



**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, 2017. The Authority contracted with the CPA firm for this audit and requested that we accept in lieu of performing our own audit.

Based on this review, we have accepted this report in lieu of the audit required by RCW 43.09.260. The Office of the Washington State Auditor did not audit the accompanying financial statements 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
COMPLIANCE REPORT
YEAR ENDED DECEMBER 31, 2017**

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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, 2017, 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 respective 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, 2017, and the respective 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 audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other 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 August 14, 2018 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.

August 14, 2018
Seattle, Washington

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

**Management's Discussion and Analysis
December 31, 2017**

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, 2017, 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.

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, 2017 with comparative data from the year ending December 31, 2016. Please read it in conjunction with the Authority's basic financial statements, which immediately follow this section.

The basic financial statements provide both long-term and short-term information about the Authority's overall financial condition. Following the basic financial statements are notes that both 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.

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 category.

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

**Management's Discussion and Analysis
December 31, 2017**

FINANCIAL HIGHLIGHTS

- Assets of the Authority exceeded liabilities and deferred inflows of resources at December 31, 2017 by \$18,627,761 (net position). Of this amount, \$7,178,233 (unrestricted net position) may be used to meet the Authority's ongoing obligations.
- The Authority provided 207 unique clients 13,932 days of health and recreation activities through the Adult Day Program and served seniors 16,991 meals through the affordable meal program.
- \$699,549 of contributions and grants were received by the Authority in 2017 and used to directly benefit the neighborhood, including the provision of business technical assistance to over 50 businesses, helping 5 property owners with improvements to their buildings, the management of alley improvement projects, neighborhood marketing, and public safety.
- At the end of 2017 the Authority was providing co-working space to a mix of 24 small businesses and individuals at Hing Hay CoWorks, its collaborative workspace and community development hub at the Bush Hotel, where it also hosted a range of events for local entrepreneurs, freelancers, startups, and community members and organizations, including tax preparation classes, legal consultations, financial advice for startup companies and an annual 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 2017, the Authority consulted on 2 development projects, partnered with 4 companies to help bring affordable housing to the district, participated in discussions to purchase a site for the Landmark project in Little Saigon, and continued pre-development work on a site for a PACE program.
- The Authority achieved 100% occupancy of its commercial spaces in 2017.
- In November 2017 the Authority made a final payment of \$778,100 on a construction settlement agreement that was not due until 2027. This early pay off resulted in a savings of \$264,081.
- The Authority refinanced a loan with Heritage Bank in November 2017 with favorable interest rate savings. This loan is presented with a new maturity date and payment terms.
- The Authority paid down its Line of Credit in 2017 and expected to pay off the December 31, 2017 balance of \$25,000 in January 2018.
- A reserve account was established by the Authority in August 2017 to meet unexpected future costs and to protect against interruption in cash flow.

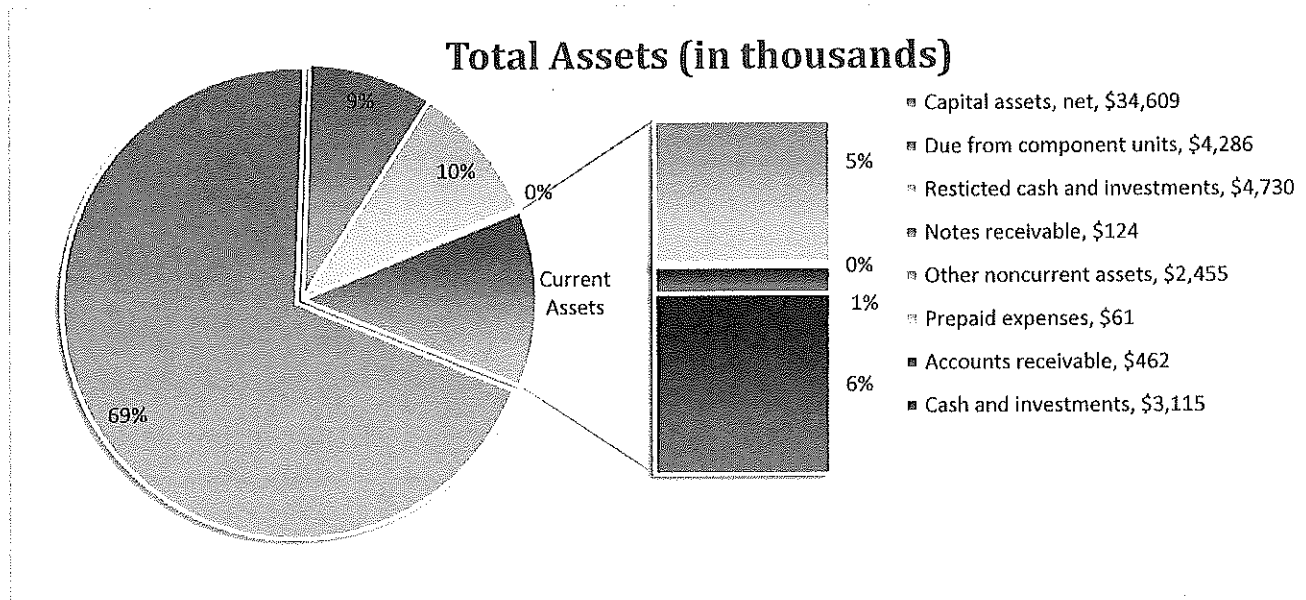
**SEATTLE CHINATOWN-INTERNATIONAL DISTRICT
PRESERVATION AND DEVELOPMENT AUTHORITY**

**Management's Discussion and Analysis
December 31, 2017**

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.

