



Office of the Washington State Auditor
Pat McCarthy

November 6, 2017

Council
Historic Seattle Preservation and Development Authority
Seattle, Washington

Contracted CPA Firm's Audit Report on Financial Statements

We have reviewed the audit reports issued by a certified public accounting (CPA) firm on the Historic Seattle Preservation and Development Authority's financial statements for the fiscal years ended December 31, 2015 and December 31, 2016. The Authority contracted with the CPA firm for these audits.

Based on these reviews, we have accepted these reports in lieu of the audit required by RCW 43.09.260. The State Auditor's Office did not audit the accompanying financial statements and, accordingly, we do not express an opinion on those financial statements.

These reports are being published on the State Auditor's Office website as a matter of public record.

Sincerely,

Pat McCarthy
State Auditor
Olympia, WA

HISTORIC SEATTLE PRESERVATION
AND DEVELOPMENT AUTHORITY

Financial Statements
and Supplementary Information
for the Years Ended December 31, 2016 and 2015
and Independent Auditor's Report

HISTORIC SEATTLE PRESERVATION AND DEVELOPMENT AUTHORITY

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WATSON & McDONELL, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

Council
Historic Seattle Preservation and Development Authority
Seattle, Washington

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Historic Seattle Preservation and Development Authority (Historic Seattle) as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise Historic Seattle Preservation and Development Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Historic Seattle Preservation and Development Authority as of December 31, 2016 and 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 20, 2017 on our consideration of Historic Seattle Preservation and Development Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Historic Seattle Preservation and Development Authority's internal control over financial reporting and compliance.

Watson & McDowell, PLLC

July 20, 2017

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of the financial performance of Historic Seattle Preservation and Development Authority (Historic Seattle), presents a narrative overview and analysis of the financial activities of Historic Seattle for the year ended December 31, 2016.

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

2016 HIGHLIGHTS

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

2016 was a year for celebration, completion and new opportunities for the organization. We celebrated an extraordinary, seven-year, team effort to raise and thoughtfully spend \$9.8 million dollars to purchase and rehabilitate Washington Hall. The achievement was punctuated on June 1, 2016 with a ribbon-cutting ceremony and return of the building back to the community. Historic Seattle also focused on new fundraising opportunities, looked for new real estate ventures, our advocacy efforts became more strategic and proactive and the organization continued to offer wonderful education programs.

In addition to the completion of Washington Hall, through a team effort by Historic Seattle, 4Culture, King County's Historic Preservation Program, and the Washington Trust for Historic Preservation, we were awarded \$2 million dollars from King County's Building for Culture program to acquire, rehabilitate and sell threatened historic properties outside of Seattle yet within King County. This Preservation Action Fund will revolve from one project to another and enable Historic Seattle to purchase, restore and sell historic properties with a protective easement and/or landmark designation. Sales proceeds will return to the fund to enable the purchase of another property.

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For the Year Ended December 31, 2016

2016 HIGHLIGHTS, CONTINUED

ADVOCACY

In 2016, Historic Seattle's Director of Preservation Services, Eugenia Woo, and Preservation Advocacy Coordinator, Brooke Best continued their outstanding work throughout the community. The InterUrban series (launched in late 2015) successfully worked to engage a broader audience in conversations about achieving more livable communities through preservation. InterUrban events merged education and advocacy, focusing on topical issues related to preservation, planning, urban design, affordability and land use/zoning issues. Historic Seattle produced four InterUrban events including, "Show Your Love HeartBomb" at the recently renovated Filson Store in South Downtown; "Project Belltown: Imagining Possibilities," where over fifty participants engaged in a visioning exercise using a real-life case study in the neighborhood: a designated historic landmark and adjacent property; "Heart This Dive" Happy Hour at Loretta's in South Park where approximately fifty participants learned about the importance of Seattle's legacy businesses (speakers included City Council member Lisa Herbold and journalist Mike Seely, author of Seattle's Best Dive Bars); and a "Preservation Roundtable" where Historic Seattle brought together over fifty neighborhood advocates who support preservation and are grappling with development pressure and changes to neighborhood character in their respective communities. The goal of the roundtable was for Historic Seattle to build a broader coalition of preservation supporters; connect the neighborhoods so they could learn from each other; and discuss issues that impact preservation.

The Advocacy team managed the selection of award recipients for the 8th Annual Historic Preservation Awards held at Washington Hall and produced substantive content for the awards journal. Award winners included the Phinney Neighborhood Association, Union Stables, the Pioneer Houses, the Gaslight Inn, Cascadia Art Museum, the Dowell Residence, Washington Hall Anchor Partners and Les Tonkin.

Ms. Woo and Ms. Best continued to advocate for the preservation of the Nuclear Reactor Building on the University of Washington Campus. Historic Seattle became an intervenor in the lawsuit between the University of Washington and the City of Seattle / Docomomo WEWA. The issue was whether the University, as a state institution of higher learning, was subject to the Landmarks Preservation Ordinance. The trial court ruled in favor of the University in April. The City, Docomomo WEWA, Historic Seattle, and the Washington Trust for Historic Preservation appealed the decision. Unfortunately, the historic building was demolished in July. But the issue to be decided is larger than one building. Hence, Historic Seattle's continued involvement in the legal matter, which continues into 2017.

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

2016 HIGHLIGHTS, CONTINUED

ADVOCACY, CONTINUED

In 2016, the advocacy team continued to tackle larger city-wide planning efforts related to the City of Seattle's update to its Comprehensive Plan. Historic Seattle weighed in with comments to the City Council and we sent out an "Advocacy Alert" by email, asking our constituents to comment to ensure that preservation plays a role in future growth.

REAL ESTATE DEVELOPMENT

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

The completion of Washington Hall was the biggest real estate accomplishment of 2016. The most substantial phases of construction since the building was purchased in 2009 occurred within Phases 3 and 4. Phase 3 commenced in the first quarter of 2015. \$2.5 million dollars in New Market Tax Credit equity coupled with \$900,000 in grants provided the necessary funds to conduct a full seismic upgrade, full sprinkler installation, installation of a new elevator and exit stair, creation of a commercial kitchen, café, classroom and meeting space in addition to substantial floor, wall and ceiling finishes upgrades throughout the building. Phase 4 commenced in the first quarter of 2016. Funds for this phase came from 4Culture's Building for Culture program. The scope for this phase included restoration of the main east façade of the building, installation of a cornice on the north elevation of the building and build out of the third floor recording studio, office, and classroom spaces.

During construction, Historic Seattle entered into leases with three anchor tenants: 206 Zulu, Hidmo Cypher and Voices Rising. Leases include a 5 year initial term with (2) five year options. These triple net leases encouraged and empowered the tenants to immediately take control of the buildings hourly and event rental program and provided them with enough time to thoughtfully and gradually develop their operation and management plans.

Our apartment buildings, Bel Boy, Heg-Phillips, and Victorian Row continued to provide 41 affordable housing units to the low income residents. The Good Shepherd Center continued to offer below market office, classroom and meeting space to a variety of tenants as well as six artist housing units with rents set as affordable for the low income residents. The Cadillac Hotel continued to house the National Park Service's Klondike Gold Rush Museum, while rent from the single family residence, Egan House, continued to support the stewardship of this mid-century modern City of Seattle Landmark structure. It should be noted that a very low vacancy rate was experienced across our portfolio of properties during 2016.

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

2016 HIGHLIGHTS, CONTINUED

EDUCATIONAL PROGRAMMING

Mr. Larry Kreisman, our Program Director oversaw a wonderful assemblage of successful educational programs in 2016 attended by over 1,500 members and general public. Architecture-focused lectures by local and out-of-state experts were presented on the development of residential communities in the East and in the Puget Sound region, the impact of World War I on Seattle, San Francisco Bay area copper artisans of the Arts & Crafts period, and books about buildings. In-town tours included First Hill and Montlake neighborhoods, churches in the University District, and historic sports facilities at the University of Washington. Additional in-town tours included the gardens at Good Shepherd Center, private historic homes on north Capitol Hill and Queen Anne Hill, as well as an estate in Woodway. There was also a tour of the Georgetown Steam Plant. Historic Seattle led a full day out-of-town tour to Whidbey Island. A special event—a lecture, dinner, and tour of the Seattle Tennis Club celebrated its 125th year.

Free quarterly member meetings brought members and the public to sites of historic and architectural interest, including German House (the former U.S. Assay Office), and the H.H. Dearborn House on First Hill, Saint Mark's Cathedral on Capitol Hill, and Congregation Shevet Achim on Mercer Island.

The “Digging Deeper” series gave attendees behind-the-scenes tours of unique collections including the Pacific Northwest Railroad Archive in Burien, Special Collections, UW, Seattle Theatre Group Library and Paramount Theatre, Ballard Historical Society, Visual Resources Collection, College of Built Environments, Redmond Historical Society, and a hands-on workshop on research with staff of the King County Archives at Washington Hall.

COMMUNITY AFFAIRS

Historic Seattle continued to explore new and improved ways to engage, educate and motivate our constituency in both print and electronic formats. Our newsletter, *Preservation News*, was condensed and provided a nice balance of text and images. A more focused communications strategy tied timely advocacy issues and organizational successes with fund raising appeals and programming. We continued to use Historic Seattle and Washington Hall web sites and social networking technology (Facebook, Instagram and the MAIn2 preservation blog) to reach the broader community.

HISTORIC SEATTLE
PRESERVATION AND DEVELOPMENT AUTHORITY
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For the Year Ended December 31, 2016

2016 HIGHLIGHTS, CONTINUED

COMMUNITY AFFAIRS, CONTINUED

Historic Seattle is committed to building partnerships with other organizations to produce and promote programs and events and to expand advocacy for and education related to historic preservation in King County and nationally. In 2016, these organizations included AIA Seattle, the National Trust for Historic Preservation, the City of Seattle, the University of Washington School of Architecture, the King County Historic Preservation Commission, Futurewise, Forterra, Friends of Mukai, the Southwest Seattle Historical Society, Historic Tacoma, the Preservation Green Lab, 4Culture, the Museum of History & Industry, History Link, Docomomo WEWA, Washington Trust for Historic Preservation, and the Frye Art Museum.

VOLUNTEERS

Historic Seattle volunteers served on the Historic Seattle governing Council and Historic Seattle Preservation Foundation Board, joined committees, helped develop the annual Awards Ceremony, and assisted with administrative and other tasks. In 2016, active volunteers contributed hundreds of hours of their time in the areas of governance, gardening at Good Shepherd Center, administrative tasks at the Dearborn House and special projects at Washington Hall.

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

INTRODUCTION TO THE FINANCIAL STATEMENTS

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

All statements are prepared on the accrual basis of accounting. This means that financial transactions are recognized and reported in the financial statements when the transactions occur, regardless of the timing of related cash flows. This audit is for the years 2016 and 2015.

USING THIS ANNUAL REPORT

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

BASIC FINANCIAL STATEMENTS

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

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

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

FINANCIAL ANALYSIS

	2016	2015	2014
Current assets	\$ 1,583,647	\$ 2,580,460	\$ 1,358,169
Non-current assets	6,609,136	7,530,522	364,107
Capital assets, net	<u>19,839,735</u>	<u>18,966,617</u>	<u>16,109,453</u>
Total assets	<u>\$ 28,032,518</u>	<u>\$ 29,077,599</u>	<u>\$ 17,831,729</u>
Current liabilities	\$ 596,220	\$ 2,504,193	\$ 609,941
Long-term liabilities	<u>16,761,582</u>	<u>17,042,010</u>	<u>9,030,149</u>
Total liabilities	<u>\$ 17,357,802</u>	<u>\$ 19,546,203</u>	<u>\$ 9,640,090</u>
Net position:			
Invested in capital assets, net of related debt	\$ 3,502,804	\$ 3,231,048	\$ 7,146,149
Restricted	526,601	288,088	364,733
Unrestricted	<u>6,645,311</u>	<u>6,012,260</u>	<u>680,757</u>
Total net position	<u>\$ 10,674,716</u>	<u>\$ 9,531,396</u>	<u>\$ 8,191,639</u>

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

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

The difference between total assets and total liabilities, net position, is one indicator of financial health. Net position increased by \$1,143,320 and \$1,339,757 in 2016 and 2015, respectively. The increase in net position during 2016 as compared to 2015, was attributable to an increase in receipt of grants and contributions for operating and capital activities, and a decrease in interest expense and loan closing costs. The increase in net position during 2015 as compared to 2014, was attributable to an increase in receipt of grants and contributions for capital activities, forgiveness of debt and a slight decrease in operating expenses.

