

Washington State Auditor's Office
Financial Statements Audit Report

Seattle Indian Services Commission
King County

Audit Period
July 1, 2011 through June 30, 2012

Report No. 1010848

Issue Date
December 16, 2013



WASHINGTON
TROY KELLEY
STATE AUDITOR



**Washington State Auditor
Troy Kelley**

December 16, 2013

Board of Commissioners
Seattle Indian Services Commission
Seattle, Washington

Report on Financial Statements

Please find attached our report on the Seattle Indian Services Commission's financial statements.

We are issuing this report in order to provide information on the Commission's financial condition.

Sincerely,

TROY KELLEY
STATE AUDITOR

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King County
July 1, 2011 through June 30, 2012**

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Schedule of Audit Findings and Responses

Seattle Indian Services Commission King County July 1, 2011 through June 30, 2012

1. The Seattle Indian Services Commission was not able to issue timely and accurate annual financial reports.

Background

It is the responsibility of Commission Board to design and follow internal controls that provide reasonable assurance regarding the reliability of financial reporting. Our audit identified a significant deficiency in controls that adversely affect the Commission's ability to produce reliable and timely financial statements.

The Seattle Indian Services Commission is required to issue annual financial statements to satisfy the requirements of its debt holders and its charter. During the audit period, the Commission had no employees and the City of Seattle, its oversight agency, was assisting with record keeping. Our audit of 2011 financial statements reported material weaknesses in internal control over financial reporting.

Description of Condition

Our audit of the 2012 financial statements identified a significant deficiency in internal controls over financial statement preparation.

Since 2009, the Board has not employed or contracted with qualified accountants to prepare and maintain accounting records or prepare accurate financial statements for the Commission.

As a result, in 2010, the City of Seattle, as the Commission's oversight agency, hired a bookkeeper to help with the Commission's accounting and arranged to assist in the preparation of the annual financial statements.

Cause of Condition

The Board did not dedicate the necessary resources or prioritize acquiring accounting assistance or establishing processes to prepare accounting records and to ensure accurate and timely financial reporting.

Effect of Condition

Despite the City's efforts, we determined that Commission's accounting records were incomplete and the financial statements contained errors. We evaluated those errors, proposed corrections, and determined the remaining uncorrected errors are not material.

The lack of dedicated accounting and financial reporting expertise increases the risk the Commission could make decisions based on inaccurate or incomplete financial information or mislead others relying on their financial reporting.

Recommendation

Although in 2013, the Commission has retained professional external accountants to address the condition described above, we recommend the Commission ensure it has dedicated assistance with adequate accounting expertise to maintain accurate and complete accounting records and can prepare timely financial reporting.

Commission's Response

The Commission thanks the auditors for their recommendation and review of our financial statements. The Commission has addressed the auditor's recommendation to dedicate the necessary resources to ensure accurate accounting by retaining the services of a Certified Public Accounting firm that will prepare all of the Commission's future financial statements starting with the fiscal year ending June 30, 2013.

Auditor's Remarks

We appreciate the Commission's commitment to resolve this finding and thank the Commission for its cooperation and assistance during the audit. We will review the corrective action taken during our next regular audit.

Applicable Laws and Regulations

When performing our audit we considered the following requirements:

RCW 43.09.200 states in part:

The state auditor shall formulate, prescribe, and install a system of accounting and reporting for all local governments, which shall be uniform for every public institution, and every public office, and every public account of the same class.

Budget Accounting and Reporting System (BARS) Manual - Part 3, Accounting, Chapter 1, Accounting Principles and General Procedures, Section B. Internal Control, states:

Internal control is a management process for keeping an entity on course in achieving its business objectives, as adopted by the governing body. This management control system should ensure that resources are guarded against waste, loss and misuse; that reliable data is obtained, maintained, and fairly disclosed in financial statement and other reports; and resource use is consistent with laws, regulations and policies. Each entity is responsible for establishing and maintaining an effective system of internal control throughout their government.

Government Auditing Standards, December 2011 Revision – Section 5.20 provides that auditors should report material weaknesses and significant deficiencies in internal control.

The American Institute of Certified Public Accountants, Statement on Auditing Standards No. 115 defines significant deficiencies and material weaknesses as follows:

- a. Significant deficiency: 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.
- b. Material weakness: 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.