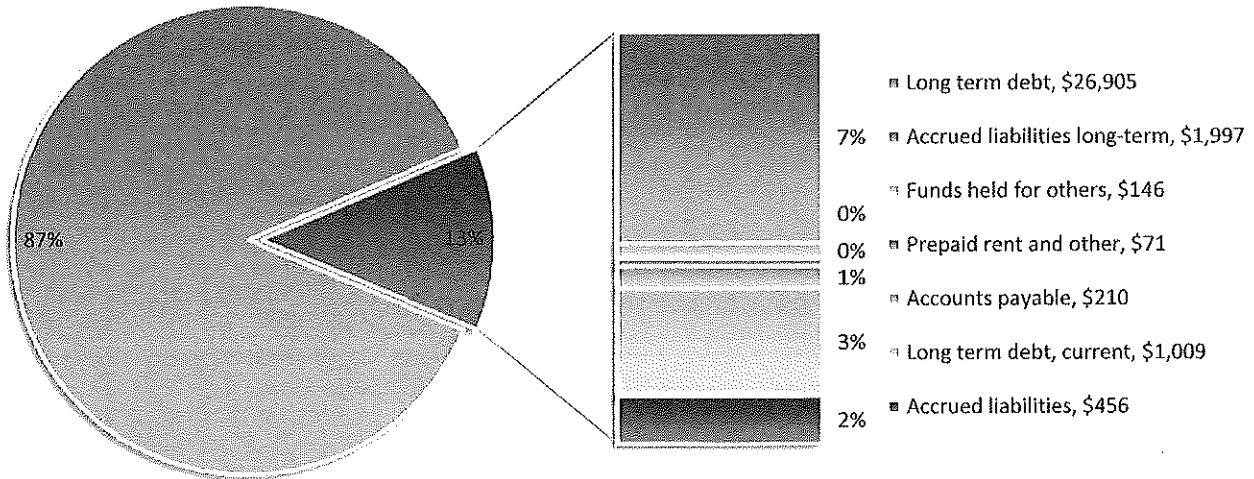


Total assets of the Authority were \$49,842,271 at December 31, 2017 compared to \$51,972,207 at December 31, 2016. Assets decreased by \$2,129,936. Current assets decreased by \$580K as cash was used to pay off the construction settlement agreement and credit line. Noncurrent assets decreased by \$1.5M. Cash was received on notes 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, 2017**

Total Liabilities (in thousands)



Total liabilities of the Authority were \$30,794,653 at December 31, 2017 compared to \$33,179,569 at December 31, 2016. Current and noncurrent liabilities decreased by a combined total of \$2,384,916 due to payments made reducing outstanding debt. 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 2007 and 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, 2017**

Condensed Statement of Net Position

| | <u>December 31, 2017</u> | <u>December 31, 2016</u> |
|---|--------------------------|--------------------------|
| Assets: | | |
| Current assets | \$4,477,574 | \$5,058,582 |
| LT Restricted cash and investments | 3,890,001 | 3,783,009 |
| Capital assets, net | 34,609,019 | 35,538,447 |
| Other assets | 6,865,677 | 7,592,169 |
| Total assets | 49,842,271 | 51,972,207 |
| Liabilities | | |
| Current liabilities | 1,892,677 | 2,164,521 |
| Noncurrent liabilities | 28,901,976 | 31,015,048 |
| Total liabilities | 30,794,653 | 33,179,569 |
| Deferred inflow of resources | 419,857 | 407,459 |
| Net Position | | |
| Invested in capital assets, net of debt | 6,719,777 | 9,019,827 |
| Restricted | 4,729,751 | 4,765,899 |
| Unrestricted | 7,178,233 | 4,599,453 |
| Total net position | 18,627,761 | 18,385,179 |
| Total liabilities, net position and deferred inflows | \$49,842,271 | \$51,972,207 |

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

**Management's Discussion and Analysis
December 31, 2017**

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.

Non-operating 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. Non-operating 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, 2017**

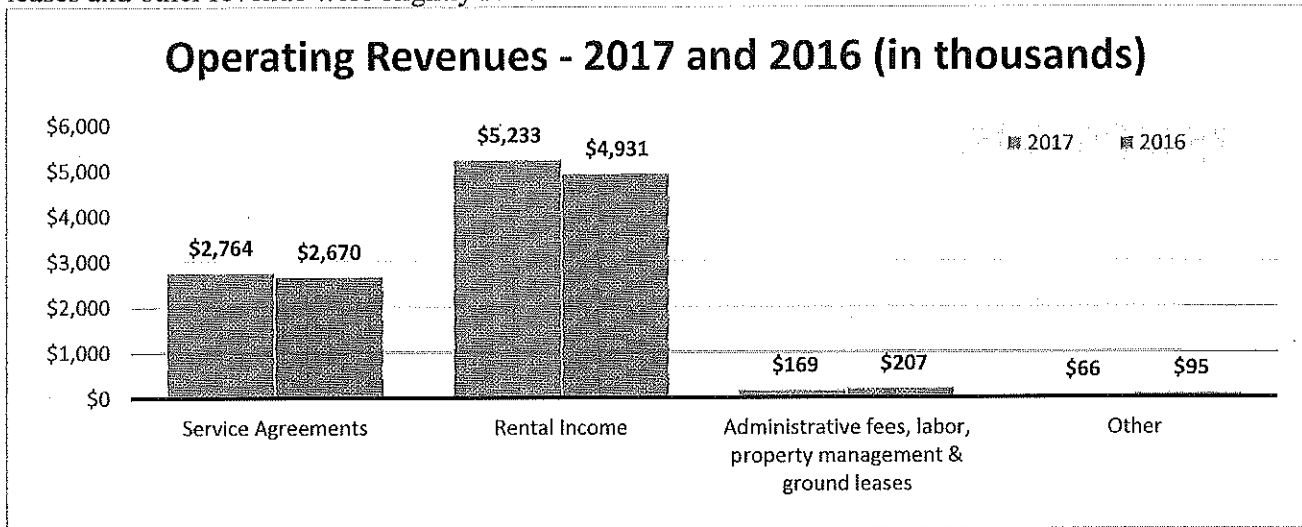
Statement of Revenues, Expenses, and Changes in Net Position

| | Years Ended December 31 | |
|---|-------------------------|---------------|
| | 2017 | 2016 |
| Operating revenues: | | |
| Service agreements | \$ 2,764,269 | \$ 2,670,578 |
| Rental income | 5,232,675 | 4,930,594 |
| Administrative fees, property management and ground leases | 169,253 | 207,108 |
| Other | 66,313 | 94,680 |
| Total operating revenues | 8,232,510 | 7,902,960 |
| Operating expenses: | | |
| Rental operations | 2,138,951 | 2,166,069 |
| Property management, project and community development | 1,288,101 | 1,483,883 |
| Senior care operations | 2,387,609 | 2,244,096 |
| Nutrition services | 73,038 | 75,801 |
| General administration | 654,233 | 780,235 |
| Depreciation and amortization | 1,396,279 | 1,353,397 |
| Total operating expenses | 7,938,211 | 8,103,481 |
| Income (loss) from operations before other income (expense) | 294,299 | (200,521) |
| Nonoperating revenues (expenses): | | |
| Contributions and grants - operational support | 699,549 | 751,672 |
| Interest income | 238,038 | 260,258 |
| Interest expense | (981,162) | (864,514) |
| Other | (8,142) | (362,823) |
| Other income (expense), net | (51,717) | (215,407) |
| Change in net position | 242,582 | (415,928) |
| Net position, beginning of year | 18,385,179 | 18,801,107 |
| Net position, end of year | \$ 18,627,761 | \$ 18,385,179 |