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

FINANCIAL ANALYSIS, CONTINUED

The results of operations for Historic Seattle are presented below:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Operating revenues:			
Commercial and residential tenant revenues	\$ 2,402,394	\$ 2,344,905	\$ 2,346,182
Event fees and membership dues	97,281	85,127	80,018
Grants and donations	61,627	33,988	52,141
Consulting fees	6,937	8,029	9,667
Other	1,592	2,743	2,071
Operating expenses:			
Salaries, benefits and payroll taxes	(943,327)	(866,846)	(826,226)
Operating, maintenance and utilities	(813,557)	(752,222)	(800,233)
Other operating expenses	(202,895)	(200,786)	(326,416)
Depreciation	<u>(663,419)</u>	<u>(596,443)</u>	<u>(618,373)</u>
Net operating gain (loss)	<u>(53,367)</u>	<u>58,495</u>	<u>(81,169)</u>
Non-operating revenues:			
Grants and donations, including forgiveness of debt and deferred loan interest	71,744	810,950	37,785
Interest income, and gain on beneficial interest in assets held by community foundations	87,902	47,185	1,165
Non-operating expenses:			
Interest expense, including one-time costs related to new long-term debt (2015)	<u>(358,107)</u>	<u>(895,203)</u>	<u>(412,680)</u>
Net non-operating loss	<u>(198,461)</u>	<u>(37,068)</u>	<u>(373,730)</u>
Gain (loss) before capital contributions	(251,828)	21,427	(454,899)

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

FINANCIAL ANALYSIS, CONTINUED

The results of operations for Historic Seattle, continued:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Capital contributions	\$ <u>1,395,148</u>	\$ <u>1,318,330</u>	\$ <u>541,207</u>
Change in net position	1,143,320	1,339,757	86,308
Net position, beginning of year	<u>9,531,396</u>	<u>8,191,639</u>	<u>8,105,331</u>
Net position, end of year	<u>\$ 10,674,716</u>	<u>\$ 9,531,396</u>	<u>\$ 8,191,639</u>

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

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Historic Seattle's investment in capital assets as of December 31, 2016 and 2015, amounts to \$19,839,735 and \$18,966,617, respectively. This investment in capital assets includes real estate, furniture and equipment, and other assets. Additional information on Historic Seattle's capital assets can be found in Note 8.

Historic Seattle's real estate activity is financed, in part, by long-term debt secured by real estate. Historic Seattle had \$16,668,313 and \$18,182,660 of outstanding debt at December 31, 2016 and 2015, respectively. Additional information on Historic Seattle's debt can be found in Note 11.

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

2017 OVERVIEW

During 2017 Historic Seattle, along with its partners, will finalize operating agreements and activate the Preservation Action Fund, looking to identify the first preservation property to use this fund.

In addition, we will be refinancing two of our properties to achieve favorable lending terms and maximize the use of equity in the properties to reinvest in capital improvements and major maintenance of the buildings.

With the pending retirement of Larry Kreisman at the end of the year, we will be planning to honor his 20-year career as Program Director. We will recruit a new staff member to assume responsibility for our education programming.

In response to increasing pressure on historic preservation in Seattle, we plan to take more proactive steps to emphasize the importance of saving our collective history while advocating and assisting with policy development. We will continue to use our 43 years of experience and utilize our successful property portfolio to highlight that historic buildings can be retained and adaptively re-used to accommodate current, community centered use.

Since the completion of Washington Hall, Historic Seattle has focused more time and attention on future real estate opportunities. These opportunities represent a variety of building types, uses, conditions and potential partnerships. We continue to consider future projects and consistently weigh these opportunities with our ability to assemble large capital stacks necessary to acquire and rehabilitate all of the potential properties.

In response to the high cost of acquisition and rehabilitation, Historic Seattle will continue to place greater emphasis on developing a culture of philanthropic support. We look to rebuild and reposition Historic Seattle's Foundation Board to emphasize fundraising and to develop a strong and lasting relationship with Historic Seattle PDA's Council.

REQUESTS FOR INFORMATION

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

HISTORIC SEATTLE
PRESERVATION AND DEVELOPMENT AUTHORITY
Balance Sheets
December 31, 2016 and 2015

ASSETS

	<u>2016</u>	<u>2015</u>
Current assets:		
Cash and cash equivalents	\$ 1,333,802	\$ 1,080,063
Restricted cash		751,279
Security deposits	15,976	15,928
Accounts receivable	168,880	85,157
Grants receivable		561,812
Pledges receivable, net of allowance of \$5,625 in 2016	5,000	
Prepaid expenses	30,489	53,596
Inventory	<u>29,500</u>	<u>32,625</u>
	<u>1,583,647</u>	<u>2,580,460</u>
Non-current assets:		
Deferred rent asset	48,925	32,565
Reserves	233,722	209,266
Restricted cash	335,685	1,016,247
Grants receivable		272,045
Pledges receivable, net of allowance of \$5,625 in 2015		10,000
Note receivable	5,981,400	5,981,400
Beneficial interest in assets held by community foundation	9,404	8,999
Capital assets, net (Note 8)	<u>19,839,735</u>	<u>18,966,617</u>
	<u>26,448,871</u>	<u>26,497,139</u>
	<u>\$ 28,032,518</u>	<u>\$ 29,077,599</u>

The accompanying notes should be read with these financial statements.

HISTORIC SEATTLE
PRESERVATION AND DEVELOPMENT AUTHORITY
Balance Sheets, Continued
December 31, 2016 and 2015

LIABILITIES AND NET POSITION

	<u>2016</u>	<u>2015</u>
Current liabilities:		
Accounts payable	\$ 98,831	\$ 56,737
Accrued expenses	72,084	75,969
Construction costs payable	4,303	751,279
Security deposits	56,265	52,459
Prepaid rent and event fees	63,298	44,121
Current portion notes payable	<u>301,439</u>	<u>1,523,628</u>
	<u>596,220</u>	<u>2,504,193</u>
Long-term liabilities:		
Deferred interest	394,708	382,978
Notes payable	<u>16,366,874</u>	<u>16,659,032</u>
	<u>16,761,582</u>	<u>17,042,010</u>
	<u>17,357,802</u>	<u>19,546,203</u>
Net position:		
Invested in capital assets, net of related debt	3,502,804	3,231,048
Restricted	526,601	288,088
Unrestricted	<u>6,645,311</u>	<u>6,012,260</u>
	<u>10,674,716</u>	<u>9,531,396</u>
	<u>\$ 28,032,518</u>	<u>\$ 29,077,599</u>

The accompanying notes should be read with these financial statements.

HISTORIC SEATTLE
PRESERVATION AND DEVELOPMENT AUTHORITY
Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating revenues:		
Rents	\$ 2,402,394	\$ 2,344,905
Consulting fees	6,937	8,029
Membership dues	35,269	43,969
Operating grants and donations	61,627	33,988
Event revenue	62,012	41,158
Other	1,592	2,743
	<u>2,569,831</u>	<u>2,474,792</u>
Operating expenses:		
Salaries, benefits and taxes	943,327	866,846
Professional fees	34,803	50,621
Property management fees	126,579	110,311
Office expense and other	103,758	113,368
Event expense	53,570	21,275
Insurance and taxes	144,042	150,809
Conferences and training	9,694	4,994
Depreciation	663,419	596,443
Maintenance and utilities	542,936	491,102
Project development expense		6,500
Bad debt expense	1,070	4,028
	<u>2,623,198</u>	<u>2,416,297</u>
Change in net position from operations	<u>(53,367)</u>	<u>58,495</u>
Non-operating revenues (expenses):		
Grants and donations	67,592	290,211
Interest revenue	87,185	46,901
Forgiveness of debt		516,587
Forgiveness of deferred loan interest	4,152	4,152
Gain on beneficial interest in assets held by community foundation	717	284
Interest expense and loan closing costs	<u>(358,107)</u>	<u>(895,203)</u>
Total non-operating income (loss) before capital grants and contributions	<u>(198,461)</u>	<u>(37,068)</u>
Capital grants and contributions	<u>1,395,148</u>	<u>1,318,330</u>
Change in net position	1,143,320	1,339,757
Net position, beginning of year	<u>9,531,396</u>	<u>8,191,639</u>
Net position, end of year	<u>\$ 10,674,716</u>	<u>\$ 9,531,396</u>

The accompanying notes should be read with these financial statements.

HISTORIC SEATTLE
PRESERVATION AND DEVELOPMENT AUTHORITY
Statements of Cash Flows
For the Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from tenants	\$ 2,324,960	\$ 2,297,706
Receipts from donors and fundraising events	73,627	26,488
Receipts from members and customers	105,810	95,899
Payments to suppliers	(947,840)	(954,412)
Payments to employees	(947,212)	(855,833)
Net cash provided by operating activities	<u>609,345</u>	<u>609,848</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Receipts from donors	67,592	290,211
Notes receivable	<u> </u>	<u>(5,981,400)</u>
Net cash provided (used) by non-capital financing activities	<u>67,592</u>	<u>(5,691,189)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Receipt of grants and donations restricted for capital purposes	2,222,005	604,490
Payments for land, buildings, furniture and equipment	(1,536,537)	(2,823,109)
Payments for construction costs	(746,976)	
Proceeds from notes payable		15,614,977
Payments on notes payable	(1,514,347)	(5,758,564)
Interest and loan closing costs paid on capital debt	(342,225)	(901,393)
Net cash provided (used) by capital and financing activities	<u>(1,918,080)</u>	<u>6,736,401</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Withdrawals from (deposits to) restricted cash	1,431,841	(1,746,276)
Deposits to reserves	(26,779)	(22,158)
Withdrawals from reserves	2,323	
Interest received	87,497	47,503
Net cash used by investing activities	<u>1,494,882</u>	<u>(1,720,931)</u>
Net increase (decrease) in cash and cash equivalents	253,739	(65,871)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,080,063</u>	<u>1,145,934</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 1,333,802</u>	<u>\$ 1,080,063</u>

The accompanying notes should be read with these financial statements.

HISTORIC SEATTLE
PRESERVATION AND DEVELOPMENT AUTHORITY
Statements of Cash Flows, Continued
For the Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
RECONCILIATION OF CHANGE IN NET POSITION TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Change in net position from operations	\$ (53,367)	\$ 58,495
Adjustments to reconcile change in net position from operations to net cash provided by operating activities:		
Depreciation	663,419	596,443
Loss on disposal		311
Deferred rent asset change	(16,360)	(4,150)
Decrease (increase) in operating assets:		
Accounts receivable	(83,723)	7,542
Grants receivable	12,000	(7,500)
Prepaid expenses	23,107	3,573
Inventory	3,125	9,288
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	38,209	(3,563)
Security deposits, net	3,758	(163)
Prepaid rent and event fees	<u>19,177</u>	<u>(50,428)</u>
Net cash provided by operating activities	<u>\$ 609,345</u>	<u>\$ 609,848</u>
NON-CASH FINANCING AND INVESTING ACTIVITIES		
Land, buildings, furniture and equipment financed with construction costs payable	\$ 4,303	\$ 751,279
Reduction in notes payable due to forgiveness of debt	\$ -	\$ 516,587

The accompanying notes should be read with these financial statements.

HISTORIC SEATTLE
PRESERVATION AND DEVELOPMENT AUTHORITY
Notes to Financial Statements
For the Years Ended December 31, 2016 and 2015

NOTE 1 - NATURE OF THE ORGANIZATION

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

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

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

Basis of accounting

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

Restricted net position

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

HISTORIC SEATTLE
PRESERVATION AND DEVELOPMENT AUTHORITY
Notes to Financial Statements
For the Years Ended December 31, 2016 and 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Restricted net position, continued

Resources were restricted for the following purposes at December 31:

	<u>2016</u>	<u>2015</u>
Restoration projects	\$ 473,659	\$ 260,200
Other projects	<u>52,942</u>	<u>27,888</u>
	<u>\$ 526,601</u>	<u>\$ 288,088</u>

Cash and cash equivalents

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

Inventory

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

Capital assets and depreciation

Property and equipment are recorded at cost. Improvements with a cost of more than \$5,000 are capitalized, while expenditures for maintenance and repairs are charged to expense as incurred. Upon disposal of depreciable property, the appropriate property accounts are reduced by the related costs and accumulated depreciation. Interest costs incurred during the construction period are capitalized and added to the cost of the related building. Interest costs of \$27,555 and \$30,472 were capitalized during 2016 and 2015, respectively. Depreciation has been computed on the straight-line basis for furnishings and equipment over five to seven years and for buildings and improvements over 10 to 40 years.

Historic Seattle reviews its investment in real estate for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the real estate to the future net undiscounted cash flow expected to be generated by the rental property including any estimated proceeds from the eventual disposition of the real estate. If the real estate is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the real estate exceeds the fair value of such property. No impairment losses were recognized in 2016 and 2015.

Donated property, equipment and services

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

HISTORIC SEATTLE
PRESERVATION AND DEVELOPMENT AUTHORITY
Notes to Financial Statements
For the Years Ended December 31, 2016 and 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Federal income tax

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

Classification of revenues and expenses

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

Revenue recognition

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

Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with governmental accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 3 - SECURITY DEPOSITS

Security deposits for commercial tenants are included with cash and cash equivalents pursuant to the lease agreements. Security deposits for residential tenants are segregated in a separate bank account; the balance at December 31, 2016 and 2015, was \$15,976 and \$15,928, respectively.

HISTORIC SEATTLE
PRESERVATION AND DEVELOPMENT AUTHORITY
Notes to Financial Statements
For the Years Ended December 31, 2016 and 2015

NOTE 4 - PLEDGES RECEIVABLE

In 2012, Historic Seattle launched a capital campaign to raise funds for the restoration of Washington Hall. Unconditional pledges receivable are recorded when the pledges are received. No discount has been applied as it is immaterial. Historic Seattle records an allowance for estimated uncollectible accounts in an amount approximating anticipated losses. Individual uncollectible accounts are written off against the allowance when collection of the individual accounts appears doubtful. At December 31, 2016 and 2015, an allowance for doubtful accounts of \$5,625 was recorded.

