)
Nonoperating revenues (expenses):										
Interest income	4	809	43	1	-	590	191,873	-	123	-
Interest expense	-	(43,975)	-	-	-	(185,591)	(83,058)	-	(157,927)	(3,262)
Nonoperating revenues (expenses)	4	(43,166)	43	1	-	(185,001)	108,815	-	(157,804)	(3,262)
Change in net position	(157,124)	71,313	72,099	(27,677)	(111,111)	(195,084)	116,049	(132,532)	(202,923)	(83,506)
Net position, beginning of year	(1,172,127)	178,473	64,026	(101,189)	228,870	2,161,436	2,526,178	2,478,001	3,955,286	1,817,876
Distribution	-	-	(73,801)	-	-	-	-	-	-	-
Net position, end of year	\$ (1,329,251)	249,786	62,324	(128,866)	117,759	1,966,352	2,642,227	2,345,469	3,752,363	1,734,370

Condensed Statement of Cash Flows

[illegible]

These notes are an integral part of the financial statements.

**SEATTLE CHINATOWN-INTERNATIONAL DISTRICT
PRESERVATION AND DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2016**

NOTE 15 - DEFERRED COMPENSATION PLAN

SCIDpda offers all employees a deferred compensation plan created in accordance with Internal Revenue Code (IRC) Section 457. An employee's contribution to the plan may not exceed statutory limits as provided in this section. The SCIDpda may contribute to the plan for employees, but made no contribution in 2016. Since the SCIDpda is not the owner of these assets, the plan assets and liabilities are not reported as part of the SCIDpda.

NOTE 16 – SUBSEQUENT EVENTS

Subsequent to year end, SCIDpda entered into a commercial lease agreement to lease commercial space to a new tenant. The lease terminates January 31, 2027 and requires minimum monthly lease payments of \$9,928.

On June 14, 2017, the City of Seattle issued \$4,730,000 of Limited Tax General Obligation Refunding and Improvement Bonds on behalf of SCIDpda for the purpose of refunding SCIDpda's Special Obligation Refunding Bonds, Series 2007. The proceeds of the issue were used to retire outstanding amounts of the Special Obligation Refunding Bonds Series 2007 at par. The refunding bonds were issued by the City of Seattle and the proceeds were loaned by the City of Seattle to SCIDpda. Under the terms of the loan agreement with the City of Seattle, the loan requires payments matching that of the principal and interest on the City Refunding bonds as they come due. Loan payments on the 2017 refunding loan are prorated for 2017 at \$448,756.67. Starting in 2018 annual debt service ranges from \$517,900 to \$525,000 in 2026 when the Bonds will be paid in full. The Bonds bear interest at rates of 2.0% to 5.0%.

Subsequent events have been evaluated through September 25, 2017, which is the date the financial statements were available to be issued.

Reports and Schedules Required by Uniform Guidance

SEATTLE CHINATOWN INTERNATIONAL DISTRICT PRESERVATION AND DEVELOPMENT AUTHORITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended December 31, 2016