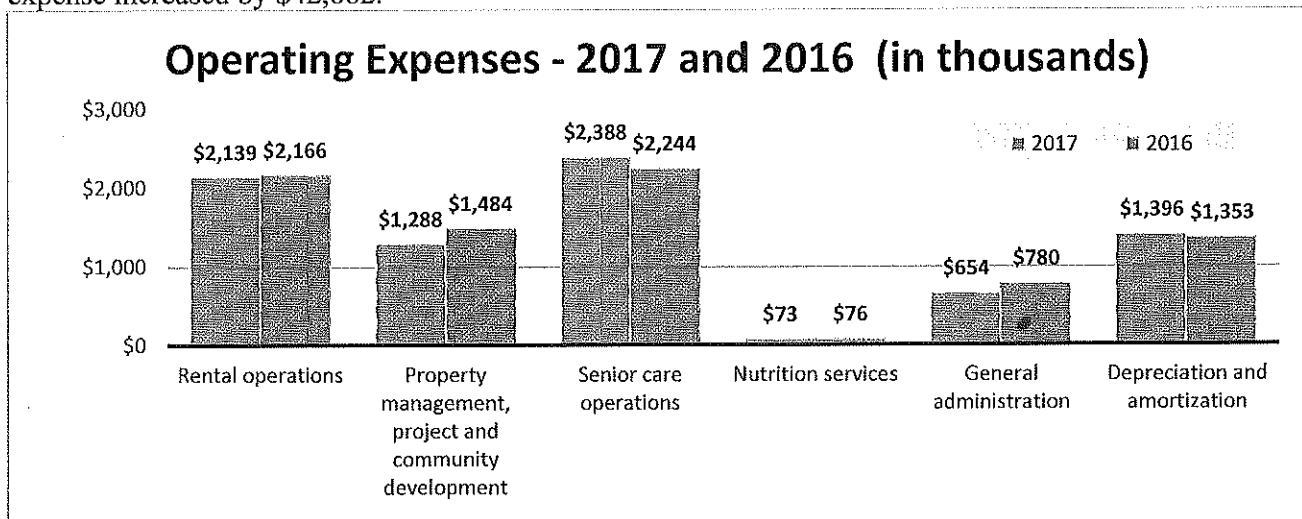
**SEATTLE CHINATOWN-INTERNATIONAL DISTRICT
PRESERVATION AND DEVELOPMENT AUTHORITY**

**Management's Discussion and Analysis
December 31, 2017**

Overall, operating revenues increased 4.2% or \$329,550 from 2017 to 2016. Service Agreements increased \$93,691 due to increased attendance at our adult day services program. Rental income increased \$302,081 from the prior year due to increased rental rates and decreased vacancies 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 and other revenue were slightly reduced.



Operating expenses decreased by 2.0% or \$165,270 from 2017 to 2016. Rental operations expense decreased by \$27,118. Property management, project and community development expenses decreased by \$195,782 due to the incurrence of fees related to the refinancing of a loan for the New Central Hotel in 2016. Senior care operating expenses increased by \$143,513 due to labor expenses. Nutrition services expenses remained constant. General administration expenses decreased by \$126,002 due to legal fees incurred in 2016 to exit the New Central and Bush Hotel partnerships. Depreciation and amortization expense increased by \$42,882.

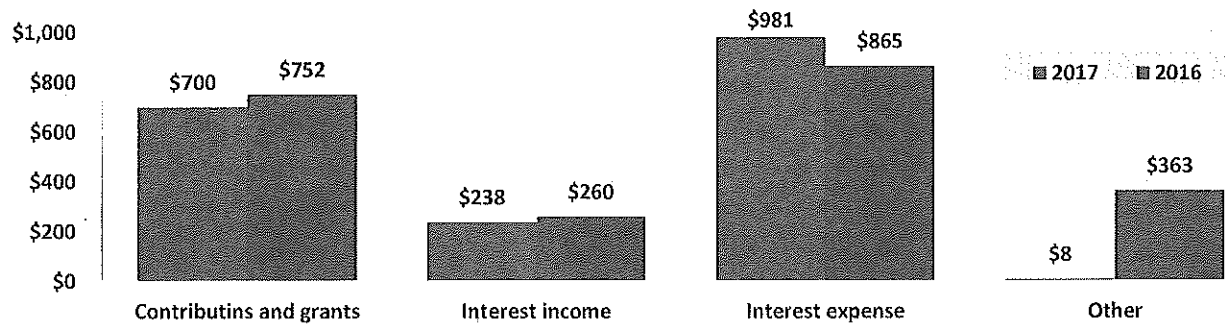


**SEATTLE CHINATOWN-INTERNATIONAL DISTRICT
PRESERVATION AND DEVELOPMENT AUTHORITY**

**Management's Discussion and Analysis
December 31, 2017**

Non-operating revenues (expenses) represent income earned and expenses incurred that are derived from sources not related to the typical activities of the Authority. Contributions and grant 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 expenses 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 and Expenses - 2017 and 2016 (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, 2017 | December 31, 2016 |
|--|----------------------------|----------------------------|
| Capital assets not being depreciated: | | |
| Land | \$1,234,600 | \$1,234,600 |
| Construction in progress | 25,123 | - |
| | <u>1,259,723</u> | <u>1,234,600</u> |
| Depreciable capital assets: | | |
| Buildings and improvements | 50,351,900 | 49,934,002 |
| Furniture and equipment | 1,006,319 | 1,011,594 |
| | <u>51,358,219</u> | <u>50,945,596</u> |
| Less accumulated depreciation | <u>(18,008,923)</u> | <u>(16,641,749)</u> |
| Total capital assets being depreciated, net | <u>33,349,296</u> | <u>34,303,847</u> |
| Total capital assets, net | <u><u>\$34,609,019</u></u> | <u><u>\$35,538,447</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, 2017.

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

**Management's Discussion and Analysis
December 31, 2017**

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, 2017</u> | <u>December 31, 2016</u> |
|---------------------------------|--------------------------|--------------------------|
| Long-term debt | \$ 27,889,242 | \$ 25,164,341 |
| Special Obligation Bonds - 2007 | <u>-</u> | <u>4,730,000</u> |
| | <u>\$ 27,889,242</u> | <u>\$ 29,894,341</u> |

Note 9 to the Authority's basic financial statements provides additional detail regarding the debt changes during the year ended December 31, 2017.