Pledges are expected to be collected in the following periods:

	<u>2016</u>	<u>2015</u>
Less than one year	\$ 10,625	
One to three years		\$ 15,625
Less: allowance	<u>(5,625)</u>	<u>(5,625)</u>
	<u>\$ 5,000</u>	<u>\$ 10,000</u>

NOTE 5 - RESERVES

Historic Seattle is required, under certain loan agreements, to fund from available cash flows replacement and operating reserves for its various buildings. The balance of these reserves at December 31, 2016 and 2015, was \$233,722 and \$209,266, respectively.

NOTE 6 - RESTRICTED CASH

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

The accounts had the following balance at December 31:

	<u>2016</u>	<u>2015</u>
Loan disbursement account, current		\$ 751,279
Loan disbursement account, non-current		634,546
Fee and expense reserve account	<u>\$ 335,685</u>	<u>381,701</u>
	<u>\$ 335,685</u>	<u>\$1,767,526</u>

These accounts serve as collateral for the notes payable to Seattle Subsidiary Investment Fund IX, LLC (Note 11).

HISTORIC SEATTLE
PRESERVATION AND DEVELOPMENT AUTHORITY
Notes to Financial Statements
For the Years Ended December 31, 2016 and 2015

NOTE 7 - NOTE RECEIVABLE

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

NOTE 8 - CAPITAL ASSETS

The activity in the capital asset accounts for Historic Seattle for 2016 and 2015 was as follows:

	Beginning Balance <u>2016</u>	<u>Increases</u>	<u>Decreases</u>	Ending Balance <u>2016</u>
Buildings	\$ 21,605,844	\$ 5,141,799		\$ 26,747,643
Land	2,115,434			2,115,434
Furniture and equipment	179,845	35,695	\$ (18,446)	197,094
Non-depreciable assets – historical artifacts and preservation easement	68,047			68,047
Construction in progress	<u>3,665,848</u>	<u>1,559,425</u>	<u>(5,200,382)</u>	<u>24,891</u>
	<u>\$ 27,635,018</u>	<u>\$ 6,736,919</u>	<u>\$ (5,218,828)</u>	<u>\$ 29,153,109</u>

HISTORIC SEATTLE
PRESERVATION AND DEVELOPMENT AUTHORITY
Notes to Financial Statements
For the Years Ended December 31, 2016 and 2015

NOTE 8 - CAPITAL ASSETS, CONTINUED

	Beginning Balance 2016	Increases	Decreases	Ending Balance 2016
Accumulated depreciation, buildings	\$ 8,566,559	\$ 652,684		\$ 9,219,243
Accumulated depreciation, furniture and equipment	<u>101,842</u>	<u>10,735</u>	\$ (18,446)	<u>94,131</u>
	<u>\$ 8,668,401</u>	<u>\$ 663,419</u>	<u>\$ (18,446)</u>	<u>\$ 9,313,374</u>
Capital assets, net				<u>\$ 19,839,735</u>

	Beginning Balance 2015	Increases	Decreases	Ending Balance 2015
Buildings	\$ 21,566,528	\$ 39,316		\$ 21,605,844
Land	2,115,434			2,115,434
Furniture and equipment	245,408		\$ (65,563)	179,845
Non-depreciable assets – historical artifacts and preservation easement	68,047			68,047
Construction in progress	<u>251,246</u>	<u>3,414,602</u>		<u>3,665,848</u>
	<u>\$ 24,246,663</u>	<u>\$ 3,453,918</u>	<u>\$ (65,563)</u>	<u>\$ 27,635,018</u>

	Beginning Balance 2015	Increases	Decreases	Ending Balance 2015
Accumulated depreciation, buildings	\$ 7,981,372	\$ 585,187		\$ 7,981,372
Accumulated depreciation, furniture and equipment	<u>155,838</u>	<u>11,256</u>	\$ (65,252)	<u>101,842</u>
	<u>\$ 8,137,210</u>	<u>\$ 596,443</u>	<u>\$ (65,252)</u>	<u>\$ 8,668,401</u>
Capital assets, net				<u>\$ 18,966,617</u>

HISTORIC SEATTLE
PRESERVATION AND DEVELOPMENT AUTHORITY
Notes to Financial Statements
For the Years Ended December 31, 2016 and 2015

NOTE 9 - LEASES

Mutual Life Building

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

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

2017	\$ 16,224
2018	16,873
2019	17,548
2020	18,250
2021	18,980
2022 - 2026	106,913
2027 - 2031	130,076
2032 - 2033	<u>59,606</u>
	<u>\$ 384,470</u>

Good Shepherd Center

Historic Seattle owns the Good Shepherd Center, a historic building in the Wallingford district of Seattle. It is used primarily as office space for nonprofit organizations and schools as well as residential artist studios. Historic Seattle leases the building to 36 tenants. The leases, the majority of which expire over the next three years, contain rent escalation clauses of three to five percent per year.

Other properties

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

The cost and carrying amount of Historic Seattle's leased assets at December 31, 2016, was \$28,246,177 and \$19,704,074, respectively. At December 31, 2015, the cost and carrying amount was \$19,045,170 and \$11,139,538, respectively. Depreciation expense for 2016 and 2015, related to the leased assets, was \$663,419 and \$530,819, respectively.

HISTORIC SEATTLE
PRESERVATION AND DEVELOPMENT AUTHORITY
Notes to Financial Statements
For the Years Ended December 31, 2016 and 2015

NOTE 9 - LEASES, CONTINUED

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

2017	\$ 1,750,656
2018	1,658,474
2019	1,589,627
2020	1,524,376
2021	1,444,635
2022 - 2025	<u>3,860,795</u>
	<u>\$ 11,828,563</u>

NOTE 10 - BENEFICIAL INTEREST IN ASSETS HELD BY COMMUNITY FOUNDATION

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

At December 31, 2016 and 2015, the value of the fund was \$9,404 and \$8,999, respectively. During 2016 and 2015, a gain of \$717 and \$284, respectively, was recorded in these statements. Administrative fees, for 2016 and 2015, were \$312 and \$292, respectively.

NOTE 11 - NOTES PAYABLE

	<u>2016</u>	<u>2015</u>
<u>Cadillac Rehabilitation LLC:</u>		
Note payable, Beneficial State Bank, original amount \$4,650,000, issued December 15, 2015, bears interest at 4.4%; monthly payments of \$35,479 began January 2016; matures December 2030	\$ 4,423,107	\$ 4,650,000
<u>Egan House</u>		
Note payable, Union Bank, bears interest at the "3-year amortizing intermediate/long-term advance rate" plus 4%; at December 31, 2016, interest rate was 7.75%; monthly payments are \$769; matures December 2032	83,843	86,048

HISTORIC SEATTLE
PRESERVATION AND DEVELOPMENT AUTHORITY
Notes to Financial Statements
For the Years Ended December 31, 2016 and 2015

NOTE 11 - NOTES PAYABLE, CONTINUED

	<u>2016</u>	<u>2015</u>
<u>Good Shepherd Center</u>		
Note payable, Key Bank, bears interest at 4.32%; monthly payments of \$5,509, matures June 22, 2022	\$ 893,207	\$ 919,455
 Note payable, City of Seattle, bears interest at 1%; if Historic Seattle remains in compliance with the terms of the loan, no further interest accrues after July 2021; lender will forgive repayment of 5% of the interest beginning July 2022 and for each year thereafter; matures July 2, 2041, or earlier without penalty; the borrower may extend the maturity date for up to 7, 5-year periods; in 2076, the unpaid principal and any remaining interest will be forgiven	 475,299	 475,299
 Note payable, Washington State Department of Commerce, interest at 1%; payments were deferred until August 31, 2008, at which time annual payments of \$5,200 began and continue for 39 years, to August 31, 2047	 138,039	 141,821
<u>Bel Boy Apartments</u>		
Note payable, City of Seattle, bears interest at 1%; interest accrued the first 20 years through December 2009; if Historic Seattle remains in compliance with the terms of the loan agreement, lender will forgive repayment of 5% of the interest beginning 2010 and for each year thereafter until maturity, December 22, 2029; the borrower may extend the maturity date for up to four, 5-year periods; in year 20, the unpaid principal and any remaining interest will be payable	415,087	415,087
<u>Victorian Row Apartments</u>		
Note payable, City of Seattle, bears interest at 1%; principal and accrued interest due at maturity, July 22, 2032	672,841	672,841
 Note payable, Key Bank, bears interest at 3.42%; monthly payments of \$1,675, matures February 1, 2018	 185,876	 199,262

HISTORIC SEATTLE
PRESERVATION AND DEVELOPMENT AUTHORITY
Notes to Financial Statements
For the Years Ended December 31, 2016 and 2015

NOTE 11 - NOTES PAYABLE, CONTINUED

	<u>2016</u>	<u>2015</u>
<u>William B. Phillips/Heg House Apartments</u>		
Note payable, City of Seattle, bears interest at 1% simple interest per annum, principal and interest due at maturity, December 4, 2032, secured by deed of trust	\$ 440,003	\$ 440,003
 Note payable to Washington State Department of Commerce, noninterest bearing, annual payments of \$4,000, remaining principal due at maturity, December 31, 2044	 108,000	 112,000
<u>Washington Hall</u>		
Note payable (Loan A), Seattle Subsidiary Investment Fund IX, LLC, original amount of \$5,981,400, issued June 17, 2015, interest at 1%; semi-annual interest only payments through December 2022, semi-annual amortizing payments of \$253,335 beginning June 2023 until maturity, December 2049; if requirements of the New Markets Tax Credit financing are met during the required seven-year holding period, loan will be forgiven 2022	 5,981,400	 5,981,400
 Note payable (Loan B), Seattle Subsidiary Investment Fund IX, LLC, original amount of \$2,658,600, issued June 17, 2015, interest at 1%; semi-annual interest only payments through December 2022, semi-annual amortizing payments of \$112,602 beginning June 2023 until maturity, December 2049; if requirements of the New Markets Tax Credit financing are met during the required seven-year holding period, loan will be forgiven 2022	 2,658,600	 2,658,600

HISTORIC SEATTLE
PRESERVATION AND DEVELOPMENT AUTHORITY
Notes to Financial Statements
For the Years Ended December 31, 2016 and 2015

NOTE 11 - NOTES PAYABLE, CONTINUED

	<u>2016</u>	<u>2015</u>
<u>Washington Hall, continued</u>		
Non-revolving line of credit, Beneficial State Bank, original amount of \$1,950,000, issued April 27, 2015, variable interest based upon the Federal Reserve Bank's Three Year Treasury Constant Maturity Index plus 3%, with a floor of 4.25%, at December 31, 2016, interest rate was 4.25%, monthly interest only payments through October 2016, principal was paid down as Washington Hall capital campaign contributions were collected from funders and donors. Converted to term loan November 2016 with monthly amortizing payments sufficient to fully repay remaining principal and interest by maturity, April 2026, collateralized by the Dearborn House	\$ 193,011	\$ 1,430,844
	16,668,313	18,182,660
Less: current portion	(301,439)	(1,523,628)
Total notes payable	<u>\$ 16,366,874</u>	<u>\$ 16,659,032</u>

HSPDA has a second non-revolving line of credit with Beneficial State Bank in the original amount of \$1,150,000, which was issued April 27, 2015. Funds in the amount of \$374,977 were advanced from the line of credit and used by Historic Seattle to bridge public and private grant funding pledged to the capital campaign to restore Washington Hall. This line of credit matures April 30, 2018 and bears interest at 4.25 percent. Required monthly payments are interest only through maturity. The funds drawn on the line and all outstanding interest were paid in full on July 30, 2015. Available credit remaining on the line as of December 31, 2016 is \$775,023. The line of credit is collateralized by the Dearborn House.