American Institute of Certified Public Accountants Audit Guide: Government Auditing Standards and Circular A-133 Audits describes government auditing standards related to significant deficiencies reported by other auditors at Table 4-3 (AAG-SLA 4.47).

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Seattle Indian Services Commission King County July 1, 2011 through June 30, 2012

Board of Commissioners
Seattle Indian Services Commission
Seattle, Washington

We have audited, 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, the financial statements of the Seattle Indian Services Commission, King County, Washington, as of and for the year ended June 30, 2012, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated November 21, 2013.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be

material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Audit Findings and Responses as Finding 1 that we consider to be significant deficiencies.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Commission's financial statements are free from material misstatement, we performed tests of the Commission's 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.

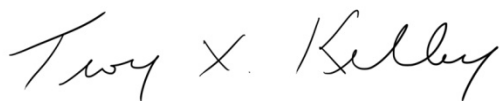
The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

COMMISSION'S RESPONSE TO FINDINGS

The Commission's response to the findings identified in our audit is described in the accompanying Schedule of Audit Findings and Responses. The Commission's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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 Commission'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 Commission's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



TROY KELLEY
STATE AUDITOR

November 21, 2013

Independent Auditor's Report on Financial Statements

Seattle Indian Services Commission King County July 1, 2011 through June 30, 2012

Board of Commissioners
Seattle Indian Services Commission
Seattle, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Seattle Indian Services Commission, King County, Washington, as of and for the year ended June 30, 2012, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed on page 8.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Commission'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 Commission's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Seattle Indian Services Commission, as of June 30, 2012, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

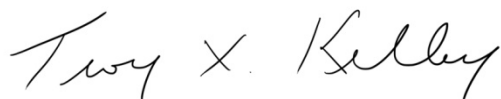
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 9 through 14 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2013 on our consideration of the Commission'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 Commission's internal control over financial reporting and compliance.



TROY KELLEY
STATE AUDITOR

November 21, 2013

Financial Section

Seattle Indian Services Commission King County July 1, 2011 through June 30, 2012

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2012

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2012

Statement of Revenues, Expenses and Changes in Net Position – 2012

Statement of Cash Flows – 2012

Notes to Financial Statements – 2012

Management's Discussion and Analysis

Seattle Indian Services Commission
For the Years Ending June 30, 2012 and 2011

This discussion and analysis of the financial performance of the Seattle Indian Services Commission ("Commission") presents a narrative overview and analysis of the financial activities for the years ending June 30, 2012 and 2011. The reader is encouraged to consider the information presented here in conjunction with the Commission's financial statements.

Overview of the Financial Statements

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

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

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

Financial Highlights

- Total net assets of the Commission as of June 30, 2012 and June 30, 2011, were \$5,275,970 and \$5,385,047 respectively. For purposes of this report, total net assets are reported in two major categories. The first category "current assets" consists of cash & cash equivalents, accounts receivable and the inventory associated with the Commission-operated Traditions & Beyond gift shop. The second category "fixed & other assets" consists of property and equipment owned by the Commission, net of accumulated depreciation, and "restricted net assets." Restricted net assets have external limitations on the way they may be used (funds held by paying agents for the purpose of making payments on the Commission's outstanding bond debt).
- Total liabilities of the Commission as of June 30, 2012 and June 30, 2011, were \$6,148,097 and \$6,758,851 respectively, and included current and long-term liabilities. Current liabilities include accounts payable, current portions of long-term debt. Non-current (or long-term) liabilities are made up of the long-term portion of bond debt on the Leschi Center and the Pearl Warren Building.

- The Commission's total operating revenues for the period ending June 30, 2012, were \$1,140,372. This represented an increase of \$14,159 over the period ending June 30, 2011.
- Total operating expenses were \$638,695 for the period ending June 30, 2012. This represents a decrease of \$59,163 from the period of June 30, 2011. The decreases in operating expenses were mainly attributed to reduction in building-related costs and interest payments on the Commission's long-term bond debt.
- Total building costs (Leschi Center & Pearl Warren Building) decreased by \$26,576 to \$142,935 for the period ending June 30, 2012. This represented a continued a downward trend in Commission spending on property maintenance.
- Total operating income was \$501,678 for the period ending June 30, 2012. This represented an increase of \$73,322 over the period ending June 30, 2011. The increase in operating income is mainly associated with the drop in operating expenses associated with reduced interest payments on its outstanding bond debt.