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 continues to see 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, the Seattle Chinatown International District is an area ripe for development. In 2017, the Authority consulted on 2 development projects, partnered with 4 companies to help bring affordable housing to the district, and participated in discussions to purchase a site for the Landmark project in Little Saigon. 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 continues to work 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 refunding of the bonds 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 additional 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, 2017**

ASSETS

| | Primary Government | Component Units |
|-------------------------------------|-------------------------------|----------------------------|
| Current assets: | | |
| Cash and cash equivalents | \$ 2,699,500 | 181,220 |
| Investments | 415,471 | - |
| Restricted cash and investments | 839,750 | - |
| Receivables: | | |
| Grants, contributions and contracts | 142,145 | - |
| Property management | 319,961 | 54,513 |
| Prepaid expenses and deposits | 60,747 | 3,978 |
| Total current assets | 4,477,574 | 239,711 |
| Noncurrent assets: | | |
| Restricted cash and investments | 3,890,001 | 110,597 |
| Capital assets, net | 34,609,019 | 5,682,837 |
| Notes receivable | 123,801 | - |
| Due from component units | 4,286,417 | - |
| Other noncurrent assets | 2,455,459 | 861,789 |
| Total noncurrent assets | 45,364,697 | 6,655,223 |
| Total assets | \$ 49,842,271 | 6,894,934 |

(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, 2017**

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

| | Primary Government | Component Units |
|--|-------------------------------|----------------------------|
| Current liabilities: | | |
| Current portion of long-term debt and bonds payable | \$ 984,452 | - |
| Line of credit payable | 25,000 | - |
| Accounts payable | 209,891 | 36,210 |
| Accrued liabilities | 456,415 | 103,488 |
| Tenant security deposits | 145,920 | - |
| Prepaid rent and other | 70,999 | - |
| Total current liabilities | 1,892,677 | 139,698 |
| Long-term liabilities: | | |
| Accrued liabilities | 1,997,186 | - |
| Long-term debt, net of current portion | 26,904,790 | 4,286,417 |
| Total long-term liabilities | 28,901,976 | 4,286,417 |
| Total liabilities | 30,794,653 | 4,426,115 |
| Deferred inflows of resources: | | |
| Deferred bond refunding gain, net | 419,857 | - |
| Net position: | | |
| Invested in capital assets, net of debt | 6,719,777 | 3,769 |
| Restricted | 4,729,751 | 2,455,760 |
| Unrestricted | 7,178,233 | 9,290 |
| Total net position | 18,627,761 | 2,468,819 |
| Total liabilities, deferred inflows of resources, and net position | \$ 49,842,271 | 6,894,934 |

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, 2017

| | Primary Government | Component Units |
|--|-----------------------|--------------------|
| Operating revenues: | | |
| Service agreements | \$ 2,764,269 | - |
| Rental income | 4,571,851 | 441,852 |
| Administrative fees, property management and ground leases | 169,253 | - |
| Reimbursed expenses | 660,824 | - |
| Other | 66,313 | - |
| Total operating revenues | 8,232,510 | 441,852 |
| Operating expenses: | | |
| Rental operations | 2,138,951 | - |
| Property management, project and community development | 1,288,101 | - |
| Senior care operations | 2,387,609 | - |
| Nutrition services | 73,038 | - |
| General administration | 654,233 | 67,537 |
| Depreciation | 1,396,279 | 179,238 |
| Total operating expenses | 7,938,211 | 246,775 |
| Operating income (loss) | 294,299 | 195,077 |
| Nonoperating revenues (expenses): | | |
| Contributions and grants | 699,549 | 47,645 |
| Interest income | 238,038 | 3,681 |
| Interest expense | (981,162) | (196,727) |
| Other | (8,142) | (116,740) |
| Total nonoperating revenues (expenses), net | (51,717) | (262,141) |
| Change in net position | 242,582 | (67,064) |
| Net position, beginning of year | 18,385,179 | 2,535,883 |
| Net position, end of year | \$ 18,627,761 | 2,468,819 |

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, 2017

| | <u>Primary Government</u> | <u>Component Units</u> |
|--|-------------------------------|----------------------------|
| Cash flows from operating activities: | | |
| Cash received from service agreements and tenants | \$ 8,409,435 | 339,047 |
| Cash paid for goods, services and employees | <u>(6,668,135)</u> | <u>(37,629)</u> |
| Net cash provided by (used in) operating activities | <u>1,741,300</u> | <u>301,418</u> |
| Cash flows from noncapital financing activities: | | |
| Borrowing (repayment) on line of credit | (240,000) | - |
| Contributions, net | <u>699,549</u> | <u>(69,095)</u> |
| Net cash provided by (used in) noncapital financing activities | <u>459,549</u> | <u>(69,095)</u> |
| Cash flows from capital financing activities: | | |
| Payments of bonds and notes payable | (7,040,671) | (92,666) |
| Borrowing on note payable | 5,054,010 | - |
| Capital expenditures | (472,891) | - |
| Payments of interest | <u>(981,162)</u> | <u>(196,727)</u> |
| Net cash provided by (used in) capital financing activities | <u>(3,440,714)</u> | <u>(289,393)</u> |
| Cash flows from investing activities: | | |
| Sale (purchase) of investments, net | 36,107 | 10,705 |
| Repayment from (advances to) limited partnership and LLC | 730,451 | - |
| Interest on investments | <u>234,079</u> | <u>3,681</u> |
| Net cash provided by (used in) investing activities | <u>1,000,637</u> | <u>14,386</u> |
| Net increase (decrease) in cash and cash equivalents | (239,228) | (42,684) |
| Cash and cash equivalents at beginning of year - restated | <u>2,938,728</u> | <u>223,904</u> |
| Cash and cash equivalents at end of year | <u>\$ 2,699,500</u> | <u>181,220</u> |
| RECONCILIATION OF NET OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES: | | |
| Net operating income (loss) | \$ 294,299 | 195,077 |
| Adjustments to reconcile net operating income to net cash provided by operating activities: | | |
| Depreciation and amortization | 1,396,279 | 179,238 |
| (Increase) decrease in assets: | | |
| Receivables | 192,116 | (102,805) |
| Prepaid expenses, deposits and other | 6,565 | 551 |
| Increase (decrease) in liabilities: | | |
| Accounts payable | (40,851) | (29,765) |
| Accrued liabilities | <u>(107,108)</u> | <u>59,122</u> |
| Total adjustments | <u>1,447,001</u> | <u>106,341</u> |
| Net cash provided by (used in) operating activities | <u>\$ 1,741,300</u> | <u>301,418</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, 2017

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 I 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 are 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 2017, 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 Hotel 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) with a distinct and separate board. 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. Copies of their separate financial statements can be obtained by contacting the SCIDpda. CIDPDA is the sole owner of BH Manager, Inc., and BH Manager, Inc. is therefore combined with the CIDPDA financial data. BH Manager, Inc. is the managing member and majority owner of SCIDpda Bush Hotel QALICB, LLC. Therefore, the SCIDpda Bush Hotel QALICB, LLC is consolidated into BH Manager, Inc.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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. There was no impact to the Authority's financial statements as a result of implementing this statement.

New Accounting Standards To Be Adopted in Future Years

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.

GASB Statement No. 83, *Certain Asset Retirement Obligations*, is effective for reporting periods beginning after June 15, 2018. This statement standardizes requirements for the recognition and measurement of asset retirement obligations, other than landfills, to reduce inconsistency in financial reporting and enhance comparability. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this statement.

GASB Statement No. 84, *Fiduciary Activities*, is effective for reporting periods beginning after December 15, 2018. This statement defines criteria for identifying activities that state and local governments should report as fiduciary activities and how they should be reported.