Federal Agency Name / Pass Through Agency	Federal Program Title	CFDA Number	Other Identification Number	Expenditures				Footnote
				Direct Awards	Pass Through Awards	Loan Balance Outstanding	Total	Passed through to Subrecipients
US Dept of Agriculture								
WA State OSPI	Child & Adult Care Food Program	10.558	17-06-0914	\$ -	54,215	-	54,215	
US Dept of Health & Human Services								
City of Seattle Human Services Dept	Special Programs for the Aging Title III, Part C Nutrition Services	93.045	DA16-1588	-	89,462	-	89,462	
City of Seattle Human Services Dept	Special Programs for the Aging Title III, Part D Disease Prevention	93.053	DA16-1588	-	19,324	-	19,324	
	Subtotal US Dept of Health & Human Services - Aging Cluster			-	108,786	-	108,786	
US Dept of HUD								
Seattle Housing Authority - Porchlight	Section 8 Housing Assistance Payments Program	14.195	WA19A001004	365,699	-	-	365,699	
Seattle Housing Authority - Porchlight	Section 8 Housing Assistance Payments Program	14.195	WA19A001001	81,521	-	-	81,521	
Seattle Housing Authority - Porchlight	Section 8 Housing Assistance Payments Program	14.195	N/A	-	86,017	-	86,017	4
Seattle Housing Authority - Porchlight	Section 8 Housing Assistance Payments Program	14.195	N/A	-	27,521	-	27,521	4
Seattle Housing Authority - Porchlight	Section 8 Housing Assistance Payments Program	14.195	N/A	-	201,146	-	201,146	4
	Subtotal CFDA #14.195			447,220	284,684	-	741,904	*
City of Seattle - CDBG Loan	Community Dev. Block Grant Program for Entitlement Communities	14.218	DL97CDBG	-	-	93,567	93,567	
City of Seattle - CDBG Loan	Community Dev. Block Grant Program for Entitlement Communities	14.218	DL98CDBG	-	-	93,534	93,534	
City of Seattle - CDBG Loan	Community Dev. Block Grant Program for Entitlement Communities	14.218	DL#10-1505	-	-	120,000	120,000	
City of Seattle - CDBG Loan	Community Development Block Grant Program	14.218	DL052388	-	-	672,920	672,920	
City of Seattle Housing & Human Services Dept.	Urban Development Action Grant	14.218	DIR UDAG-56	-	-	292,647	292,647	
City of Seattle Dept. of Community Development	Community Development Block Grant Program	14.218	NA	-	-	633,407	633,407	4
City of Seattle OED - Only in Seattle Initiative Grant	Community Dev. Block Grant Program for Entitlement Communities	14.218	DA162139	-	150,818	-	150,818	
City of Seattle OED - Tech Assist for Immigrant/Minority Bus	Community Dev. Block Grant Program for Entitlement Communities	14.218	DA162103	-	119,000	-	119,000	
City of Seattle OED - Bus Support Svcs Immigrant/Minority	Community Dev. Block Grant Program for Entitlement Communities	14.218	DA162108	-	95,760	-	95,760	
City of Seattle OED - Minority-Owned Business	Community Dev. Block Grant Program for Entitlement Communities	14.218	DA162107	-	32,182	-	32,182	
City of Seattle OED - Tech Assistance	Community Dev. Block Grant Program for Entitlement Communities	14.218	DA162121	-	100,000	-	100,000	
City of Seattle OED - Only in Seattle Initiative	Community Dev. Block Grant Program for Entitlement Communities	14.218	DA142130	-	44,296	-	44,296	
	Subtotal CFDA #14.218			-	542,056	1,906,075	2,448,131	346,942
City of Seattle - CDBG Loan	Community Development Block Grant Program	14.253	DL#10-1506	-	-	196,000	196,000	5
	Subtotal Community Development Block Cluster (14.218/14.253)			-	542,056	2,102,075	2,644,131	346,942
LISC								
Enterprise Community Partners, Inc.	HUD SEC 4 FY 2015	14.252	40843-0044	-	7,509	-	7,509	
Enterprise Community Partners, Inc.	Capacity Building for Community Dev. & Affordable Housing	14.252	15SG0057	-	81,149	-	81,149	
	Capacity Building for Community Dev. & Affordable Housing	14.252	15SG0195	-	20,000	-	20,000	
	Subtotal CFDA #14.252			-	108,658	-	108,658	
	Subtotal US Dept of HUD			447,220	945,398	2,102,075	3,494,693	346,942
U.S. Dept. of Transportation								
City of Seattle - OED	Highway Planning and Construction	20.205	NA	-	4,325	-	4,325	
National Endowment for the Arts								
	Promotion of the Arts, Design - Our Town	45.024	15-4292-7066	-	32,000	-	32,000	
	Total Expenditures of Federal Awards			447,220	1,144,724	2,102,075	3,694,019	346,942

* Denotes a major program

See accompanying notes to the schedule of expenditures of federal awards.

**SEATTLE CHINATOWN-INTERNATIONAL DISTRICT
PRESERVATION AND DEVELOPMENT AUTHORITY**
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, CONTINUED

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant and loan activity of SCIDpda, under programs of the federal government for the year ended December 31, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of SCIDpda, it is not intended to and does not present the financial position, changes in net assets, or cash flows of SCIDpda.

Note 2 – Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, and the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3 – Program and Indirect Costs

The amounts shown as current year expenditures represent only the federal grant portion of the program costs. Entire program costs, including SCIDpda's portion, may be more than shown.

SCIDpda has not elected to use the 10% de minimis indirect cost rate.

Note 4 – Not Available (N/A)

SCIDpda was unable to obtain an other identification number.

Note 5 – American Recovery And Reinvestment Act (ARRA)

Expenditures for this program were funded by ARRA funds.