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

HISTORIC SEATTLE
PRESERVATION AND DEVELOPMENT AUTHORITY
Notes to Financial Statements
For the Years Ended December 31, 2016 and 2015

NOTE 11 - NOTES PAYABLE, CONTINUED

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

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

HISTORIC SEATTLE
PRESERVATION AND DEVELOPMENT AUTHORITY
Notes to Financial Statements
For the Years Ended December 31, 2016 and 2015

NOTE 11 - NOTES PAYABLE, CONTINUED

Following are the changes in notes payable for the year ended December 31, 2015:

Notes payable	Balance December 31, 2014	Additions	Reductions	Balance December 31, 2015	Current Portion
Cadillac Hotel					
Beneficial State Bank		\$4,650,000		\$ 4,650,000	\$ 226,975
City of Seattle	\$ 1,671,000		\$ 1,671,000		
Key Bank	3,661,951		3,661,951		
Egan House					
Union Bank	88,186		2,138	86,048	2,657
Good Shepherd Center					
Key Bank	944,690		25,235	919,455	26,917
City of Seattle	475,299			475,299	
Washington State	145,565		3,744	141,821	3,782
BelBoy Apartments					
City of Seattle	415,087			415,087	
Victorian Row Apartments					
City of Seattle	672,841			672,841	
Key Bank	212,212		12,950	199,262	13,426
William B. Phillips/Heg					
House Apartments					
City of Seattle	440,003			440,003	
Washington State	116,000		4,000	112,000	4,000
Washington Hall					
Seattle Subsidiary					
Investment Fund IX, LLC		5,981,400		5,981,400	
Seattle Subsidiary					
Investment Fund IX, LLC		2,658,600		2,658,600	
Beneficial State Bank		1,950,000	519,156	1,430,844	1,245,871
Beneficial State Bank		374,977	374,977		
Total notes payable	<u>\$ 8,842,834</u>	<u>\$15,614,977</u>	<u>\$ 6,275,151</u>	<u>\$ 18,182,660</u>	<u>\$1,523,628</u>

HISTORIC SEATTLE
PRESERVATION AND DEVELOPMENT AUTHORITY
Notes to Financial Statements
For the Years Ended December 31, 2016 and 2015

NOTE 11 - NOTES PAYABLE, CONTINUED

Future principal and interest payments are as follows:

	<u>Principal</u>	<u>Interest</u>
2017	\$ 301,439	\$ 330,909
2018	474,477	313,146
2019	315,978	299,918
2020	329,591	287,115
2021	344,750	272,800
2022 - 2026	3,636,824	991,314
2027 - 2031	3,532,497	765,818
2032 - 2036	2,725,005	445,487
2037 - 2041	2,162,874	188,103
2042 - 2046	1,760,854	102,726
2047 - 2049	<u>1,084,024</u>	<u>19,113</u>
	<u>\$16,668,313</u>	<u>\$ 4,016,449</u>

The above schedule does not reflect forgivable principal and interest owed to the City of Seattle. A loan of \$475,299 is expected to be forgiven July 2076 and during the years 2017 through 2041, a total of \$153,194 of interest is expected to be forgiven.

NOTE 12 - DEFERRED COMPENSATION PLAN

Historic Seattle offers all regular full-time and part-time employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. Historic Seattle contributes three percent of all full-time employees' salaries. Full-time employees are eligible after six months of employment. Historic Seattle's contributions in 2016 and 2015 totaled \$12,908 and \$11,231, respectively.

HISTORIC SEATTLE
PRESERVATION AND DEVELOPMENT AUTHORITY
Notes to Financial Statements
For the Years Ended December 31, 2016 and 2015

NOTE 13 - CONCENTRATION OF CREDIT RISK

Historic Seattle maintains cash balances at several financial institutions. Accounts at each financial institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. The Organization has not experienced any losses in such accounts. The Organization believes it is not exposed to any significant credit risk on its cash balances. At December 31, 2016 and 2015, the uninsured cash balances totaled \$720,346 and \$2,091,129, respectively.

NOTE 14 - RISK MANAGEMENT

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

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

NOTE 15 - COMMITMENTS AND CONTINGENCIES

Amounts received from grantor agencies are subject to audit and adjustments by the grantor agency. Any disallowed cost, including amounts already collected, may constitute a liability for Historic Seattle. The amounts, if any, of expenditures, which may be disallowed by the grantor, are recorded at the time that such amounts can be reasonably determined, normally upon notification of the government agency. During the years ended December 31, 2016 and 2015, no such adjustments were made.

HISTORIC SEATTLE
PRESERVATION AND DEVELOPMENT AUTHORITY
Notes to Financial Statements
For the Years Ended December 31, 2016 and 2015

NOTE 16 - NEW MARKETS TAX CREDIT FINANCING

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

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

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

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

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

HISTORIC SEATTLE
PRESERVATION AND DEVELOPMENT AUTHORITY
Notes to Financial Statements
For the Years Ended December 31, 2016 and 2015

NOTE 17 - CONDENSED COMBINING INFORMATION

The following is the condensed combining information for the blended component units of Historic Seattle for the years ended December 31, 2016 and 2015.

Condensed balance sheet, December 31, 2016:

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

HISTORIC SEATTLE
PRESERVATION AND DEVELOPMENT AUTHORITY
Notes to Financial Statements
For the Years Ended December 31, 2016 and 2015

NOTE 17 - CONDENSED COMBINING INFORMATION, CONTINUED

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

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

HISTORIC SEATTLE
PRESERVATION AND DEVELOPMENT AUTHORITY
Notes to Financial Statements
For the Years Ended December 31, 2016 and 2015

NOTE 17 - CONDENSED COMBINING INFORMATION, CONTINUED

Condensed statement of cash flows, December 31, 2016:

	<u>Historic Seattle</u>	<u>Foundation</u>	<u>Cadillac Rehabilitation LLC</u>	<u>Washington Hall QALICB</u>	<u>Eliminations</u>	<u>Total December 31, 2016</u>
Net cash provided (used) by:						
Operating activities	\$ 302,932	\$ 47,062	\$ 599,577	\$ (340,226)		\$ 609,345
Non-capital financing activities	33,919	(110,738)		144,411		67,592
Capital and related financing activities	(554,559)	257,451	(552,004)	(1,228,079)	\$ 159,111	(1,918,080)
Investing activities	<u>143,733</u>	<u>86,956</u>	<u>16,879</u>	<u>1,406,425</u>	<u>(159,111)</u>	<u>1,494,882</u>
Net increase in cash and cash equivalents	(73,975)	280,371	64,452	(17,469)		253,739
Beginning cash and cash equivalents	<u>471,214</u>	<u>481,668</u>	<u>79,092</u>	<u>48,089</u>		<u>1,080,063</u>
Ending cash and cash equivalents	<u>\$ 397,239</u>	<u>\$ 762,399</u>	<u>\$ 143,544</u>	<u>\$ 30,620</u>	<u>\$ -</u>	<u>\$ 1,333,802</u>

HISTORIC SEATTLE
PRESERVATION AND DEVELOPMENT AUTHORITY
Notes to Financial Statements
For the Years Ended December 31, 2016 and 2015

NOTE 17 - CONDENSED COMBINING INFORMATION, CONTINUED

Condensed balance sheet, December 31, 2015:

	Historic Seattle	Foundation	Cadillac Rehabilitation LLC	Washington Hall QALICB	Eliminations	Total December 31, 2015
Current assets	\$ 1,073,711	\$ 525,967	\$ 165,384	\$ 860,861	\$ (45,463)	\$ 2,580,460
Current assets, related party	49,169				(49,169)	
Non-current assets	204,795	6,000,399	39,336	1,240,529	45,463	7,530,522
Non-current assets, related party	4,777,285	50,000			(4,827,285)	
Capital assets, net	<u>5,255,256</u>	<u>6,611</u>	<u>6,943,618</u>	<u>7,461,833</u>	<u>(700,701)</u>	<u>18,966,617</u>
Total assets	<u>\$ 11,360,216</u>	<u>\$ 6,582,977</u>	<u>\$ 7,148,338</u>	<u>\$ 9,563,223</u>	<u>\$ (5,577,155)</u>	<u>\$ 29,077,599</u>
Current liabilities	\$ 1,514,757	\$ 6,487	\$ 231,670	\$ 751,279		\$ 2,504,193
Current liabilities, related party			3,706	45,463	\$ (49,169)	
Long-term liabilities	3,978,985		4,423,025	8,640,000		17,042,010
Long-term liabilities, related party	<u>50,000</u>	<u>2,287,348</u>	<u>1,760,051</u>		<u>(4,097,399)</u>	
Total liabilities	<u>\$ 5,543,742</u>	<u>\$ 2,293,835</u>	<u>\$ 6,418,452</u>	<u>\$ 9,436,742</u>	<u>\$ (4,146,568)</u>	<u>\$ 19,546,203</u>
Net position:						
Invested in capital assets, net of related debt	\$ 1,743,440	\$ 6,611	\$ 888,528	\$ (207,383)	\$ 799,852	\$ 3,231,048
Restricted		288,088				288,088
Unrestricted	<u>4,073,034</u>	<u>3,994,443</u>	<u>(158,642)</u>	<u>333,864</u>	<u>(2,230,439)</u>	<u>6,012,260</u>
Total net position	<u>\$ 5,816,474</u>	<u>\$ 4,289,142</u>	<u>\$ 729,886</u>	<u>\$ 126,481</u>	<u>\$ (1,430,587)</u>	<u>\$ 9,531,396</u>

HISTORIC SEATTLE
PRESERVATION AND DEVELOPMENT AUTHORITY
Notes to Financial Statements
For the Years Ended December 31, 2016 and 2015

NOTE 17 - CONDENSED COMBINING INFORMATION, CONTINUED

Condensed statement of revenues, expenses and changes in net position, December 31, 2015:

	Historic Seattle	Foundation	Cadillac Rehabilitation LLC	Washington Hall QALICB	Eliminations	Total December 31, 2015
Operating revenues:						
Tenant revenues	\$ 1,600,115		\$ 744,790			\$ 2,344,905
Event fees and membership dues	256	\$ 84,871				85,127
Grants and donations	12,000	21,988				33,988
Consulting fees	603,778				\$ (595,749)	8,029
Other		2,743				2,743
Operating expenses	(1,571,576)	(73,437)	(176,669)	\$ (35,425)	37,253	(1,819,854)
Depreciation	(361,401)		(235,042)			(596,443)
Net operating gain (loss)	<u>283,172</u>	<u>36,165</u>	<u>333,079</u>	<u>(35,425)</u>	<u>(558,496)</u>	<u>58,495</u>
Non-operating revenues:						
Grants and donations	143,293	3,709,263	516,587	224,246	(3,782,439)	810,950
Interest income, and gain on beneficial interest in assets held by community foundation	95,543	46,724	288		(95,370)	47,185
Gain on investment in limited liability company	381,684				(381,684)	
Non-operating expenses:						
Interest expense	(172,514)	(17,704)	(468,270)	(332,085)	95,370	(895,203)
Grant expense	<u>(3,640,348)</u>	<u>(142,091)</u>			<u>3,782,439</u>	
Net non-operating gain (loss)	<u>(3,192,342)</u>	<u>3,596,192</u>	<u>48,605</u>	<u>(107,839)</u>	<u>(381,684)</u>	<u>(37,068)</u>
Loss before capital contributions	(2,909,170)	3,632,357	381,684	(143,264)	(940,180)	21,427
Capital contributions	1,026,970	21,615		269,745		1,318,330
Gain on transfer of Property	<u>142,205</u>				<u>(142,205)</u>	
Change in net position	(1,739,995)	3,653,972	381,684	126,481	(1,082,385)	1,339,757
Net position, beginning of year	<u>7,556,469</u>	<u>635,170</u>	<u>348,202</u>		<u>(348,202)</u>	<u>8,191,639</u>
Net position, end of year	<u>\$ 5,816,474</u>	<u>\$ 4,289,142</u>	<u>\$ 729,886</u>	<u>\$ 126,481</u>	<u>\$ (1,430,587)</u>	<u>\$ 9,531,396</u>

HISTORIC SEATTLE
PRESERVATION AND DEVELOPMENT AUTHORITY
Notes to Financial Statements
For the Years Ended December 31, 2016 and 2015

NOTE 17 - CONDENSED COMBINING INFORMATION, CONTINUED

Condensed statement of cash flows, December 31, 2015

	<u>Historic Seattle</u>	<u>Foundation</u>	<u>Cadillac Rehabilitation LLC</u>	<u>Washington Hall QALICB</u>	<u>Eliminations</u>	<u>Total December 31, 2015</u>
Net cash provided (used) by:						
Operating activities	\$ 1,324,649	\$ 2,317,417	\$ 1,124,022	\$ (4,156,240)		\$ 609,848
Non-capital financing activities	(3,501,207)	(2,414,228)		224,246		(5,691,189)
Capital and related financing activities	374,363	2,308,700	(1,173,293)	5,747,609	\$ (520,978)	6,736,401
Investing activities	<u>1,748,891</u>	<u>(2,240,306)</u>	<u>17,032</u>	<u>(1,767,526)</u>	<u>520,978</u>	<u>(1,720,931)</u>
Net increase in cash and cash equivalents	(53,304)	(28,417)	(32,239)	48,089		(65,871)
Beginning cash and cash equivalents	<u>524,518</u>	<u>510,085</u>	<u>111,331</u>	<u></u>		<u>1,145,934</u>
Ending cash and cash equivalents	<u>\$ 471,214</u>	<u>\$ 481,668</u>	<u>\$ 79,092</u>	<u>\$ 48,089</u>	<u>\$ -</u>	<u>\$ 1,080,063</u>

WATSON & McDONELL, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Council
Historic Seattle Preservation and Development Authority
Seattle, Washington

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities of Historic Seattle Preservation and Development Authority (the Organization) as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise Historic Seattle Preservation and Development Authority's basic financial statements, and have issued our report thereon dated July 20, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Watson & McDowell, PLLC

July 20, 2017

HISTORIC SEATTLE PRESERVATION
AND DEVELOPMENT AUTHORITY

Financial Statements
and Supplementary Information
for the Years Ended December 31, 2015 and 2014
and Independent Auditor's Report

HISTORIC SEATTLE PRESERVATION AND DEVELOPMENT AUTHORITY

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WATSON & McDONELL, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

Council
Historic Seattle Preservation and Development Authority
Seattle, Washington

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Historic Seattle Preservation and Development Authority (Historic Seattle) as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise Historic Seattle Preservation and Development Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Historic Seattle Preservation and Development Authority as of December 31, 2015 and 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 21, 2016 on our consideration of Historic Seattle Preservation and Development Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Historic Seattle Preservation and Development Authority's internal control over financial reporting and compliance.