Financial Analysis of the Commission

The Commission's condensed financials for the years ending June 30, 2012 and June 30, 2011 are presented as follows:

Condensed Statement of Net Position

	2012	2011
Other Assets	\$ 1,066,672	\$ 988,332
Capital Assets	4,209,298	4,386,716
Total Assets	5,275,970	5,375,047
Current Liabilities & Principal due to Long Term Debt	617,126	662,880
Long-Term Liabilities	5,550,971	6,095,971
Total Liabilities	6,168,097	6,758,851
Invested in capital assets, net of related debt	(1,886,672)	(2,234,255)
Restricted for repayment of debt – Held by paying agent	885,233	807,652
Unrestricted	109,312	52,799
Total Net Position (deficit)	(827,127)	(1,373,804)
Total liabilities and net assets	\$ 5,275,970	\$ 5,385,047

For the period ending June 30, 2012, the Commission's total liabilities exceed its total assets by \$827,127. This is an improvement of \$546,677 over the same period ending June 30, 2011, and is due to payment on the Commission's long-term bond liabilities on the Leschi Center and Pearl Warren Building.

From June 30, 2011 to June 30, 2012, the Commission's cash and cash equivalents dropped by \$58,877 from \$149,213 to \$90,336, respectively. This was due in large part on the failure to collect full amounts for rent and common costs from a tenant in the Leschi Center (Seattle Indian Center).

Condensed Statement of Revenues, Expenses and Changes in Net Position

	2012	2011
Rental Income	\$ 1,003,714	\$ 929,069
Other Income	136,658	197,272
Total Revenue	1,140,372	1,126,341
Operating Expenses	461,276	518,796
Depreciation	177,418	179,063
Total Operating Expenses	638,695	697,858
Operating Income	501,677	428,483
Non-Operating Revenues (Expenses)		
Other Revenue (Expenses)	(12,046)	(21,337)
Net Non-Operating Expenses	(12,046)	(21,337)
Change in Net Position	489,631	407,146
Total Net Position, Beginning of Period	(1,448,585)	(1,885,731)
Total Net Position, End of Period	\$ (958,954)	\$ (1,448,585)

The Commission's total revenues increased by \$14,056 from the prior year to \$1,140,372, while total operating expenses decreased by \$59,164 to \$638,694. The decrease in operating expenses can be attributed to a reduction in depreciation-related expenses and further deferral of maintenance-related expenses on the Commission's properties (Leschi Center and Pearl Warren Building).

Revenues are derived from several sources with approximately 88.04% received as direct rent from tenants, 11.3% paid by tenants to cover common costs associated with utilities/maintenance, and .66% from other sources. There were no reported sales by the Commission-operated Traditions & Beyond Craft Shop.

The Commission's most significant expenses are bond payments and common costs associated with its properties (this includes contract maintenance services).

Net position and changes in net position may be used as a measure of the financial health of an organization. During the period ending June 30, 2012, the Commission's net position increased by \$489,632, an increase of \$82,486 over the same period ending June 30, 2011. This increase is due primarily due to Commission's continued downward trend in spending on property maintenance and reduction in depreciation-related expenses.

Capital Assets and Debt Administration

Capital assets

Detailed information regarding the Commission's capital assets may be found in Note 4 to the financial statements. The following table summarizes the changes in capital assets between the reporting periods ending June 30, 2011 and June 30, 2012:

	June 30, 2011	June 30, 2012	Net Change
Land	\$ 2,963,334	\$ 2,963,334	\$ 0
Building and improvements	4,587,087	4,587,087	0
Community tech lab equipment	89,679	89,679	0
Furniture and fixtures	43,155	43,155	0
Roof replacement & other	265,386	265,386	0
Totals	7,948,640	7,948,640	0
Less Accumulated depreciation	(3,561,924)	(3,739,342)	(177,418)
Capital assets, net	\$ 4,386,716	\$ 4,209,298	\$ (177,418)

The Commission's two main capital assets consist of:

- Leschi Center, which is occupied by the Seattle Indian Health Board and Seattle Indian Center; and
- Pearl Warren Building, which is occupied by the Seattle Indian Health Board and the Commission's administrative offices, training rooms, and Traditions & Beyond Craft Shop.