GASB Statement No. 85, *Omnibus 2017*, is effective for reporting periods beginning after June 15, 2017 and includes amendments to certain existing literature to address issues in multiple pronouncements that individually would not justify a separate statement. This statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and applications, and postemployment benefits.

GASB Statement No. 86, *Certain Debt Extinguishment Issues*, is effective for reporting periods beginning after June 15, 2017. It establishes guidance for certain issues related to debt extinguishments, primarily in-substance defeasance of debt.

GASB Statement No. 87, *Leases*, is effective for reporting periods beginning after December 15, 2019. Its objective is to improve accounting and financial reporting for leases by governments by establishing a single model for lease accounting based on the principle that leases are financing of the right to use an underlying asset. It requires recognition of certain lease assets and liabilities that were previously classified as operating.

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

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)

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 2017, total interest incurred by the SCIDpda was \$981,162, 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.

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.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 \$56,352 for the year ended December 31, 2017.

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.

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, 2017 were:

| | Cash and Cash Equivalents | Investments | Total |
|--|------------------------------|----------------|------------------|
| Deposits - unrestricted | \$ 2,699,500 | - | 2,699,500 |
| Deposits - restricted | 2,596,102 | - | 2,596,102 |
| Certificates of deposit - unrestricted | - | 415,471 | 415,471 |
| Certificates of deposit - restricted | - | 80,771 | 80,771 |
| Government money market funds - restricted | 2,052,878 | - | 2,052,878 |
| | <u>\$ 7,348,480</u> | <u>496,242</u> | <u>7,844,722</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:

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

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

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.

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 \$7,348,480 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.

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

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

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, 2017, 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 | \$ 1,199,659 | - | 1,199,659 |
| Operating and capital reserve accounts | 3,299,315 | 80,771 | 3,380,086 |
| Tenant security deposits | 150,006 | - | 150,006 |
| | \$ 4,648,980 | 80,771 | 4,729,751 |

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 \$699,549, of which \$114,639 was received on behalf of and disbursed to the Ethnic Business Coalition.

| | |
|--------------------------------|------------|
| Contributions and grants | \$ 699,549 |
| Passed through to subrecipient | (114,639) |
| Contributions and grants, net | \$ 584,910 |

**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 2017 was \$1,396,279. Capital assets as of December 31, 2017 are as follows:

| | Primary Government | Component Units |
|-------------------------------|-----------------------|--------------------|
| Land | \$ 1,234,600 | 39,341 |
| Building and improvements | 50,351,900 | 7,089,148 |
| Furniture and equipment | 1,006,319 | - |
| | <u>52,592,819</u> | <u>7,128,489</u> |
| Less accumulated depreciation | <u>(18,008,923)</u> | <u>(1,445,652)</u> |
| | 34,583,896 | 5,682,837 |
| Construction in progress | <u>25,123</u> | <u>-</u> |
| Capital assets, net | <u>\$ 34,609,019</u> | <u>5,682,837</u> |

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

| | Balance January 1, 2017 | Additions | Dispositions and Transfers | Balance December 31, 2017 |
|---|----------------------------|--------------------|-------------------------------|------------------------------|
| Capital assets not being depreciated: | | | | |
| Land | \$ 1,234,600 | - | - | 1,234,600 |
| Construction in progress | - | 25,123 | - | 25,123 |
| | <u>1,234,600</u> | <u>25,123</u> | <u>-</u> | <u>1,259,723</u> |
| Depreciable capital assets: | | | | |
| Buildings and improvements | 49,934,002 | 438,248 | (20,350) | 50,351,900 |
| Furniture and equipment | 1,011,594 | 9,520 | (14,795) | 1,006,319 |
| | <u>50,945,596</u> | <u>447,768</u> | <u>(35,145)</u> | <u>51,358,219</u> |
| Accumulated depreciation | <u>(16,641,749)</u> | <u>(1,402,319)</u> | <u>35,145</u> | <u>(18,008,923)</u> |
| Total capital assets being depreciated, net | <u>34,303,847</u> | <u>(954,551)</u> | <u>-</u> | <u>33,349,296</u> |
| Total capital assets, net | <u>\$ 35,538,447</u> | <u>(929,428)</u> | <u>-</u> | <u>34,609,019</u> |

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, 2018 and bears interest at the rate of 3.75%. At December 31, 2017, SCIDpda had outstanding borrowings of \$25,000.

| | Balance January 1, 2017 | Additions | Payments | Balance December 31, 2017 |
|----------------|----------------------------|-----------|-----------|------------------------------|
| Line of Credit | 265,000 | - | (240,000) | 25,000 |

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. At December 31, 2017, SCIDpda had an outstanding balance of \$0 and the loan has been repaid in full.

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

Long-term debt as of December 31, 2017, 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. | 33,909 | 716,210 | 750,119 |
| 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. | 95,000 | 1,153,000 | 1,248,000 |
| <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. | 27,950 | 990,590 | 1,018,540 |
| 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 |
| 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. | - | 952,384 | 952,384 |
| Note payable to the City of Seattle. The loan bears interest between 1.75% and 4% and requires periodic payments of principal and interest as outlined in the note agreement. The note is due in full by November 1, 2026. The note is secured by a deed of trust on the IDVS1. | 425,000 | 3,860,000 | 4,285,000 |
| <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 Heritage Bank. The loan bears interest of 4.6%, payable in monthly installments of \$4,812 including principal and interest. The loan is secured by a deed of trust on the IDVS2 property, and is due in full by November 20, 2022. | 23,356 | 724,707 | 748,063 |
| 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. | 150,000 | 3,850,000 | 4,000,000 |

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. | 44,332 | 1,308,214 | 1,352,546 |
| <u>NC Hotel LLC</u> | | | |
| Note payable to WellsFargo 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. | 84,226 | 3,265,548 | 3,349,774 |
| <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. | 39,988 | 317,747 | 357,735 |
| 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. | 16,724 | 243,078 | 259,802 |
| \$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. | 24,957 | 500,026 | 524,983 |
| 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 |
| <u>Bush Commercial</u> | | | |
| Note payable to SCIDpda Bush Hotel QALICB for Elevator Repair, payable out of available cash flow with 0% interest accruing. | 19,010 | - | 19,010 |
| Totals | \$ 984,452 | 26,904,790 | 27,889,242 |

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:

| Years | Notes Payable | Total Interest |
|-------------|----------------------|-------------------|
| 2018 | \$ 984,452 | 546,583 |
| 2019 | 1,045,996 | 510,776 |
| 2020 | 1,084,307 | 473,058 |
| 2021 | 1,924,960 | 442,805 |
| 2022 | 1,696,877 | 381,247 |
| 2023 - 2027 | 7,903,685 | 1,093,346 |
| 2028 - 2032 | 2,244,680 | 244,864 |
| 2033 - 2037 | 5,607,278 | 960,832 |
| 2038 - 2042 | 543,658 | 29,011 |
| 2043 - 2047 | 1,905,589 | 675,064 |
| 2048 - 2052 | 2,314,353 | 1,289,330 |
| 2053 - 2057 | 633,407 | 6,646,916 |
| 2058 - 2062 | - | - |
| | <u>\$ 27,889,242</u> | <u>13,293,832</u> |