Watson & McDowell, PLLC

July 21, 2016

HISTORIC SEATTLE
PRESERVATION AND DEVELOPMENT AUTHORITY
Management's Discussion and Analysis
For the Year Ended December 31, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of the financial performance of Historic Seattle Preservation and Development Authority (Historic Seattle), presents a narrative overview and analysis of the financial activities of Historic Seattle for the year ended December 31, 2015.

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

2015 HIGHLIGHTS

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

2015 was a positive and transitional year for the organization. Historic Seattle was fiscally stable and expanded its programming, outreach and membership initiatives as well as completed a major fundraising milestone for Washington Hall.

ADVOCACY

In 2015, Historic Seattle's Director of Preservation Services, Eugenia Woo, and Preservation Advocacy Coordinator, Brooke Best, continued their outstanding work throughout the community. They successfully organized and led the 7th Annual Historic Preservation Awards held in the Chapel at the Good Shepherd Center. During the awards the organization honored a number of outstanding projects and people in our community. Trinity Parish Episcopal Church was awarded the Beth Chave Historic Preservation Award for Exemplary Stewardship. Others receiving awards included the Starbucks Reserve Roastery and Tasting Room, Dunn Gardens, Anhalt Apartment Building, SDOT Interurban Shelters Restoration, and The Friends of the Conservatory - Volunteer Park. The Architectural Heritage Publication award went to Shaping Seattle Architecture, A Historical Guide to the Architects, Second Edition; and the Living Landmark award went to Ms. Peggy Corley. Keynote speaker Pastor Dennis Andersen eloquently offered his thoughts on preservation in Seattle and presented the awards.

HISTORIC SEATTLE
PRESERVATION AND DEVELOPMENT AUTHORITY
Management's Discussion and Analysis
For the Year Ended December 31, 2015

2015 HIGHLIGHTS, CONTINUED

ADVOCACY, CONTINUED

Ms. Woo and Ms. Best continued to advocate for the preservation and restoration of the Alki Homestead in West Seattle and the Nuclear Reactor Building on the University of Washington campus. In addition, advocacy efforts continued to support the sensitive development of the former Battell Memorial Institute, now the Talaris Conference Center, located in the Laurelhurst neighborhood.

In 2015, the advocacy team also tackled larger city-wide planning efforts. In May, the City of Seattle issued a Draft Environmental Impact Statement analyzing the different ways growth could be distributed across the city. A public comment period ran until June 18. Historic Seattle sent out an "Advocacy Alert" by email, asking our constituents to weigh in to ensure that preservation plays a role in future growth.

Ms. Woo and Ms. Best also launched a new event series at the beginning of the year. The goal of the InterUrban series is to engage a broad audience in conversations about achieving more livable communities through preservation. The series provides informal, advocacy-focused, issues-based event opportunities presented in a variety of formats from small group discussions and happy hour gatherings to behind the scenes tours and social media engagement.

REAL ESTATE DEVELOPMENT

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

In anticipation of upcoming construction activities at Washington Hall, the building was closed for public use on January 1, 2015. Throughout the year we made substantive and timely progress on pre-construction activities including the development of the scope of work (sprinklers, elevators, finish restoration, space build-out and seismic upgrades) and completion of the design. In addition we successfully bid the project, selected the contractor, executed the contract and began construction. While we finalized the design and engaged the construction team, Historic Seattle also finalized and closed New Markets Tax Credit financing yielding \$2.6 million of funding for the rehabilitation. The tax credit team included the City of Seattle's Office of Economic Development and U.S. Bancorp Community Development Corporation.

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2015 HIGHLIGHTS, CONTINUED

REAL ESTATE DEVELOPMENT, CONTINUED

During the fourth quarter of 2015, 4Culture created the Building for Culture grant program. Historic Seattle applied and was awarded \$986,000. These funds were earmarked to substantially complete the Washington Hall rehabilitation project. The scope of work includes restoration of the east façade, build-out of the west third floor including classrooms, meeting space and a recording studio, restoration of three windows, repair of the east ramp railing and reproduction of the north roof cornice.

Our apartment buildings, Bel Boy Apartments, Heg-Phillips Apartments, and Victorian Row Apartments continued to provide low-income to very low-income housing. The Good Shepherd Center continued to offer below market office, classroom and meeting space to a variety of tenants as well as six artist housing units with rents set as affordable for the low income residents. The Cadillac Hotel continued to house the National Park Service's Klondike Gold Rush Museum, while rent from the single family residence, Egan House, continued to support the stewardship of this mid-century modern City of Seattle Landmark structure. It should be noted that a very low vacancy rate was experienced during 2015.

EDUCATIONAL PROGRAMMING

Mr. Larry Kreisman, our Program Director, delivered a wonderful assemblage of successful educational programs in 2015. Over 1500 people attended Historic Seattle events and programs in 2015, as Historic Seattle led out-of-town tours to Westhome (Congdon's Castle) in Yakima and an exploration of the architecture of agriculture throughout King County. Tours of Seattle neighborhoods included First Hill and Madrona. Architecture-focused lectures and presentations highlighted decorative terra cotta, Canadian artists and architects from 1890-1918 and the restoration of the Hollyhock House. Additional in-town tours included the Nucor Steel plant, George Tsutakawa's home and studio in Mount Baker, the Washington Street Boat Landing and the Peterson Residence in Loyal Heights. Free quarterly member meetings brought members and the public to sites of historic and architectural interest across Seattle and King County including the Broadway Performance Hall at Seattle Central College, Inglewood Golf Club, the Rainier Club and the Seattle Hebrew Academy.

The "Digging Deeper" series gave attendees a behind-the-scenes tour of unique collections including the Seattle Public School Archive, the Seattle Department of Planning and Development, the University of Washington Built Environment and Slide Libraries, the Fiske Library and Archives, the Washington State Historical Society in Tacoma, the Tacoma Public Library, the Eastside Heritage Center and Providence Mount St. Vincent.

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2015 HIGHLIGHTS, CONTINUED

COMMUNITY AFFAIRS

Historic Seattle's newsletter, *Preservation News*, and our annual program brochure were distributed twice in 2015 to over 4,500 people throughout King County. We continue to use Historic Seattle and Washington Hall web sites and social networking technology (Facebook, Instagram and the M^Ain2 preservation blog) to reach the broader community. We regularly send press releases and monthly email alerts about events and current issues to over 120 sources nationally and advertise in national and local magazines and news sources.

Historic Seattle is committed to building partnerships with other organizations to produce and promote programs and events and to expand advocacy for and education related to historic preservation in King County and nationally. In 2015, these organizations included the National Trust for Historic Preservation, the University of Washington School of Architecture, the King County Historic Preservation Commission, Futurewise, Forterra, Friends of Mukai, the Southwest Seattle Historical Society, Historic Tacoma, the Preservation Green Lab, 4Culture, Museum of History & Industry (MOHAI), the Seattle Office of Arts & Culture, Docomomo Western Washington, Washington Trust for Historic Preservation, Frye Art Museum, Northwest Film Forum, and the Seattle Art Museum.

Our efforts to expand and cultivate our membership base continued in 2015. Historic Seattle had 454 members by the end of the year.

VOLUNTEERS

Historic Seattle volunteers served on the Historic Seattle governing Council and Historic Seattle Preservation Foundation board, joined committees, helped develop the annual Awards Ceremony, and assisted with administrative and other tasks. In 2015, active volunteers contributed over 741 hours of their time in the areas of governance, gardening at Good Shepherd Center, special projects at Washington Hall, and emergency preparedness for all properties.

STAFF CHANGES

January 1, 2015 marked a leadership change at Historic Seattle. Kathleen Brooker retired from her post at the conclusion of 2014 and Kji Kelly became the organization's fifth Executive Director.

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2015 HIGHLIGHTS, CONTINUED

STAFF CHANGES, CONTINUED

In addition to this transition, a new fundraising position was created and Naomi West was hired as Director of Philanthropy. Ms. West's responsibilities include building a culture of philanthropic support for the organization through the enhancement of existing initiatives, the creation and implementation of new fundraising strategies and the development of the Foundation Board.

INTRODUCTION TO THE FINANCIAL STATEMENTS

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

All statements are prepared on the accrual basis of accounting. This means that financial transactions are recognized and reported in the financial statements when the transactions occur, regardless of the timing of related cash flows. This audit is for the years 2015 and 2014.

USING THIS ANNUAL REPORT

In addition to the Management's Discussion and Analysis, this annual report consists of a series of financial statements. The Balance Sheet provides information on the assets and liabilities of Historic Seattle. The Statement of Revenues, Expenses and Changes in Net Position presents information on how Historic Seattle's position changed during the year. Also included is the Statement of Cash Flows. These statements appear on pages 12 through 16.

BASIC FINANCIAL STATEMENTS

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

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BASIC FINANCIAL STATEMENTS, CONTINUED

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

FINANCIAL ANALYSIS

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Current assets	\$ 2,580,460	\$ 1,358,169	\$ 1,163,325
Non-current assets	7,530,522	364,107	269,625
Capital assets, net	<u>18,966,617</u>	<u>16,109,453</u>	<u>16,377,288</u>
Total assets	<u>\$ 29,077,599</u>	<u>\$ 17,831,729</u>	<u>\$ 17,810,238</u>
Current liabilities	\$ 2,504,193	\$ 609,941	\$ 502,554
Long-term liabilities	<u>17,042,010</u>	<u>9,030,149</u>	<u>9,202,353</u>
Total liabilities	<u>\$ 19,546,203</u>	<u>\$ 9,640,090</u>	<u>\$ 9,704,907</u>
Net position:			
Invested in capital assets, net of related debt	\$ 3,231,048	\$ 7,146,149	\$ 7,366,036
Restricted	288,088	364,733	160,379
Unrestricted	<u>6,012,260</u>	<u>680,757</u>	<u>578,916</u>
Total net position	<u>\$ 9,531,396</u>	<u>\$ 8,191,639</u>	<u>\$ 8,105,331</u>

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

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

HISTORIC SEATTLE
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Management's Discussion and Analysis
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FINANCIAL ANALYSIS, CONTINUED

The difference between total assets and total liabilities, net position, is one indicator of financial health. Net position increased by \$1,339,757 and \$86,308 in 2015 and 2014, respectively. The increase in net position during 2015 as compared to 2014, was attributable to an increase in receipt of grants and contributions for capital activities, forgiveness of debt and a slight decrease in operating expenses. The increase in net position during 2014 as compared to 2013, was attributable to an increase in receipt of grants and contributions for capital activities offset by a decrease in operating grants and event revenue and an increase in operating expenses.

The results of operations for Historic Seattle are presented below:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Operating revenues:			
Commercial and residential			
tenant revenues	\$ 2,344,905	\$ 2,346,182	\$ 2,320,743
Event fees and membership dues	85,127	80,018	122,173
Grants and donations	33,988	52,141	81,831
Consulting fees	8,029	9,667	1,457
Other	2,743	2,071	1,478
Operating expenses:			
Salaries, benefits and payroll taxes	(866,846)	(826,226)	(716,230)
Operating, maintenance and utilities	(752,222)	(800,233)	(664,458)
Other operating expenses	(200,786)	(326,416)	(385,504)
Depreciation	<u>(596,443)</u>	<u>(618,373)</u>	<u>(611,119)</u>
Net operating gain	<u>58,495</u>	<u>(81,169)</u>	<u>150,371</u>
Non-operating revenues:			
Grants and donations, including			
forgiveness of debt and deferred			
loan interest	810,950	37,785	26,768
Interest income, and gain on beneficial			
interest in assets held by community			
foundations	47,185	1,165	2,007
Non-operating expenses:			
Interest expense, including one-time costs			
related to new long-term debt (2015)	<u>(895,203)</u>	<u>(412,680)</u>	<u>(427,661)</u>
Net non-operating loss	<u>(37,068)</u>	<u>(373,730)</u>	<u>(398,886)</u>
Gain (loss) before capital contributions	21,427	(454,899)	(248,515)

HISTORIC SEATTLE
PRESERVATION AND DEVELOPMENT AUTHORITY
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FINANCIAL ANALYSIS, CONTINUED

The results of operations for Historic Seattle, continued:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Capital contributions	<u>1,318,330</u>	<u>541,207</u>	<u>484,274</u>
Change in net position	1,339,757	86,308	235,759
Net position, beginning of year	<u>8,191,639</u>	<u>8,105,331</u>	<u>7,869,572</u>
Net position, end of year	<u>\$ 9,531,396</u>	<u>\$ 8,191,639</u>	<u>\$ 8,105,331</u>

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

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Historic Seattle's investment in capital assets as of December 31, 2015 and 2014, amounts to \$18,966,617 and \$16,109,453, respectively. This investment in capital assets includes real estate, furniture and equipment, and other assets. Additional information on Historic Seattle's capital assets can be found in Note 8.

Historic Seattle's real estate activity is financed, in part, by long-term debt secured by real estate. Historic Seattle had \$18,182,660 and \$8,842,834 of outstanding debt at December 31, 2015 and 2014, respectively. Additional information on Historic Seattle's debt can be found in Note 11.