Other Assets

	June 30, 2011	June 30, 2012	Net Change
Cash and cash equivalents	\$ 149,213	\$ 90,973	\$ (58,240)
Accounts receivable – Due from SIC	28,030	77,666	49,636
Inventory – Traditions & Beyond	13,436	13,436	0
Restricted Assets – held by paying agents	807,652	885,233	77,582
Total	\$ 998,331	\$ 1,066,672	\$ 68,341

Cash and Cash Equivalents decreased by \$58,240 to \$90,973 during the period ending June 30, 2012, while accounts receivable (rent due from Seattle Indian Center) increased by \$49,636 to \$77,666 during the same period.

Restricted assets, those held by paying agents, increased by \$77,582 to \$885,233 during the period ending June 30, 2012. Restricted assets are used by the Commission's paying agents (U.S. Bank and Bank of New York) to make the twice yearly payments of principal and interest on the Commission's outstanding bonds.

Other assets increased by \$68,341 to \$1,066,672 during the period ending June 30, 2012.

Long-Term Liabilities

Detailed information detailing the Commission's long-term liabilities may be found in Note 3 to the financial statements. The following table summarizes the changes in the Commission's long-term liabilities between the periods ending June 30, 2011 and June 30, 2012:

	June 30, 2011	June 30, 2012	Net Change
Bonds Payable – 2002 Leschi Ctr.	\$ 1,910,000	\$ 1,625,000	\$ (275,000)
Bonds Payable – 2004 Pearl Warren	4,335,000	4,075,000	(250,000)
Deferred Loss Refund – 2002 Leschi Ctr.	(76,779)	(76,779)	0
Deferred Loss Refund – 2004 Pearl Warren	(142,196)	(142,196)	0
Acc. Mortgage Bond Costs – 2002 Leschi Ctr.	36,131	36,131	0
Acc. Mortgage Bond Costs – 2004 Pearl Warren	33,814	33,814	0
Total	\$ 6,095,970	\$ 5,570,970	\$ (525,000)

The Commission's real estate activity is financed, in part, by long-term debt secured by real estate (Leschi Center and Pearl Warren Building). The bonds issued for the construction of the Commission's property are guaranteed by the City of Seattle. The Commission had \$5,570,970 of outstanding bond debt as of June 30, 2012. The components of the bond debt consisted of \$1,625,000 on the Leschi Center and \$4,075,000 on the Pearl Warren Building.

Economic Factors and Future Outlook

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

- The Commission's continued failure to address the water intrusion problems at the Pearl Warren Building (since 1995), has resulted in the sole rent paying tenant providing notice that it intends to vacate the property unless the conditions are addressed. Loss of that tenant would result in the Commission's inability to meet its bond debt obligation. This would require the City of Seattle to intervene and make the bond payments as required under a cooperation agreement between the City of Seattle and Commission.
- The Commission's inactivity in regards to collection of past due rental income from a tenant in the Leschi Center. During the reporting period, past due rent increased by \$49,637 to a total of \$77,666 during this reporting period. The resultant loss of revenue hampers the Commission's ability to address necessary building repairs and the hiring of needed professional staff.
- In April 2012, the City of Seattle filed a petition with the Superior Court for King County, Washington to appoint a trustee over the affairs of the Commission. The petition for trusteeship was in response the Commission's failure to address the water intrusion problems at the Pearl Warren Building, and continued threat of a loss of the sole rent paying tenant in the facility. The City of Seattle subsequently moved to have the petition for trusteeship dismissed.

The City of Seattle subsequently moved to directly intervene in the Commission's activities and is working to address the Commission's financial and management issues.