Note 6 – Loans Outstanding

SCIDpda had the following loans outstanding at December 31, 2016. The loan balances are also included in the federal expenditures presented in the Schedule.

<u>Lender</u>	<u>Program Titled</u>	<u>CFDA Number</u>	<u>Balance Outstanding</u>
City of Seattle - CDBG Loan	Community Dev Block Grant Program for Entitlement Communi	14.218	93,567
City of Seattle - CDBG Loan	Community Dev Block Grant Program for Entitlement Communi	14.218	93,534
City of Seattle - CDBG Loan	Community Dev Block Grant Program for Entitlement Communi	14.218	120,000
City of Seattle - CDBG Loan	Community Development Block Grant Program	14.218	672,920
City of Seattle Dept of Community Dev - CDBG Lo	Community Development Block Grant Program	14.218	633,407
City of Seattle UDAG Loan	Urban Development Action Grant	14.218	276,297
City of Seattle - CDBG Loan	Community Development Block Grant Program	14.253	196,000
			<u>2,085,725</u>

FINNEY, NEILL & COMPANY, P.S.
C E R T I F I E D P U B L I C A C C O U N T A N T S

**Independent Auditors' 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***

The Board of Directors
Seattle Chinatown-International District 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 business-type activities and the aggregate discretely presented component units of the Seattle Chinatown-International District Preservation and Development Authority (the "Authority"), as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated September 25, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority'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 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 Auditors' 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 Standard*, continued**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Finney, Hill & Company, P.S.

September 25, 2017
Seattle, Washington

FINNEY, NEILL & COMPANY, P.S.
C E R T I F I E D P U B L I C A C C O U N T A N T S

**Independent Auditors' Report On Compliance For Each Major
Federal Program And On Internal Control Over Compliance
As Required By The Uniform Guidance**

The Board of Directors
Seattle Chinatown-International District Preservation and Development Authority
Seattle, Washington

Report on Compliance for Each Major Federal Program

We have audited the Seattle Chinatown International District Preservation and Development Authority's (the "Authority") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended December 31, 2016. The Authority's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

Basis for Qualified Opinion on Section 8 HAP and CDBG Programs

As described in Finding 2016-001 in the accompanying schedule of findings and questioned costs, two component units of the Authority did not comply with requirements regarding the following:

<u>Finding #</u>	<u>CFDA #</u>	<u>Program (or Cluster) Name</u>	<u>Compliance Requirement</u>
2016-001	14.195	Section 8 Housing Assistance Payments Program	Special Tests & Provisions - Unauthorized Disbursements
2016-001	14.218 14.253	Community Development Block Grant Program (CDBG)	Special Tests & Provisions - Unauthorized Disbursements

Compliance with such requirements is necessary, in our opinion, for the Authority to comply with the requirements applicable to those programs.

Independent Auditors' Report On Compliance For Each Major Federal Program And On Internal Control Over Compliance As Required By The Uniform Guidance, continued

Qualified Opinion on Section 8 HAP and CDBG Programs

In our opinion, except for the noncompliance described in the "Basis for Qualified Opinion" paragraph, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Section 8 HAP and CDBG Programs for the year ended December 31, 2016.

Other Matters

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

Report on Internal Control Over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be a material weakness.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs identified as 2016-001 to be a material weakness.

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

Purpose of this Report

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

Finney, Hill & Company, P.S.

September 25, 2017
Seattle, Washington

**SEATTLE CHINATOWN-INTERNATIONAL DISTRICT PRESERVATION AND
DEVELOPMENT AUTHORITY**

Schedule of Findings and Questioned Costs
For the year ended December 31, 2016

The results of our audit of the Seattle Chinatown International District Preservation and Development Authority are summarized below in accordance with Uniform Guidance.

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified?
- Significant deficiency(ies) identified that are not considered to be material weaknesses?

_____ yes X no

_____ yes X none reported

Noncompliance material to financial statements noted?

_____ yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified?
- Significant deficiency(ies) identified that are not considered to be material weaknesses?

X yes _____ no

_____ yes X none reported

Type of auditor’s report issued on compliance
for major programs

Qualified – CFDA 14.195, 14.218/14.253

Any audit findings disclosed that are required
to be reported in accordance with
Uniform Guidance?

X yes _____ no

Identification of major programs:

- CFDA 14.195, Section 8 Housing Assistance Payments Program
- CFDA 14.218/14.253, Community Development Block Grants Cluster

Dollar threshold used to distinguish between
type A and type B programs:

\$750,000

Auditee qualifies as low-risk auditee?