HISTORIC SEATTLE
PRESERVATION AND DEVELOPMENT AUTHORITY
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2016 OVERVIEW

The rehabilitation of Washington Hall was substantially completed in May of 2016. The organization and the community celebrated a grand re-opening on June 1 and the building is once again coming alive, providing the community with much needed affordable performance, meeting and office space.

In addition to the \$986,000 of grant funding for Phase 4 of Washington Hall from 4Culture's Building for Culture, another result of the Building for Culture program was the creation of the Preservation Action Fund. This \$2,000,000 fund will revolve from one preservation project to another and will be administered by Historic Seattle, 4Culture, King County Historic Preservation Program and the Washington Trust for Historic Preservation. Historic Seattle will purchase, restore and sell historic properties with a protective easement and/or landmark designation. Sales proceeds will return to the fund to enable the purchase of another property. Projects will be located outside of Seattle but within King County.

Since the completion of Washington Hall, Historic Seattle has focused more time and attention on future real estate opportunities. These opportunities represent a variety of building types, uses, conditions and potential partnerships. We continue to consider future projects and consistently weigh these opportunities with our ability to assemble large capital funding stacks necessary to acquire and rehabilitate all of the potential properties.

In response to the high cost of acquisition and rehabilitation, Historic Seattle will continue to place greater emphasis on developing a culture of philanthropic support. We look to rebuild and reposition Historic Seattle's Foundation Board to emphasize fundraising and to develop a strong and lasting relationship with Historic Seattle PDA's Council.

REQUESTS FOR INFORMATION

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

HISTORIC SEATTLE
PRESERVATION AND DEVELOPMENT AUTHORITY
Balance Sheets
December 31, 2015 and 2014

ASSETS

	<u>2015</u>	<u>2014</u>
Current assets:		
Cash and cash equivalents	\$ 1,080,063	\$ 1,145,934
Restricted cash	751,279	
Security deposits	15,928	15,954
Accounts receivable	85,157	92,699
Grants receivable	561,812	4,500
Prepaid expenses	53,596	57,169
Inventory	<u>32,625</u>	<u>41,913</u>
	<u>2,580,460</u>	<u>1,358,169</u>
Non-current assets:		
Deferred rent asset	32,565	28,415
Reserves	209,266	187,108
Restricted cash	1,016,247	21,250
Grants receivable	272,045	90,576
Pledges receivable, net of allowance of \$5,625 in 2015 and 2014	10,000	27,441
Note receivable	5,981,400	
Beneficial interest in assets held by community foundation	8,999	9,317
Capital assets, net (Note 8)	<u>18,966,617</u>	<u>16,109,453</u>
	<u>26,497,139</u>	<u>16,473,560</u>
	<u>\$ 29,077,599</u>	<u>\$ 17,831,729</u>

The accompanying notes should be read with these financial statements.

HISTORIC SEATTLE
PRESERVATION AND DEVELOPMENT AUTHORITY
Balance Sheets, Continued
December 31, 2015 and 2014

LIABILITIES AND NET POSITION

	2015	2014
Current liabilities:		
Accounts payable	\$ 56,737	\$ 71,313
Accrued expenses	75,969	64,956
Accrued interest		22,072
Construction costs payable	751,279	120,470
Security deposits	52,459	52,648
Prepaid rent and event fees	44,121	94,549
Current portion notes payable	1,523,628	183,933
	<u>2,504,193</u>	<u>609,941</u>
Long-term liabilities:		
Deferred interest	382,978	371,248
Notes payable	16,659,032	8,658,901
	<u>17,042,010</u>	<u>9,030,149</u>
	<u>19,546,203</u>	<u>9,640,090</u>
Net position:		
Invested in capital assets, net of related debt	3,231,048	7,146,149
Restricted	288,088	364,733
Unrestricted	6,012,260	680,757
	<u>9,531,396</u>	<u>8,191,639</u>
	<u>\$ 29,077,599</u>	<u>\$ 17,831,729</u>

The accompanying notes should be read with these financial statements.

HISTORIC SEATTLE
PRESERVATION AND DEVELOPMENT AUTHORITY
Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Operating revenues:		
Rents	\$ 2,344,905	\$ 2,346,182
Consulting fees	8,029	9,667
Membership dues	43,969	47,941
Operating grants and donations	33,988	52,141
Event revenue	41,158	32,077
Other	2,743	2,071
	<u>2,474,792</u>	<u>2,490,079</u>
Operating expenses:		
Salaries, benefits and taxes	866,846	826,226
Professional fees	50,621	197,357
Property management fee	110,311	76,651
Office expense and other	113,368	100,462
Event expense	21,275	20,285
Insurance and taxes	150,809	136,651
Conferences	4,994	3,180
Depreciation	596,443	618,373
Maintenance and utilities	491,102	586,931
Project development expense	6,500	
Bad debt expense	4,028	5,132
	<u>2,416,297</u>	<u>2,571,248</u>
Change in net position from operations	<u>58,495</u>	<u>(81,169)</u>
Non-operating revenues (expenses):		
Grants and donations	290,211	33,633
Interest revenue	46,901	562
Forgiveness of debt	516,587	
Forgiveness of deferred loan interest	4,152	4,152
Gain on beneficial interest in assets held by community foundation	284	603
Interest expense and loan closing costs (2015)	<u>(895,203)</u>	<u>(412,680)</u>
Total non-operating income (loss) before capital grants and contributions	<u>(37,068)</u>	<u>(373,730)</u>
Capital grants and contributions	<u>1,318,330</u>	<u>541,207</u>
Change in net position	1,339,757	86,308
Net position, beginning of year	<u>8,191,639</u>	<u>8,105,331</u>
Net position, end of year	<u>\$ 9,531,396</u>	<u>\$ 8,191,639</u>

The accompanying notes should be read with these financial statements.

HISTORIC SEATTLE
PRESERVATION AND DEVELOPMENT AUTHORITY
Statements of Cash Flows
For the Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from tenants	\$ 2,297,706	\$ 2,355,342
Receipts from donors and fundraising events	26,488	57,641
Receipts from members and customers	95,899	91,756
Payments to suppliers	(954,412)	(1,227,794)
Payments to employees	<u>(855,833)</u>	<u>(827,425)</u>
Net cash provided by operating activities	<u>609,848</u>	<u>449,520</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Receipts from donors	290,211	33,633
Notes receivable	<u>(5,981,400)</u>	<u> </u>
Net cash provided (used) by non-capital financing activities	<u>(5,691,189)</u>	<u>33,633</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Receipt of grants and donations restricted for capital purposes	604,490	474,802
Payments for land, buildings, furniture and equipment	(2,823,109)	(230,068)
Proceeds from notes payable	15,614,977	
Payments on notes payable	(5,758,564)	(168,418)
Interest and loan closing costs paid on capital debt	<u>(901,393)</u>	<u>(397,240)</u>
Net cash provided (used) by capital and financing activities	<u>6,736,401</u>	<u>(320,924)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Deposits to restricted cash	(1,746,276)	(833)
Deposits to reserves	(22,158)	(21,849)
Withdrawals from reserves		3,520
Interest received	<u>47,503</u>	<u>1,001</u>
Net cash used by investing activities	<u>(1,720,931)</u>	<u>(18,161)</u>
Net increase (decrease) in cash and cash equivalents	(65,871)	144,068
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,145,934</u>	<u>1,001,866</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 1,080,063</u>	<u>\$ 1,145,934</u>

The accompanying notes should be read with these financial statements.

HISTORIC SEATTLE
PRESERVATION AND DEVELOPMENT AUTHORITY
Statements of Cash Flows, Continued
For the Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
RECONCILIATION OF CHANGE IN NET POSITION TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Change in net position from operations	\$ 58,495	\$ (81,169)
Adjustments to reconcile change in net position from operations to net cash provided by operating activities:		
Depreciation	596,443	618,373
Loss on disposal	311	
Deferred rent asset change	(4,150)	7,099
Decrease (increase) in operating assets:		
Accounts receivable	7,542	(5,784)
Grants receivable	(7,500)	5,500
Prepaid insurance	3,573	(31,074)
Inventory	9,288	(31,516)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(3,563)	(39,754)
Security deposits, net	(163)	(2,347)
Prepaid rent and event fees	<u>(50,428)</u>	<u>10,192</u>
Net cash provided by operating activities	<u>\$ 609,848</u>	<u>\$ 449,520</u>
NON-CASH FINANCING AND INVESTING ACTIVITIES		
Land, buildings, furniture and equipment financed with construction costs payable	\$ 751,279	\$ 120,470
Reduction in notes payable due to forgiveness of debt	\$ 516,587	

The accompanying notes should be read with these financial statements.

HISTORIC SEATTLE
PRESERVATION AND DEVELOPMENT AUTHORITY
Notes to Financial Statements
For the Years Ended December 31, 2015 and 2014

NOTE 1 - NATURE OF THE ORGANIZATION

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

These statements include the accounts of Historic Seattle and its component units: Historic Seattle Preservation Foundation (the Foundation), Cadillac Rehabilitation LLC, and Washington Hall QALICB. Historic Seattle appoints a majority of the board of directors of the Foundation, and is the sole member of Washington Hall QALICB, both Washington nonprofit corporations. Historic Seattle is the sole member of Cadillac Rehabilitation LLC. These entities are reported as blended component units because their activities exclusively benefit Historic Seattle and Historic Seattle is the sole member of each.

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

Basis of accounting

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

Restricted net position

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

HISTORIC SEATTLE
PRESERVATION AND DEVELOPMENT AUTHORITY
Notes to Financial Statements
For the Years Ended December 31, 2015 and 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Restricted net position, continued

Resources were restricted for the following purposes at December 31,:

	<u>2015</u>	<u>2014</u>
Restoration projects	\$ 260,200	\$ 351,344
Other projects	<u>27,888</u>	<u>13,389</u>
	<u>\$ 288,088</u>	<u>\$ 364,733</u>

Cash and cash equivalents

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

Inventory

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

Capital assets and depreciation

Property and equipment are recorded at cost. Improvements with a cost of more than \$5,000 are capitalized, while expenditures for maintenance and repairs are charged to expense as incurred. Upon disposal of depreciable property, the appropriate property accounts are reduced by the related costs and accumulated depreciation. Interest costs incurred during the construction period are capitalized and added to the cost of the related building. Interest costs of \$30,472 were capitalized during 2015. Depreciation has been computed on the straight-line basis for furnishings and equipment over five to seven years and for buildings and improvements over 10 to 40 years.

Historic Seattle reviews its investment in real estate for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the real estate to the future net undiscounted cash flow expected to be generated by the rental property including any estimated proceeds from the eventual disposition of the real estate. If the real estate is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the real estate exceeds the fair value of such property. No impairment losses were recognized in 2015 and 2014.

Donated property, equipment and services

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

HISTORIC SEATTLE
PRESERVATION AND DEVELOPMENT AUTHORITY
Notes to Financial Statements
For the Years Ended December 31, 2015 and 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Federal income tax

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

Classification of revenues and expenses

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

Revenue recognition

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

Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with governmental accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassification

Certain amounts from the prior-year financial statements have been reclassified to conform to the current-year presentation.

NOTE 3 - SECURITY DEPOSITS

Security deposits for commercial tenants are included with cash and cash equivalents pursuant to the lease agreements. Security deposits for residential tenants are segregated in a separate bank account; the balance at December 31, 2015 and 2014, was \$15,928 and \$15,954, respectively.

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NOTE 4 - PLEDGES RECEIVABLE

In 2012, Historic Seattle launched a capital campaign to raise funds for the restoration of Washington Hall. Unconditional pledges receivable are recorded when the pledges are received. No discount has been applied as it is immaterial. Historic Seattle records an allowance for estimated uncollectible accounts in an amount approximating anticipated losses. Individual uncollectible accounts are written off against the allowance when collection of the individual accounts appears doubtful. At December 31, 2015 and 2014, an allowance for doubtful accounts of \$5,625 was recorded.

Pledges are expected to be collected in the following periods:

	<u>2015</u>	<u>2014</u>
Less than one year	\$ 10,625	\$ 23,066
One to three years	5,000	10,000
Less: allowance	<u>(5,625)</u>	<u>(5,625)</u>
	<u>\$ 10,000</u>	<u>\$ 27,441</u>

NOTE 5 - RESERVES

Historic Seattle is required, under certain loan agreements, to fund from available cash flows replacement and operating reserves for its various buildings. The balance of these reserves at December 31, 2015 and 2014, was \$209,266 and \$187,108, respectively.

NOTE 6 - RESTRICTED CASH

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

The accounts had the following balance at December 31, 2015:

Loan disbursement account, current	\$ 751,279
Loan disbursement account, non-current	634,546
Fee and expense reserve account	<u>381,701</u>
	<u>\$ 1,767,526</u>

These accounts serve as collateral for the notes payable to Seattle Subsidiary Investment Fund IX, LLC (Note 11).