Requests for Information

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

Seattle Indian Services Commission
606 12th Avenue South
Seattle, WA 98144
(206) 329-6594

SEATTLE INDIAN SERVICES COMMISSION

Statement of Net Position For the Year Ending June 30, 2012

ASSETS

Current Assets		
Cash and cash equivalents	\$	90,336
Accounts Receivable - Due from the SIC Leschi		77,666
Inventory - Traditions & Beyond		13,436
Prepaid Expenses		0
Total Current Assets		181,439
Fixed and Other Assets		
Property & Equipment, net of accumulated depreciation		4,209,298
Restricted Assets - Funds held by paying agents		885,234
Total Fixed and Other Assets		5,094,531
TOTAL ASSETS	\$	5,275,970

LIABILITIES & NET ASSETS (DEFICIT)

Liabilities

Current Liabilities		
Accounts Payable	\$	7,967
Accrued Interest Payable		44,158
Salaries Taxes Benefits Payable		0
Other Current Liabilities		0
Current Portion of Long Term Debt		
Principal amount due on future bond debt - liability (FY 2013)		565,000
Total Current and Future Liabilities		617,126
Long Term Liabilities		
Bonds Payable		
2802.00 Bonds Pay. 2002 Leschi		1,625,000
2803.00 Bonds Pay. 2004 Pearl		4,075,000
2850.00 Deferred Loss Refund 02		(76,779)
2851.00 Accu Mort Bond Costs 02		36,131
2860.00 Deferred Loss Refund 04		(142,196)
2861.00 Accu Mort Bond Costs 04		33,814
Total Bonds Payable		5,550,971
Total Long Term Liabilities		5,550,971
TOTAL LIABILITIES		6,168,097

NET POSITION (Deficit)

Invested in capital assets, net of related debt	(1,886,672)
Restricted (Held by paying agents for repayment of debt)	885,233
Unrestricted	109,312
Total Net Position (deficit)	(892,127)
Total liabilities and net assets (deficit)	\$ 5,275,970

The accompanying notes are an integral part of this financial statement

SEATTLE INDIAN SERVICES COMMISSION**Statements of Revenues, Expenses and
Changes in Net Position
For the Year Ending June 30, 2012****OPERATING REVENUES**

Rental income	\$	1,003,714
Tenant common costs reimbursement		128,951
Community space rental - Pearl Warren Bldg		4,854
Other income - Late Fees		2,750
Investment Income		103
Traditions & Beyond (T&B) - Net Sales		0
Total operating revenues		<u>1,140,372</u>

OPERATING EXPENSES

Building costs		
Total building costs - Leschi		54,107
Total building costs- Pearl Warren		88,828
Total building costs		<u>142,935</u>
Administration		
Administrative salaries, taxes and benefits		20
Professional fees		36,078
Admin. office/program expenses		5,559
SISC board expenses		289
Loss on write down of inventory		0
Interest & service charges on bonds payable		275,767
Depreciation expense		177,418
Operating expenses - Traditions & Beyond		629
Options program		0
Total operating expenses		<u>638,695</u>
Operating income (loss)		501,677

NONOPERATING REVENUE (EXPENSES)

Amortization on deferred bond costs		<u>(12,046)</u>
Net nonoperating expenses		<u>(12,046)</u>
Extraordinary Items		
Impairment loss - Pearl Warren Bldg		0
Total nonoper. revenue & extraordinary items (expenses), net		<u>(12,046)</u>
Change in net position (deficit)		489,631
Total Net Position, beginning of year		<u>(1,448,585)</u>
Total Net Position, end of year	\$	<u><u>(958,954)</u></u>

The accompanying notes are an integral part of this financial statement

SEATTLE INDIAN SERVICES COMMISSION

Statement of Cash Flows For the Year Ending June 30, 2012

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from tenants	\$ 1,090,633
Cash received from Traditions & Beyond sales	0
Cash received from rent of community space	4,854
Cash paid on bond interest & charges	(275,767)
Cash paid to employees for services	(20)
Cash paid to vendors for goods and services	(180,204)
Net cash provided (used) by operating activities	<u>639,497</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of investment securities by paying agents	(844,012)
Proceeds from sale and maturities of investment securities held by paying agents	885,234
Decrease (increase) in cash held by paying agents	(77,582)
Income received on investments	103
Cash provided (used) by investment activities	<u>(36,256)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Grants	<u>0</u>
Cash provided (used) by noncapital financial activities	<u>0</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Principal paid on maturity of bonds payable	(545,000)
Acquisition of property and equipment	0
Cash provided (used) by capital and related financing activities	<u>(545,000)</u>
Net increase (decrease) in cash	<u>(58,240)</u>