_____ yes X no

Section II – Financial Statement Findings

No matters were reported.

**SEATTLE CHINATOWN-INTERNATIONAL DISTRICT PRESERVATION AND
DEVELOPMENT AUTHORITY**

Schedule of Findings and Questioned Costs

Section III – Findings and Questioned Costs for Federal Awards

2016 – 001 Unauthorized Cash Disbursements

Department of Housing and Urban Development

<u>CFDA #</u>	<u>Program (or Cluster) Name</u>
14.195	Section 8 Housing Assistance Payments Program
14.218	
14.253	Community Development Block Grant Program (CDBG)

Finding

Funds were improperly disbursed from two blended component units of the Authority.

Criteria

HUD program requirements require written approval be received prior to making disbursements from the replacement reserve account. HUD program requirements prohibit using project funds to make operating advances.

Condition and Context

SCIDpda New Central Apartments Inc, a blended component unit of the Authority, withdrew \$52,915 from the replacement reserve account without obtaining HUD approval. HUD has subsequently denied the withdrawal and SCIDpda has deposited the funds back into the project account during June 2016.

SCIDpda Bush Residential LLC, a blended component unit of the Authority, is invoiced and charged for certain common expenses by the Bush Hotel Condo Association. In September 2015, the LLC advanced \$2,500 to the Bush Hotel Condo Association. The advance was outstanding as of December 31, 2015. The advance was repaid in April 2016.

Cause

Staff members were not aware of certain HUD requirements and procedures did not prevent the transactions.

Effect of Condition

As a result of the unauthorized cash distributions the projects did not comply with applicable HUD guidance.

Repeat Finding This is a repeat finding from the immediate previous audit, 2015-001.

Recommendation

We recommend the SCIDpda implement policies and procedures to monitor transactions, obtain HUD approval as required for all reserve account withdrawals and prevent unauthorized advances.

Management Response and Corrective Action Plan

We understand the auditors' finding and have corrected the issues identified. The SCIDpda New Central Apartments Inc, reserve withdrawal disbursement was approved internally, but the request was never formally submitted to HUD. The amount was redeposited to the reserve account during June 2016. The advance from SCIDpda Bush Residential LLC was corrected during April 2016. Staff training and cash management procedures have been implemented to prevent any future occurrence of these issues.

Questioned Costs \$55,415

Management Contact

Maiko Winkler-Chin, Executive Director (206) 684-8929



SCID

Seattle Chinatown
International District
Preservation and
Development Authority

Corrective Action Plan

September 25, 2017

The following is management's response and corrective action plan for the finding identified in the audit reporting package for the year ending December 31, 2016.

Management Response to Finding: 2016 - 001 Unauthorized Cash Disbursements

We concur with this finding.

We understand that:

1. Disbursements made from HUD restricted accounts require prior written approval from HUD; and
2. HUD projects are not allowed to advance operating funds to other entities.

The two instances identified were due, in part, to staff turnover and subsequent misunderstanding of the compliance requirements.

In both cases, the funds have been returned to the appropriate project account as follows:

- SCIDpda Bush Residential LLC - repaid April, 2016
- SCIDpda New Central Apartments Inc. - repaid June, 2016

We have implemented staff training and cash management procedures to prevent any future occurrence of these issues.

We consider these matters resolved and closed as of June 2016. -

Sincerely,

Veronica Wood, CPA
Deputy Director

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**SEATTLE CHINATOWN-INTERNATIONAL DISTRICT PRESERVATION AND
DEVELOPMENT AUTHORITY**
Schedule of Prior Audit Findings

Reference Number: 2015 – 001

Topic: Unauthorized Cash Disbursements

Audit Finding: SCIDpda New Central Apartments Inc, a blended component unit of the Authority, withdrew \$52,915 from the replacement reserve account without obtaining HUD approval. HUD has subsequently denied the withdrawal and SCIDpda has deposited the funds back into the project account during June 2016.

SCIDpda Bush Residential LLC, a blended component unit of the Authority, is invoiced and charged for certain common expenses by the Bush Hotel Condo Association. In September 2015, the LLC advanced \$2,500 to the Bush Hotel Condo Association. The advance was outstanding as of December 31, 2015. The advance was repaid in April 2016.

Corrective Action Procedures: SCIDpda will revise its policies and procedures.

Current Status: The funds were re-deposited during 2016.