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

| | Balance January 1, 2017 | Proceeds | Assignments and Repayments | Balance December 31, 2017 |
|---------------------------------|----------------------------|------------------|----------------------------------|---------------------------------|
| Notes payable | \$ 25,164,341 | 5,054,010 | (2,329,109) | 27,889,242 |
| Special Obligation Bonds - 2007 | 4,730,000 | - | (4,730,000) | - |
| | <u>\$ 29,894,341</u> | <u>5,054,010</u> | <u>(7,059,109)</u> | <u>27,889,242</u> |

Special Obligation Refunding Bonds, Series 2007

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. Starting in 2018 annual debt service ranges from \$517,900 to \$525,000 in 2026 when the loan will be paid in full. The Bonds bear interest at rates of 2.0% to 5.0%. Deferred inflows of resources of \$40,968 were recorded to reflect premiums passed on to SCIDpda in conjunction with the bond refunding.

NOTE 10 – TENANT SECURITY DEPOSITS

Security deposits and trust funds at December 31, 2017 consisted of tenant Residential and Commercial Lease Deposits for the properties owned and managed by SCIDpda.

These notes are an integral part of the financial statements.

**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, 2017, the SCIDpda has entered into numerous separate lease agreements with terms ranging from \$411 per month to \$60,957 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:

| | BH Commercial | IDVSI | IDVS2 Com | IDVS2LP | NCC | Total |
|------------|---------------------|------------------|----------------|------------------|----------------|-------------------|
| 2018 | \$ 246,907 | 874,987 | 122,952 | 194,924 | 148,754 | 1,588,524 |
| 2019 | 182,483 | 877,533 | 123,554 | 92,382 | 120,627 | 1,396,579 |
| 2020 | 165,716 | 891,280 | 113,332 | 93,767 | 104,317 | 1,368,412 |
| 2021 | 166,536 | 877,466 | 111,816 | 95,174 | 90,285 | 1,341,277 |
| 2022 | 159,136 | 902,478 | 94,836 | 96,602 | 58,710 | 1,311,762 |
| Thereafter | 486,472 | 974,240 | 234,840 | 1,278,698 | 151,035 | 3,125,285 |
| | <u>\$ 1,407,250</u> | <u>5,397,984</u> | <u>801,330</u> | <u>1,851,547</u> | <u>673,728</u> | <u>10,131,839</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, 2017, for the years ending December 31 are:

| | |
|------------|-------------------|
| 2018 | \$ 11,400 |
| 2019 | 11,400 |
| 2020 | 11,400 |
| 2021 | 11,400 |
| 2022 | 11,400 |
| Thereafter | <u>91,200</u> |
| | <u>\$ 148,200</u> |

Rent expense for 2017 for the above leases was \$49,034.

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.

These notes are an integral part of the financial statements.

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

NOTE 11 - COMMITMENTS AND CONTINGENCIES (continued)

Other Commitments and Contingencies (continued)

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 was \$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. Total estimated future payments under the agreement were \$1,054,650 which had been discounted to the present value of the estimated future minimum payments required under the Settlement Agreement. During 2017 SCIDpda entered into an agreement to liquidate the Settlement Agreement for a total payment of \$778,100.

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. 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 2017.

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

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 2017, SCIDpda recorded \$263,613 in support from the CIDPDA.

In 2016, CIDPDA acquired sole ownership of Bush Hotel Manager, Inc. from SCIDpda, and began consolidating Bush Hotel Manager, Inc. into their financial statements. Bush Hotel Manager, Inc. accounts payable included payables to SCIDpda totaling \$53,488, and has a note receivable from SCIDpda for \$49,059 which accrues interest of 8% per annum, payable out of annual cash flows as defined in the Operating Agreement.

Bush Hotel Manager, Inc. holds 57% ownership in SCIDPDA Bush Hotel QALICB LLC (QALICB LLC). SCIDPDA's 43% ownership interest in the QALICB LLC is held by SCIDpda Bush Hotel Master Tenant, LLC, established as part of the New Market Tax Credit (NMTC) financing. The QALICB LLC is consolidated into Bush Hotel Manager, Inc. financial statements. The minority interest in the QALICB LLC is shown as restricted for minority interest in the summarized discretely presented component unit statement of net position below.

SCIDpda Bush Hotel Master Tenant, LLC has executed a lease agreement for the commercial condominium of the Bush Hotel from the QALICB LLC. Rent income included in CIDPDA consolidated financial statements was \$441,852 in 2017, and deferred rent receivable from Bush Hotel Master Tenant, LLC as of December 31, 2017 was \$842,779. 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.

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 \$1,536,417 as of December 31, 2017.

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 \$2,750,000 as of December 31, 2017.

**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, 2017:

| | CIDPDA | Total |
|---|-----------|-----------|
| Current assets: | | |
| Cash and cash equivalents | 181,220 | 181,220 |
| Investments | - | - |
| Restricted cash and investments | - | - |
| Accounts receivable | 54,513 | 54,513 |
| Prepaid expenses and deposits | 3,978 | 3,978 |
| Total current assets | 239,711 | 239,711 |
| Noncurrent assets: | | |
| Restricted cash and investments | 110,597 | 110,597 |
| Capital assets, net | 5,682,837 | 5,682,837 |
| Capitalized costs, net | - | - |
| Other noncurrent assets | 861,789 | 861,789 |
| Total noncurrent assets | 6,655,223 | 6,655,223 |
| Total assets | 6,894,934 | 6,894,934 |
| Current liabilities: | | |
| Current portion of long-term debt | - | - |
| Accounts payable | 36,210 | 36,210 |
| Accrued liabilities | 103,488 | 103,488 |
| Deposits and trust funds | - | - |
| Deferred revenue | - | - |
| Total current liabilities | 139,698 | 139,698 |
| Long-term liabilities: | | |
| Accrued liabilities | - | - |
| Long-term debt, net of current portion | 4,286,417 | 4,286,417 |
| Total long-term liabilities | 4,286,417 | 4,286,417 |
| Total liabilities | 4,426,115 | 4,426,115 |
| Net position: | | |
| Invested in capital assets, net of debt | 3,769 | 3,769 |
| Restricted for minority interest | 2,455,461 | 2,455,461 |
| Restricted | 299 | 299 |
| Unrestricted | 9,290 | 9,290 |
| Total net position | 2,468,819 | 2,468,819 |
| Total liabilities and net position | 6,894,934 | 6,894,934 |