Cash and cash equivalents, beginning of year	149,213
Cash and cash equivalents, end of year	<u><u>\$ 90,973</u></u>

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Operating income	\$ 501,677
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	177,418
Loss on write down on inventory	0
Changes in assets and liabilities:	
Decrease (increase) in amount due from tenants	(49,637)
Increase (decrease) in accounts payable	(5,286)
Increase (decrease) in other current liabilities (includes future bond debt)	12,046
Net Cash provided (used) by operating activities	<u><u>\$ 636,218</u></u>

The accompanying notes are an integral part of this financial statement

SEATTLE INDIAN SERVICES COMMISSION

Notes to the Financial Statements
For the Year Ending June 30, 2012

NOTE 1 – NATURE OF ORGANIZATION AND OPERATIONS

Nature of Organization and Operations

Seattle Indian Services Commission (Commission) is a public corporation, as defined in City of Seattle Ordinance No. 103387, was formed in 1972 to carry out certain objectives of the Seattle Model Cities Program. The Commission is a public development authority chartered by the City of Seattle under the authority of RCW 35.21.730 -.755 and Seattle Municipal Code (SMC) 3.110 that is not a component unit of the City of Seattle. The Commission's Governing Council is comprised of eight members with two members from each of the following organizations: United Indians of All Tribes Foundation; American Indian Women's Service League; Seattle Indian Center; and Seattle Indian Health Board. The financial statements of the Commission do not include any accounts of the member organizations.

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

The Seattle City Council has the authority to terminate the Commission and, upon termination, any remaining assets of the Commission would be distributed in accordance with the terms of Ordinance 103387.

The Commission began operating the craft shop, Traditions & Beyond, in November 1991. Prior to 1991, the American Indian Women's Service League had operated the craft shop, which specializes in Native American arts and crafts.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Federal Income Taxes

The Commission is a political subdivision and is exempt from federal income tax under Section 115 of the U.S. Internal Revenue Code.

Basis of Accounting

The financial statements of the Commission have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. These financials have been prepared using the economic resources measurement focus and the accrual basis of accounting. The Government Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The Commission, in accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, elected not to apply all statements of the Financial Accounting Standards Board (FASB) issued subsequent to November 30, 1989.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Cash and Cash Equivalents

The Commission considers all highly liquid temporary investments purchased with a maturity of less than three months or less at the acquisition date to be cash equivalents.

Funds Held by Paying Agents

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

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

Inventory

The Traditions & Beyond inventory is valued at cost. Since the Commission reduced the value of the inventory in 2008 and 2009, there has been minimal sales activity. For the reporting period ending June 30, 2012, there were no reported sales for the Traditions & Beyond craft shop.

Revenues and Expenses

The Commission's operating revenues are generated through tenant rents (Seattle Indian Health Board and Seattle Indian Center), rental of the community space in the Pearl Warren Building and income from the Traditions & Beyond craft shop. Operating expenses are those expenses that are incurred in association with rental activities and the craft shop. Operating expenses also include costs associated with the Commission's Native American / Alaska Native community services programs.

Where applicable, government grants and/or private grants or contributions are recognized as revenues in the period the funds are used for the purpose designated in the grants. Rental and investment revenues are recognized when earned.

Property and Equipment

Property and equipment are stated at cost. Depreciation is calculated on the straight-line method based on the following useful lives:

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

Amortization

Bond issue costs are amortized over the life of the bonds using the straight-line method.

Estimates

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

NOTE 3 –BONDS PAYABLE AND FUNDS HELD BY PAYING AGENTS

Bonds payable consisted of the following at June 30, 2012:

Special Obligation Revenue Refunding Bonds, Series 2004	\$	4,075,000
Special Obligation Revenue Refunding Bonds, Series 2002		1,625,000
Principal Due on Future Bond Debt for 2013 (deducted from bond payable amount) – Series 2004		270,000
Principal Due on Future Bond Debt for 2013 (deducted from bond payable amount): Series 2002		295,000
Deferred amount of 2004 refunding and issue costs, net of accumulated amortization of \$33,814.		(108,382)
Deferred amount of 2002 refunding and issue costs, net of accumulated amortization of \$36,131.		<u>(40,648)</u>
Total	\$	<u>6,115,970</u>