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NOTE 7 - NOTE RECEIVABLE

Historic Seattle Preservation Foundation acted as the Leverage Lender to the New Markets Tax Credit financing transaction which provided funding for the rehabilitation of Washington Hall. On June 17, 2015, the Foundation entered into a loan agreement with Twain Investment Fund 81, LLC, lending the LLC \$5,981,400.00. The principal amount of the loan represents the appraised value of the Washington Hall property and the sum of funds raised through our Capital Campaign to assist with the cost of the rehabilitation. The Note matures June 30, 2048 and bears interest at 1.4363%. Payments are semi-annual, on June 10 and December 10. Payments are interest only through December 10, 2022. Beginning with the payment due on June 10, 2023, semi-annual amortizing payments of \$140,484 are due on each payment date. The Note is collateralized by an assignment of Twain Investment Fund 81, LLC's membership interest in Seattle Subsidiary Investment Fund IX, LLC, the sub-CDE (Community Development Entity) that provided the New Markets Tax Credit allocation to the Washington Hall transaction. If the requirements of the New Markets Tax Credit program are met during the required seven year holding period, this loan will be forgiven in 2022.

NOTE 8 - CAPITAL ASSETS

The activity in the capital asset accounts for Historic Seattle for 2015 and 2014 was as follows:

	Beginning Balance 2015	Increases	Decreases	Ending Balance 2015
Buildings	\$ 21,566,528	\$ 39,316		\$ 21,605,844
Land	2,115,434			2,115,434
Furniture and equipment	245,408		(65,563)	179,845
Non-depreciable assets – historical artifacts and preservation easement	68,047			68,047
Construction in progress	<u>251,246</u>	<u>3,414,602</u>		<u>3,665,848</u>
	<u>\$ 24,246,663</u>	<u>\$ 3,453,918</u>	<u>\$ (65,563)</u>	<u>\$ 27,635,018</u>

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NOTE 8 - CAPITAL ASSETS, CONTINUED

	Beginning Balance 2015	Increases	Decreases	Ending Balance 2015
Accumulated depreciation, buildings	\$ 7,981,372	\$ 585,187		\$ 8,566,559
Accumulated depreciation, furniture and equipment	<u>155,838</u>	<u>11,256</u>	<u>(65,252)</u>	<u>101,842</u>
	<u>\$ 8,137,210</u>	<u>\$ 596,443</u>	<u>(65,252)</u>	<u>\$ 8,668,401</u>
Capital assets, net				<u>\$ 18,966,617</u>

	Beginning Balance 2014	Increases	Decreases	Ending Balance 2014
Buildings	\$ 21,477,641	\$ 88,887		\$ 21,566,528
Land	2,115,434			2,115,434
Furniture and equipment	220,835	24,573		245,408
Non-depreciable assets – historical artifacts and preservation easement	68,047			68,047
Construction in progress	<u>14,168</u>	<u>237,078</u>		<u>251,246</u>
	<u>\$ 23,896,125</u>	<u>\$ 350,538</u>		<u>\$ 24,246,663</u>

	Beginning Balance 2014	Increases	Decreases	Ending Balance 2014
Accumulated depreciation, buildings	\$ 7,372,115	\$ 609,257		\$ 7,981,372
Accumulated depreciation, furniture and equipment	<u>146,722</u>	<u>9,116</u>		<u>155,838</u>
	<u>\$ 7,518,837</u>	<u>\$ 618,373</u>		<u>\$ 8,137,210</u>
Capital assets, net				<u>\$ 16,109,453</u>

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NOTE 9 - LEASES

Mutual Life Building

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

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

2016	\$ 15,600
2017	16,224
2018	16,873
2019	17,548
2020	18,250
2021 - 2025	102,801
2026 - 2030	125,073
2031 - 2033	<u>87,700</u>
	<u>\$ 400,069</u>

Good Shepherd Center

Historic Seattle owns the Good Shepherd Center, a historic building in the Wallingford district of Seattle. It is used primarily as office space for nonprofit organizations and schools as well as residential artist studios. Historic Seattle leases the building to 36 tenants. The leases, the majority of which expire over the next three years, contain rent escalation clauses of three to five percent per year.

Other properties

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

The cost and carrying amount of Historic Seattle's leased assets at December 31, 2015, was \$19,045,170 and \$11,139,538, respectively. At December 31, 2014, the cost and carrying amount was \$22,329,542 and \$14,756,925, respectively. Depreciation expense for 2015 and 2014, related to the leased assets, was \$530,819 and \$582,608, respectively.

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NOTE 9 - LEASES, CONTINUED

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

2016	\$ 1,722,565
2017	1,551,845
2018	1,419,754
2019	1,357,617
2020	1,291,602
2021 - 2025	<u>5,076,495</u>
	<u>\$ 12,419,878</u>

NOTE 10 - BENEFICIAL INTEREST IN ASSETS HELD BY COMMUNITY FOUNDATION

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

At December 31, 2015 and 2014, the value of the fund was \$8,999 and \$9,317, respectively. During 2015 and 2014, a gain of \$284 and \$603, respectively, was recorded in these statements. Administrative fees of \$292 for each year have also been recorded.

NOTE 11 - NOTES PAYABLE

	<u>2015</u>	<u>2014</u>
<u>Cadillac Rehabilitation LLC:</u>		
Note payable, Beneficial State Bank, original amount \$4,650,000, issued December 15, 2015, bears interest at 4.4%; monthly payments of \$35,479 beginning January 2016; matures December 2030	\$ 4,650,000	
Note payable, City of Seattle, original amount \$2,040,000, bears interest at 4.5% per annum; payable monthly, annual principal payments began July 15, 2006, in the amount of \$33,000; matures July 2022, note paid in full December 2015		\$ 1,671,000

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NOTE 11 - NOTES PAYABLE, CONTINUED

	<u>2015</u>	<u>2014</u>
<u>Cadillac Rehabilitation LLC, continued</u>		
Note payable, Key Bank, interest at 7%; monthly payments of \$27,961; matures February 2016, note paid in full December 2015		\$ 3,661,951
<u>Egan House</u>		
Note payable, Union Bank, bears interest at the “3-year amortizing intermediate/long-term advance rate” plus 4%; at December 31, 2015, interest rate was 7.75%; monthly payments are \$769; matures December 2032	\$ 86,048	88,186
<u>Good Shepherd Center</u>		
Note payable, Key Bank, bears interest at 4.32%; payable in monthly installments of \$5,509 beginning August 1, 2012; matures June 2022	919,455	944,690
Note payable, City of Seattle, bears interest at 1%; if Historic Seattle remains in compliance with the terms of the loan, no further interest accrues after July 2021; lender will forgive repayment of 5% of the interest beginning July 2022 and for each year thereafter; matures July 2, 2041, or earlier without penalty; the borrower may extend the maturity date for up to 7, 5-year periods; in 2076, the unpaid principal and any remaining interest will be forgiven	475,299	475,299
Note payable, Washington State Department of Commerce, interest at 1%; payments were deferred until August 31, 2008, at which time annual payments of \$5,200 began and continue for 39 years, to August 31, 2047	141,821	145,565
<u>Bel Boy Apartments</u>		
Note payable, City of Seattle, bears interest at 1%; interest accrued the first 20 years through December 2009; if Historic Seattle remains in compliance with the terms of the loan agreement, lender will forgive repayment of 5% of the interest beginning 2010 and for each year thereafter until maturity, December 22, 2029; the borrower may extend the maturity date for up to four, 5-year periods; in year 20, the unpaid principal and any remaining interest will be payable	415,087	415,087

NOTE 11 - NOTES PAYABLE, CONTINUED

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NOTE 11 - NOTES PAYABLE, CONTINUED

	<u>2015</u>	<u>2014</u>
<u>Washington Hall, continued</u>		
Non-revolving line of credit, Beneficial State Bank, original amount of \$1,950,000, issued April 27, 2015, variable interest based upon the Federal Reserve Bank's Three Year Treasury Constant Maturity Index plus 3%, with a floor of 4.25%, at December 31, 2015, interest rate was 4.25%, monthly interest only payments through July 2016, principal is being paid down as Washington Hall capital campaign contributions are collected from funders and donors, converts to term loan beginning August 2016 with monthly amortizing payments sufficient to fully repay remaining principal and interest by maturity, April 2026, collateralized by the Dearborn House	\$ 1,430,844	
	18,182,660	\$ 8,842,834
Less: current portion	<u>(1,523,628)</u>	<u>(183,933)</u>
Total notes payable	<u>\$ 16,659,032</u>	<u>\$ 8,658,901</u>

HSPDA has a second non-revolving line of credit with Beneficial State Bank in the original amount of \$1,150,000, which was issued April 27, 2015. Funds in the amount of \$374,977 were advanced from the line of credit and used by Historic Seattle to bridge public and private grant funding pledged to the capital campaign to restore Washington Hall. This line of credit matures April 30, 2018 and bears interest at 4.25%. Required monthly payments are interest only through maturity. The funds drawn on the line and all outstanding interest were paid in full on July 30, 2015. Available credit remaining on the line as of December 31, 2015 is \$775,023. The line of credit is collateralized by the Dearborn House.

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

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NOTE 11 - NOTES PAYABLE, CONTINUED

Following are the changes in notes payable for the year ended December 31, 2015:

Notes payable	Balance December 31, 2014	Additions	Reductions	Balance December 31, 2015	Current Portion
Cadillac Hotel					
Beneficial State Bank		\$ 4,650,000		\$ 4,650,000	\$ 226,975
City of Seattle	\$ 1,671,000		\$ 1,671,000		
Key Bank	3,661,951		3,661,951		
Egan House					
Union Bank	88,186		2,138	86,048	2,657
Good Shepherd Center					
Key Bank	944,690		25,235	919,455	26,917
City of Seattle	475,299			475,299	
Washington State	145,565		3,744	141,821	3,782
BelBoy Apartments					
City of Seattle	415,087			415,087	
Victorian Row Apartments					
City of Seattle	672,841			672,841	
Key Bank	212,212		12,950	199,262	13,426
William B. Phillips/Heg					
House Apartments					
City of Seattle	440,003			440,003	
Washington State	116,000		4,000	112,000	4,000
Washington Hall					
Seattle Subsidiary					
Investment Fund IX, LLC		5,981,400		5,981,400	
Seattle Subsidiary					
Investment Fund IX, LLC		2,658,600		2,658,600	
Beneficial State Bank		1,950,000	519,156	1,430,844	1,245,871
Beneficial State Bank		374,977	374,977		
Total notes payable	<u>\$ 8,842,834</u>	<u>\$15,614,977</u>	<u>\$ 6,275,151</u>	<u>\$ 18,182,660</u>	<u>\$1,523,628</u>

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NOTE 11 - NOTES PAYABLE, CONTINUED

Following are the changes in notes payable for the year ended December 31, 2014:

Notes payable	Balance December 31, 2013	Additions	Reductions	Balance December 31, 2014	Current Portion
Cadillac Hotel					
City of Seattle	\$ 1,720,000		\$ 49,000	\$ 1,671,000	\$ 51,000
Key Bank	3,734,766		72,815	3,661,951	84,517
Egan House					
Union Bank	90,417		2,231	88,186	2,486
Good Shepherd Center					
Key Bank	968,845		24,155	944,690	25,236
City of Seattle	475,299			475,299	
Washington State	149,273		3,708	145,565	3,744
BelBoy Apartments					
City of Seattle	415,087			415,087	
Victorian Row Apartments					
City of Seattle	672,841			672,841	
Key Bank	224,721		12,509	212,212	12,950
William B. Phillips/Heg House Apartments					
City of Seattle	440,003			440,003	
Washington State	<u>120,000</u>		<u>4,000</u>	<u>116,000</u>	<u>4,000</u>
Total notes payable	<u>\$ 9,011,252</u>		<u>\$ 168,418</u>	<u>\$ 8,842,834</u>	<u>\$ 183,933</u>

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NOTE 11 - NOTES PAYABLE, CONTINUED

Future principal and interest payments are as follows:

	<u>Principal</u>	<u>Interest</u>
2016	\$ 1,523,628	\$ 359,028
2017	302,342	338,556
2018	473,189	320,109
2019	314,709	306,086
2020	328,284	292,511
2021 - 2025	3,317,072	1,118,566
2026 - 2030	3,870,761	596,509
2031 - 2035	2,717,274	726,745
2036 - 2040	1,671,024	204,654
2041 - 2045	1,747,456	120,225
2046 - 2049	<u>1,441,622</u>	<u>32,548</u>
	<u>\$17,707,361</u>	<u>\$ 4,415,537</u>

The above schedule does not reflect forgivable principal and interest owed to the City of Seattle. A loan of \$475,299 is expected to be forgiven July 2076 and during the years 2015 through 2041, a total of \$153,194 of interest is expected to be forgiven.

NOTE 12 - DEFERRED COMPENSATION PLAN

Historic Seattle offers all regular full-time and part-time employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. Historic Seattle contributes three percent of all full-time employees' salaries. Full-time employees are eligible after six months of employment. Historic Seattle's contributions in 2015 and 2014, totaled \$11,231 and \$11,982, respectively.

NOTE 13 - FORGIVENESS OF DEBT

At the time of the pay-off of the City of Seattle note (Note 11), the City of Seattle forgave a portion of the principal equal to the excess interest paid by Historic Seattle over the life of the loan pursuant to the loan agreement. This accumulated interest represents the difference between the fixed interest rate paid by Historic Seattle and the variable interest rate paid by the City on its corresponding obligation.