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, 2017:

| | CIDPDA | Total |
|--|-----------|-----------|
| Operating revenues: | | |
| Service agreements | - | - |
| Rental income | 441,852 | 441,852 |
| Other | - | - |
| Total operating revenues | 441,852 | 441,852 |
| Operating expenses: | | |
| Rental operations | - | - |
| General administration | 67,537 | 67,537 |
| Depreciation and amortization | 179,238 | 179,238 |
| Total operating expenses | 246,775 | 246,775 |
| Operating income (loss) | 195,077 | 195,077 |
| Nonoperating revenues (expenses): | | |
| Contributions and grants - operational support | 311,258 | 311,258 |
| Contributions and grants - operational support | (263,613) | (263,613) |
| Interest income | 3,681 | 3,681 |
| Interest expense | (196,727) | (196,727) |
| Other | (116,740) | (116,740) |
| Total nonoperating revenues (expenses), net | (262,141) | (262,141) |
| Contributions: | | |
| Contributions - capital projects | - | - |
| Partner and member capital contributions | - | - |
| Total contributions | - | - |
| Change in net position | (67,064) | (67,064) |
| Net position, beginning of year | 2,535,883 | 2,535,883 |
| Change in component unit | - | - |
| Net position, end of year | 2,468,819 | 2,468,819 |

These notes are an integral part of the financial statements.

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

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 | IDV52 Family Housing | BH Fund | NC Master Tenant LLC | BH Master Tenant LLC |
| Assets: | | | | | | | | | |
| Current assets | \$ 81,736 | 621,004 | 176,787 | 101,340 | 33,038 | 1,143,668 | 249,197 | 44,575 | 360,310 |
| Capital assets, net | 26,784 | 4,584,078 | 52,884 | 14,624 | - | 9,530,222 | - | - | 6,096,509 |
| Other assets | (76,062) | - | (120,450) | (149,616) | 104,174 | 69,000 | 6,288,651 | 2,299,360 | 588,139 |
| Total assets | \$ 32,458 | 5,205,082 | 109,221 | (33,652) | 137,212 | 10,742,890 | 6,537,848 | 2,343,935 | 7,044,958 |
| Liabilities | | | | | | | | | |
| Current liabilities | \$ 1,444,794 | 533,716 | 86,986 | 78,668 | - | 878,855 | 2,640,838 | - | 24,896 |
| Noncurrent liabilities | 19,010 | 4,270,570 | - | - | - | 8,015,942 | 1,153,001 | - | 3,349,774 |
| Total liabilities | 1,463,804 | 4,804,286 | 86,986 | 78,668 | - | 8,894,797 | 3,793,839 | - | 3,374,670 |
| Net Position | | | | | | | | | |
| Invested in capital assets, net of related debt | 7,774 | 231,839 | 52,884 | 14,624 | - | 1,374,948 | (1,248,001) | - | 2,746,735 |
| Restricted | 29,113 | 507,632 | 102,231 | 23,230 | - | 519,303 | 39,583 | - | 34,675 |
| Unrestricted | (1,468,223) | (338,675) | (132,880) | (150,174) | 137,211 | (46,158) | 3,952,427 | 2,343,935 | 888,878 |
| Total net position | (1,431,346) | 400,796 | 22,235 | (112,320) | 137,211 | 1,848,093 | 2,744,009 | 2,343,935 | 3,670,288 |
| Total liabilities and net position | \$ 32,458 | 5,205,082 | 109,221 | (33,652) | 137,211 | 10,742,890 | 6,537,848 | 2,343,935 | 7,044,958 |

| | 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 | BH Master Tenant LLC |
| Operating revenues | \$ 479,604 | 695,346 | 448,398 | 335,003 | 20,498 | 848,017 | - | 19,695 | 33,390 |
| Operating expenses: | (579,142) | (398,788) | (367,050) | (316,530) | (1,046) | (463,454) | (740) | (21,229) | 316,823 |
| Depreciation and amortization | (2,562) | (126,843) | (2,667) | (1,932) | - | (322,201) | - | - | (156,305) |
| Operating income (loss) | (102,100) | 169,715 | 78,681 | 16,541 | 19,452 | 62,362 | (740) | (1,534) | 193,908 |
| Nonoperating revenues (expenses): | | | | | | | | | |
| Interest income | 5 | 701 | 88 | 7 | - | 92 | 196,727 | - | 189 |
| Interest expense | - | (19,406) | - | - | - | (180,713) | (94,204) | - | (153,904) |
| Nonoperating revenues (expenses) | 5 | (18,705) | 88 | 7 | - | (180,621) | 102,523 | - | (153,715) |
| Change in net position | (102,095) | 151,010 | 78,769 | 16,548 | 19,452 | (18,259) | 101,783 | (1,534) | 40,193 |
| Net position, beginning of year | (1,329,251) | 249,786 | 62,324 | (128,868) | 117,759 | 1,966,352 | 2,642,226 | 2,345,469 | 3,630,095 |
| Distribution | - | - | (118,858) | - | - | - | - | - | - |
| Net position, end of year | \$ (1,431,346) | 400,796 | 22,235 | (112,320) | 137,211 | 1,848,093 | 2,744,009 | 2,343,935 | 3,670,288 |

| | Condensed Statement of Cash Flows | | | | | | | | |
|---|-----------------------------------|------------------|------------------------|------------------------|---------------------|----------------------|---------|----------------------|----------------------|
| | Bush Hotel Commercial | Bush Residential | New Central Apartments | New Central Commercial | New Central Manager | IDV52 Family Housing | BH Fund | NC Master Tenant LLC | BH Master Tenant LLC |
| Net Cash Provided by (Used in) | | | | | | | | | |
| Operating activities | \$ 71,312 | (49,308) | 204,377 | 40,816 | (1,046) | 140,637 | 926 | 11,926 | 241,955 |
| Nonoperating activities | 5 | (18,705) | 88 | 7 | - | (180,621) | 102,523 | - | (153,715) |
| Investing activities | (31,663) | (74,586) | (230,266) | (15,958) | - | (14,114) | (1,667) | - | 3,711 |
| Net increase (decrease) in cash and equivalents | 39,654 | (142,599) | (25,801) | 24,865 | (1,046) | (54,098) | 101,782 | 11,926 | 91,951 |
| Cash and Cash equivalents at January 1 | 3,248 | 253,090 | 100,142 | 20,011 | 34,084 | 262,780 | 107,832 | 32,649 | 230,562 |
| Cash and Cash equivalents at December 31 | \$ 42,902 | 110,491 | 74,341 | 44,876 | 33,038 | 208,682 | 209,614 | 44,575 | 322,513 |

These notes are an integral part of the financial statements.

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

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 2017. 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

SCIDpda was named in one pending lawsuit and has turned these matters over to the Authority's insurance carrier who is working to resolve them. SCIDpda has not accrued any expenses related to these lawsuits as there is no expectation of loss.