Funds held by paying agents consisted of the following at June 30, 2012:

Special Obligation Revenue Refunding Bonds, Series 2004	\$	463,527
Special Obligation Revenue Refunding Bonds, Series 2002		<u>421,707</u>
Total	\$	<u>885,234</u>

NOTE 3 –BONDS PAYABLE AND FUNDS HELD BY PAYING AGENTS

Special Obligation Revenue Refunding Bonds, Series 2004

The amount of Special Obligation Revenue Refunding Bonds, Series 2004, outstanding at June 30, 2012 was \$4,335,000. The revenue refunding bonds bear interest at 3.0 to 4.50 percent with maturities from 2008 to 2024. The Special Obligation Revenue Refunding Bonds, Series 2004 are special obligations of the Commission secured by rental income of the financed property. The Commission has entered into a Cooperative Agreement with the City of Seattle. The Debt Service Reserve account was established with the paying agent for the purpose of depositing funds to pay the principal and interest on the Special Obligation Revenue Refunding Bonds, Series 2004. The funds held by the paying agent at June 30, 2013 consisted of:

Cash	\$	0
Units of J.P. Morgan U.S. Government Money Market Fund		<u>463,527</u>
Total	\$	<u>463,527</u>

These funds are segregated into the following accounts as of June 30, 2012:

Debt Service Account – for deposit of interest and principal payments.	\$	239,739
Debt Service Reserve Account – for deposit of an amount equal to one-half the maximum amount of the annual debt service in any future calendar year, which paying agent established as being \$223,788.		<u>223,788</u>
Total	\$	<u>463,527</u>

The Commission also established a Capital Reserve Fund. Annual deposits are required by the bond resolution in an amount equal to the Commission's budgeted capital expenses associated with the rental of the financed property. During the period ending June 30, 2012, no funds were deposited.

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

Future annual payments on the Special Obligation Revenue Refunding Bonds, Series 2004, for each of the next five years ending June 30, and thereafter, are as follows:

	Principal	Interest	Total Debt Service
2013	270,000	169,793	439,793
2014	280,000	159,937	439,937
2015	290,000	149,438	439,438
2016	300,000	138,417	438,417
2017	315,000	126,718	441,718
2018-2022	1,785,000	427,357	2,212,357
2023-2024	835,000	56,700	891,700
Total	\$ <u>4,075,000</u>	\$ <u>1,228,360</u>	\$ <u>5,303,360</u>

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

Special Obligation Revenue Bonds, Series 2002

The amount of Special Obligation Revenue Refunding Bonds, Series 2002, outstanding at June 30, 2012 was \$1,910,000. The revenue refunding bonds bear interest at 3.5 to 4.75 percent with maturities from 2005 to 2017. The Special Obligation Revenue Refunding Bonds, Series 2002 are special obligations of the Commission secured by rental income of the financed property. The Commission has entered into a Cooperation Agreement with the City of Seattle. The SISC Debt Service Reserve Account was established with the paying agent for the purposes of depositing funds to pay the principal and interest on the Special Obligation Revenue Refunding Bonds, Series 2002. The funds held by the paying agent consisted of the following at June 30, 2012:

Cash	\$	0
Units of First American Treasury Obligation Fund		<u>421,707</u>
Total	\$	<u>421,707</u>

These funds are segregated into the following accounts as of June 30, 2012:

SISC Debt Service Account – for deposit of interest and principal payments.	\$	235,371
SISC Debt Service Reserve Account – for deposit of an amount equal to one-half the maximum amount of the annual debt service in any future calendar year, which paying agent established as being \$186,366.		<u>186,336</u>
Total	\$	<u><u>421,737</u></u>

The Commission also established a Capital Reserve Fund. Annual deposits are required by the bond resolution in an amount equal to the Commission's budgeted capital expenses associated with the rental of the financed property. During the period ending June 30, 2012, no funds were deposited.