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NOTE 14 - CONCENTRATION OF CREDIT RISK

Historic Seattle maintains cash balances at several financial institutions. Accounts at each financial institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. The Organization has not experienced any losses in such accounts. The Organization believes it is not exposed to any significant credit risk on its cash balances. At December 31, 2015 and 2014, the uninsured cash balances totaled \$2,091,129 and \$569,458, respectively.

NOTE 15 - RISK MANAGEMENT

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

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

NOTE 16 - COMMITMENTS AND CONTINGENCIES

Amounts received from grantor agencies are subject to audit and adjustments by the grantor agency. Any disallowed cost, including amounts already collected, may constitute a liability for Historic Seattle. The amounts, if any, of expenditures, which may be disallowed by the grantor, are recorded at the time that such amounts can be reasonably determined, normally upon notification of the government agency. During the years ended December 31, 2015 and 2014, no such adjustments were made.

The Organization entered into a construction contract agreement dated June 3, 2015 in the amount of \$3,969,441, including change orders, for construction services in connection with the rehabilitation of Washington Hall. At December 31, 2015 construction in the amount of \$2,972,954 has been completed and billed.

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NOTE 17 - NEW MARKETS TAX CREDIT FINANCING

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

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

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

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

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

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NOTE 18 - CONDENSED COMBINING INFORMATION

The following is the condensed combining information for the blended component units of Historic Seattle for the years ended December 31, 2015 and 2014.

Condensed balance sheet, December 31, 2015:

	Historic Seattle	Foundation	Cadillac Rehabilitation LLC	Washington Hall QALICB	Eliminations	Total December 31, 2015
Current assets	\$ 1,073,711	\$ 525,967	\$ 165,384	\$ 860,861	\$ (45,463)	\$ 2,580,460
Current assets, related party	49,169				(49,169)	
Non-current assets	204,795	6,000,399	39,336	1,240,529	45,463	7,530,522
Non-current assets, related party	4,777,285	50,000			(4,827,285)	
Capital assets, net	<u>5,255,256</u>	<u>6,611</u>	<u>6,943,618</u>	<u>7,461,833</u>	<u>(700,701)</u>	<u>18,966,617</u>
Total assets	<u>\$ 11,360,216</u>	<u>\$ 6,582,977</u>	<u>\$ 7,148,338</u>	<u>\$ 9,563,223</u>	<u>\$ (5,577,155)</u>	<u>\$ 29,077,599</u>
Current liabilities	\$ 1,514,757	\$ 6,487	\$ 231,670	\$ 751,279		\$ 2,504,193
Current liabilities, related party			3,706	45,463	(49,169)	
Long-term liabilities	3,978,985		4,423,025	8,640,000		17,042,010
Long-term liabilities, related party	<u>50,000</u>	<u>2,287,348</u>	<u>1,760,051</u>		<u>(4,097,399)</u>	
Total liabilities	<u>\$ 5,543,742</u>	<u>\$ 2,293,835</u>	<u>\$ 6,418,452</u>	<u>\$ 9,436,742</u>	<u>\$ (4,146,568)</u>	<u>\$ 19,546,203</u>
Net position:						
Invested in capital assets, net of related debt	\$ 1,743,440	\$ 6,611	\$ 888,528	\$ (207,383)	\$ 799,852	\$ 3,231,048
Restricted		288,088				288,088
Unrestricted	<u>4,073,034</u>	<u>3,994,443</u>	<u>(158,642)</u>	<u>333,864</u>	<u>(2,230,439)</u>	<u>6,012,260</u>
Total net position	<u>\$ 5,816,474</u>	<u>\$ 4,289,142</u>	<u>\$ 729,886</u>	<u>\$ 126,481</u>	<u>\$ (1,430,587)</u>	<u>\$ 9,531,396</u>

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NOTE 18 - CONDENSED COMBINING INFORMATION, CONTINUED

Condensed statement of revenues, expenses and changes in net position, December 31, 2015:

	Historic Seattle	Foundation	Cadillac Rehabilitation LLC	Washington Hall QALICB	Eliminations	Total December 31, 2015
Operating revenues:						
Tenant revenues	\$ 1,600,115		\$ 744,790			\$ 2,344,905
Event fees and membership dues	256	\$ 84,871				85,127
Grants and donations	12,000	21,988				33,988
Consulting fees	603,778				\$ (595,749)	8,029
Other		2,743				2,743
Operating expenses:	(1,571,576)	(73,437)	(176,669)	\$ (35,425)	37,253	(1,819,854)
Depreciation:	(361,401)		(235,042)			(596,443)
Net operating gain (loss)	283,172	36,165	333,079	(35,425)	(558,496)	58,495
Non-operating revenues:						
Grants and donations	143,293	3,709,263	516,587	224,246	(3,782,439)	810,950
Interest income, and gain on beneficial interest in assets held by community foundation	95,543	46,724	288		(95,370)	47,185
Gain on investment in limited liability company	381,684				(381,684)	
Non-operating expenses:						
Interest expense	(172,514)	(17,704)	(468,270)	(332,085)	95,370	(895,203)
Grant expense	(3,640,348)	(142,091)			3,782,439	
Net non-operating gain (loss)	(3,192,342)	3,596,192	48,605	(107,839)	(381,684)	(37,068)
Loss before capital contributions	(2,909,170)	3,632,357	381,684	(143,264)	(940,180)	21,427
Capital contributions	1,026,970	21,615		269,745		1,318,330
Gain on transfer of Property	142,205				(142,205)	
Change in net position	(1,739,995)	3,653,972	381,684	126,481	(1,082,385)	1,339,757
Net position, beginning of year	7,556,469	635,170	348,202		(348,202)	8,191,639
Net position, end of year	\$ 5,816,474	\$ 4,289,142	\$ 729,886	\$ 126,481	\$ (1,430,587)	\$ 9,531,396

HISTORIC SEATTLE
PRESERVATION AND DEVELOPMENT AUTHORITY
Notes to Financial Statements
For the Years Ended December 31, 2015 and 2014

NOTE 18 - CONDENSED COMBINING INFORMATION, CONTINUED

Condensed statement of cash flows, December 31, 2015:

	<u>Historic Seattle</u>	<u>Foundation</u>	<u>Cadillac Rehabilitation LLC</u>	<u>Washington Hall QALICB</u>	<u>Eliminations</u>	<u>Total December 31, 2015</u>
Net cash provided (used) by:						
Operating activities	\$ 1,324,649	\$ 2,317,417	\$ 1,124,022	\$ (4,156,240)		\$ 609,848
Non-capital financing activities	(3,501,207)	(2,414,228)		224,246		(5,691,189)
Capital and related financing activities	374,363	2,308,700	(1,173,293)	5,747,609	\$ (520,978)	6,736,401
Investing activities	1,748,891	(2,240,306)	17,032	(1,767,526)	520,978	(1,720,931)
Net increase in cash and cash equivalents	(53,304)	(28,417)	(32,239)	48,089		(65,871)
Beginning cash and cash equivalents	524,518	510,085	111,331			1,145,934
Ending cash and cash equivalents	<u>\$ 471,214</u>	<u>\$ 481,668</u>	<u>\$ 79,092</u>	<u>\$ 48,089</u>		<u>\$ 1,080,063</u>

HISTORIC SEATTLE
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For the Years Ended December 31, 2015 and 2014

NOTE 18 - CONDENSED COMBINING INFORMATION, CONTINUED

Condensed balance sheet, December 31, 2014:

	Historic Seattle	Foundation	Cadillac Rehabilitation LLC	Eliminations	Total December 31, 2014
Current assets	\$ 592,135	\$ 563,858	\$ 202,176		\$ 1,358,169
Non-current assets	271,269	36,758	56,080		364,107
Non-current assets, related party	3,746,059	50,000		\$ (3,796,059)	
Capital assets, net	8,924,182	6,611	7,178,660		16,109,453
Total assets	<u>\$ 13,533,645</u>	<u>\$ 657,227</u>	<u>\$7,436,916</u>	<u>\$ (3,796,059)</u>	<u>\$ 17,831,729</u>
Current liabilities	\$ 474,461	\$ 22,057	\$ 113,423		\$ 609,941
Current liabilities, related party			51,000	\$ (51,000)	
Long-term liabilities	5,452,715		3,577,434		9,030,149
Long-term liabilities, related party	50,000		3,346,857	(3,396,857)	
Total liabilities	<u>\$ 5,977,176</u>	<u>\$ 22,057</u>	<u>\$7,088,714</u>	<u>\$ (3,447,857)</u>	<u>\$9,640,090</u>
Net position:					
Invested in capital assets, net of related debt	\$ 5,243,829	\$ 6,611	\$ 440,619	\$ 1,455,090	\$ 7,146,149
Restricted		364,733			364,733
Unrestricted	2,312,640	263,826	(92,417)	(1,803,292)	680,757
Total net position	<u>\$ 7,556,469</u>	<u>\$ 635,170</u>	<u>\$ 348,202</u>	<u>\$ (348,202)</u>	<u>\$ 8,191,639</u>

HISTORIC SEATTLE
PRESERVATION AND DEVELOPMENT AUTHORITY
Notes to Financial Statements
For the Years Ended December 31, 2015 and 2014

NOTE 18 - CONDENSED COMBINING INFORMATION, CONTINUED

Condensed statement of revenues, expenses and changes in net position, December 31, 2014:

	Historic Seattle	Foundation	Cadillac Rehabilitation LLC	Eliminations	Total December 31, 2014
Operating revenues:					
Tenant revenues	\$ 1,603,017		\$ 743,165		\$ 2,346,182
Event fees and membership dues	524	\$ 79,494			80,018
Grants and donations	10,000	42,141			52,141
Consulting fees	46,794			\$ (37,127)	9,667
Other		2,071			2,071
Operating expenses:	(1,637,731)	(151,713)	(200,558)	37,127	(1,952,875)
Depreciation:	<u>(383,331)</u>		<u>(235,042)</u>		<u>(618,373)</u>
Net operating gain (loss)	<u>(360,727)</u>	<u>(28,007)</u>	<u>307,565</u>		<u>(81,169)</u>
Non-operating revenues:					
Grants and donations	123,542	33,633		(119,390)	37,785
Interest income, and gain on beneficial interest in assets held by community foundation	79,198	636	248	(78,917)	1,165
Non-operating expenses:					
Interest expense	(73,924)		(417,673)	78,917	(412,680)
Loss on investment in limited liability company	(109,860)			109,860	
Grant expense		<u>(119,390)</u>		<u>119,390</u>	
Net non-operating loss	<u>18,956</u>	<u>(85,121)</u>	<u>(417,425)</u>	<u>109,860</u>	<u>(373,730)</u>

HISTORIC SEATTLE
PRESERVATION AND DEVELOPMENT AUTHORITY
Notes to Financial Statements
For the Years Ended December 31, 2015 and 2014

NOTE 18 - CONDENSED COMBINING INFORMATION, CONTINUED

Condensed statement of revenues, expenses and changes in net position, continued,
December 31, 2014:

	Historic Seattle	Foundation	Cadillac Rehabilitation LLC	Eliminations	Total December 31, 2014
Loss before capital contributions	\$ (341,771)	\$ (113,128)	\$ (109,860)	\$ 109,860	\$ (454,899)
Capital contributions	<u>173,672</u>	<u>367,535</u>			<u>541,207</u>
Change in net position	(168,099)	254,407	(109,860)	109,860	86,308
Net position, beginning of year	<u>7,724,568</u>	<u>380,763</u>	<u>458,062</u>	<u>(458,062)</u>	<u>8,105,331</u>
Net position, end of year	<u>\$ 7,556,469</u>	<u>\$ 635,170</u>	<u>\$ 348,202</u>	<u>\$ (348,202)</u>	<u>\$ 8,191,639</u>

Condensed statement of cash flows, December 31, 2014

	Historic Seattle	Foundation	Cadillac Rehabilitation LLC	Eliminations	Total December 31, 2014
Net cash provided (used) by:					
Operating activities	\$ (40,486)	\$ (58,847)	\$ 548,853		\$ 449,520
Non-capital financing activities	119,390	(85,757)			33,633
Capital and related financing activities	(279,856)	370,944	(589,679)	\$ 177,667	(320,924)
Investing activities	<u>163,989</u>	<u>472</u>	<u>(4,955)</u>	<u>(177,667)</u>	<u>(18,161)</u>
Net increase in cash and cash equivalents	(36,963)	226,812	(45,781)		144,068

HISTORIC SEATTLE
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Notes to Financial Statements
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NOTE 18 - CONDENSED COMBINING INFORMATION, CONTINUED

Condensed statement of cash flows, continued, December 31, 2014

	Historic Seattle	Foundation	Cadillac Rehabilitation LLC	Eliminations	Total December 31, 2014
Beginning cash and cash equivalents	<u>561,481</u>	<u>283,273</u>	<u>157,112</u>		<u>1,001,866</u>
Ending cash and cash equivalents	<u>\$ 524,518</u>	<u>\$ 510,085</u>	<u>\$ 111,331</u>		<u>\$ 1,145,934</u>

WATSON & McDONELL, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Council
Historic Seattle Preservation and Development Authority
Seattle, Washington

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities of Historic Seattle Preservation and Development Authority (the Organization) as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise Historic Seattle Preservation and Development Authority's basic financial statements, and have issued our report thereon dated July 21, 2016.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Watson & McDowell, PLLC

July 21, 2016