On May 7, 2018, the lease between SCIDPDA Bush Hotel QALICB LLC and SCIDpda blended component unit, SCIDpda Bush Hotel Master Tenant, LLC, was terminated, and SCIDPDA Bush Hotel QALICB LLC entered into a lease agreement with blended component unit SCIDPDA Bush Hotel Commercial, a nonprofit corporation. Under the terms of the lease agreement, SCIDPDA Bush Hotel Commercial has agreed to lease property from the QALICB LLC through March 31, 2028, for a monthly base rent of \$32,250, increasing annually per the terms of the agreement, and reimbursement of operating expenses, as defined in the lease agreement.

On May 7, 2018, SCIDpda notes receivable from SCIDPDA Bush Hotel QALICB LLC were paid in full.

On May 17, 2018, SCIDpda blended component units Renaissance Finance VII Investment Fund, LLC, and SCIDpda Bush Hotel Master Tenant, LLC were dissolved, and the ownership interest in SCIDPDA Bush Hotel QALICB LLC previously held by SCIDpda Bush Hotel Master Tenant, LLC was transferred to the SCIDpda.

Subsequent events have been evaluated through August 14, 2018, which is the date the financial statements were available to be issued.

SEATTLE CHINATOWN INTERNATIONAL DISTRICT PRESERVATION AND DEVELOPMENT AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended December 31, 2017

| Federal Agency Name / Pass Through Agency | Federal Program Title | CFDA Number | Other Identification Number | Expenditures | | | Total | Passed through to Subrecipients | Footnote |
|---|--|-------------|-----------------------------|-------------------|---------------------|--------------------------|---------------------|---------------------------------|----------------|
| | | | | Direct Awards | Pass Through Awards | Loan Balance Outstanding | | | |
| US Dept of Agriculture | | | | | | | | | |
| WA State OSP1 | Child & Adult Care Food Program | 10.558 | 17-06-0914 | - | 55,341 | - | 55,341 | | |
| 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 | DA16-1568 | - | 143,446 | - | 143,446 | | |
| City of Seattle Human Services Dept | Title III-E Family Caregiver - July - December | 93.052 | DA17-1263 | - | 904 | - | 904 | | |
| City of Seattle Human Services Dept | Special Programs for the Aging Title III, Part D Disease Prevention | 93.053 | DA15-1568 | - | 19,209 | - | 19,209 | | |
| | Subtotal US Dept of Health & Human Services - Aging Cluster | | | - | 163,559 | - | 163,559 | | |
| US Dept of HUD | | | | | | | | | |
| | Section 8 Housing Assistance Payments Program | 14.195 | WA19A001004 | 372,314 | - | - | 372,314 | | |
| | Section 8 Housing Assistance Payments Program | 14.195 | WA19A001001 | 123,048 | - | - | 123,048 | | |
| | Section 8 Housing Assistance Payments Program | 14.195 | N/A | - | 59,432 | - | 59,432 | | 4 |
| | Section 8 Housing Assistance Payments Program | 14.195 | N/A | - | 8,737 | - | 8,737 | | 4 |
| | Section 8 Housing Assistance Payments Program | 14.195 | N/A | - | 175,481 | - | 175,481 | | 4 |
| | Subtotal CFDA #14.195 | | | 495,362 | 243,650 | - | 739,012 | | * |
| City of Seattle - CDBG Loan | Community Dev. Block Grant Program for Entitlement Communities | 14.218 | DL87CDBG | - | - | 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 | DL05288B | - | - | 672,920 | 672,920 | | |
| City of Seattle Housing & Human Services Dept. | Urban Development Action Grant | 14.218 | DIR UDAG-86 | - | - | 259,801 | 259,801 | | |
| 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 | DA172139 | - | 135,000 | - | 135,000 | | |
| City of Seattle OED - Only in Seattle Initiative Grant | Community Dev. Block Grant Program for Entitlement Communities | 14.218 | DA162163 | - | 34,015 | - | 34,015 | | |
| City of Seattle OED | Community Dev. Block Grant Program for Entitlement Communities | 14.218 | DA172111 | - | 92,257 | - | 92,257 | | 92,257 |
| City of Seattle OED | Community Dev. Block Grant Program for Entitlement Communities | 14.218 | DA162107 | - | 22,382 | - | 22,382 | | 22,382 |
| City of Seattle OED - Only in Seattle Initiative - Facade | Community Dev. Block Grant Program for Entitlement Communities | 14.218 | DA172139 | - | 3,811 | - | 3,811 | | - |
| | Subtotal CFDA #14.218 | | | - | 287,465 | 1,873,229 | 2,160,694 | | 114,639 |
| 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) | | | - | 287,465 | 2,069,229 | 2,356,694 | | 114,639 |
| LISC | HUD SEC 4 FY 2015 | 14.252 | 40843-0044 | - | 41,091 | - | 41,091 | | |
| Enterprise Community Partners, Inc. | Capacity Building for Community Dev. & Affordable Housing | 14.252 | 16SG0475 | - | 17,601 | - | 17,601 | | |
| | Subtotal CFDA #14.252 | | | - | 58,692 | - | 58,692 | | |
| | Subtotal US Dept of HUD | | | 495,362 | 589,807 | 2,069,229 | 3,154,398 | | 114,639 |
| U.S. Dept of Transportation | | | | | | | | | |
| City of Seattle - OED | Highway Planning and Construction | 20.205 | NA | - | 5,000 | - | 5,000 | | |
| National Endowment for the Arts | | | | | | | | | |
| | Promotion of the Arts, Design - Our Town | 45.024 | 15-4292-7066 | 43,000 | - | - | 43,000 | | |
| | Total Expenditures of Federal Awards | | | \$ 538,362 | \$ 813,707 | \$ 2,069,229 | \$ 3,421,238 | | 114,639 |

* 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, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of 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, 2017. 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 | 259,801 |
| City of Seattle - CDBG Loan | Community Development Block Grant Program | 14.253 | 196,000 |
| | | | 2,069,229 |

**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 the 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, 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated August 14, 2018.

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, Neill & Company, P.S.

August 14, 2018
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, 2017. 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.

Opinion on Each Major Federal Program

In our opinion, 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 each of its major federal programs for the year ended December 31, 2017.

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

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.

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.

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

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

Finney, Hill & Company, P.S.

August 14, 2018
Seattle, Washington

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

Schedule of Findings and Questioned Costs
For the year ended December 31, 2017

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?

_____ yes X no

• Significant deficiency(ies) identified that are not considered to be material weaknesses?

_____ yes X none reported

Noncompliance material to financial statements noted?

_____ yes X no

Federal Awards

Internal control over major programs:

• Material weakness(es) identified?

_____ yes X no

• Significant deficiency(ies) identified that are not considered to be material weaknesses?

_____ yes X none reported

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

Unmodified

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

_____ yes X no

Identification of major programs:

- 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.

Section III – Federal Award Findings and Questioned Costs

No matters were reported.

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

Reference Number: 2016 – 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 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.

Current Status: Corrective action has been taken and the finding is closed.