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

Future annual payments on the Special Obligation Revenue Refunding Bonds, Series 2002 for each of the next five years ending June 30, and thereafter, are as follows:

	Principal	Interest	Total Debt Service
2013	295,000	74,087	369,087
2014	310,000	61,255	371,255
2015	325,000	47,460	372,460
2016	340,000	32,673	372,673
2017	355,000	16,862	371,862
Total	\$ <u>1,625,000</u>	\$ <u>232,337</u>	\$ <u>1,857,337</u>

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30, 2012:

Land – Leschi Center site	\$	692,964
Land – Pearl Warren Building Site		2,270,370
Building – Leschi Center		4,086,848
Building – Pearl Warren (<i>After Asset Impairment Loss – Appraised Value in 2009</i>)		429,630
Building improvements – Leschi Center Building		60,340
Building improvements – Pearl Warren Building		10,269
Community Technology Lab Equipment		89,679
Furniture and Fixtures		43,155
Roof Replacement, Other Office/Art Related Items		<u>265,386</u>
		7,948,640
Less accumulated depreciation		<u>(3,739,342)</u>
Total	\$	<u>4,209,298</u>

The Commission entered into two separate leases for portions of the Leschi Center with the Seattle Indian Health Board and the Seattle Indian Center. Both tenants are nonprofit organizations described in Section 501(c)(3) of the U.S. Internal Revenue Code and are required to maintain this status to continue in the respective leases. Each lease term began in May 1988 and continues for a period of thirty (30) years to April 30, 2018. In addition to certain expenses related to the common areas, real estate taxes and assessments, and insurance, the minimum annual rent is as follows:

Seattle Indian Health Board	\$	338,720
Seattle Indian Center		<u>162,600</u>
Total:	\$	<u><u>501,320</u></u>

A substantial portion of the Pearl Warren Building is leased to the Seattle Indian Health Board for the period of October 1, 1995 to September 30, 2025. The beginning monthly rent of \$29,241 increases over the lease term to \$37,319. In addition to certain expenses relating to common area, real estate taxes and assessment, and insurance (collectively called "common costs"). The minimum annual rent for each of the next 5 years is as follows:

2013	\$	442,505
2014		447,828
2015		447,937
2016		447,438
2017		<u>446,417</u>
Total	\$	<u><u>2,232,125</u></u>

The Commission may not sell or otherwise convey the Leschi Center or the Pearl Warren Building without approval of the City of Seattle.

NOTE 5 – TRANSACTIONS WITH RELATED PARTIES

Rental income and common (shared) costs – Seattle Indian Health Board

The Seattle Indian Health Board paid the following amounts for rent and common costs for the Pearl Warren Building and Leschi Center for year ending June 30, 2012:

<u>Pearl Warren Building</u>		
Rent	\$	480,883
Common Costs		88,828
<u>Leschi Center</u>		
Rent	\$	363,831
Common Costs		36,252

Rental income and common costs – Seattle Indian Center

The Seattle Indian Center paid the following amounts for rent and common costs for the Leschi Center for year ending June 30, 2012:

<u>Leschi Center</u>		
Rent	\$	109,363
Common Costs		0
Late Fees		0

Amounts due to (from) tenants – Leschi Center Building and Pearl Warren Building

A summary of amounts due to (from) tenants in the Leschi Center Building and/or Pearl Warren Building for the year ending June 30, 2012:

Seattle Indian Health Board	\$	<u>0</u>
Seattle Indian Center	\$	<u>(77,666)</u>

NOTE 6 – COMMISSION PROGRAMS AND SERVICES

In past years the Commission funded and administered several programs that provided services in support of the American Indian and Alaska Native community. Since June 30, 2011, the Commission has not provided financial support to any of their programs – effectively shutting them down at this time:

Community Technology Lab	\$	0
Funeral Support		0
Community Support/Culture		0
Options Program/Scholarships		0
Total	\$	<u><u>0</u></u>

NOTE 7 – CONCENTRATIONS OF RISKS

The Commission maintains cash balances at high-quality financial institutions (as required by state law). There may be times the net income, end of year balances exceed the federally insured limit of \$250,000. As of June 30, 2012, \$885,234 was being held by paying agents. These funds were invested in cash and money market funds on behalf of the Commission.



ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens as an advocate for government accountability. As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

The State Auditor's Office employees are located around the state to deliver services effectively and efficiently.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments and fraud, whistleblower and citizen hotline investigations.

The results of our work are widely distributed through a variety of reports, which are available on our Web site and through our free, electronic subscription service.

We take our role as partners in accountability seriously. We provide training and technical assistance to governments and have an extensive quality assurance program.

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