



Office of the Washington State Auditor
Pat McCarthy

May 17, 2018

Board of Directors
Capitol Hill Housing Improvement Program
Seattle, Washington

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

We have reviewed the audit report issued by a certified public accounting (CPA) firm on the Capitol Hill Housing Improvement Program's financial statements and compliance with federal grant requirements for the fiscal year ended December 31, 2016. The Authority contracted with the CPA firm for this audit.

Based on this review, we have accepted this report in lieu of the audit required by RCW 43.09.260. The State Auditor's Office did not audit the accompanying financial statements or the compliance with federal grant agreements and, accordingly, we do not express an opinion on those financial statements or on compliance.

This report is being published on the State Auditor's Office website as a matter of public record.

Sincerely,

Pat McCarthy
State Auditor
Olympia, WA

**CAPITOL HILL HOUSING
IMPROVEMENT PROGRAM**

Financial Statements and Single Audit Reports

For the Years Ended December 31, 2016 and 2015

Table of Contents

	Page
Independent Auditor's Report	1 - 2
Management Discussion and Analysis	3 - 8
Financial Statements:	
Balance Sheets	9 - 10
Statements of Revenues, Expenses and Changes in Net Position	11
Statements of Cash Flows	12 - 13
Notes to Financial Statements	14 - 33
Supplementary Information:	
Schedule of Departmental Operations	34
Schedule of Property Operations	35 - 37
Schedule of Expenditures of Federal Awards and Related Notes	38 - 39
Single Audit Reports:	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	40 - 41
Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance	42 - 43
Schedule of Findings and Questioned Costs	44 - 45
Schedule of Prior Audit Findings	46

Independent Auditor's Report

To the Board of Directors
Capitol Hill Housing Improvement Program
Seattle, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of Capitol Hill Housing Improvement Program (CHHIP), as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise CHHIP'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 opinions 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of CHHIP, 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.



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Emphasis of Matter

As discussed in Note 3 to the financial statements, the 2015 financial statements have been restated. Our opinion is not modified with respect to this matter.

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

Other Information

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated May 22, 2017 on our consideration of CHHIP'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 CHHIP's internal control over financial reporting and compliance.



Certified Public Accountants
May 22, 2017

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

Management Discussion and Analysis For the Year Ended December 31, 2016

As management of Capitol Hill Housing Improvement Program (“CHHIP”), we offer readers of the CHHIP financial statements this narrative overview and analysis of the financial activities of CHHIP for the year ended December 31, 2016.

Financial Highlights

- Assets exceeded liabilities (net position) at the close of 2016 totaled \$21,424,570.
- Unrestricted cash and cash equivalents at December 31, 2016 totaled \$3,201,074.
- CHHIP properties continue to operate with extremely low vacancy rates across the portfolio (blended and discrete component units) averaging 3.0 percent in 2016.
- During 2016 the investor limited partners of El Nor Limited Partnership and Harrison Family Housing Limited Partnership transferred their limited partnership interests in the two entities to CH Development Association, a blended component unit of CHHIP.
- During 2016, CHHIP invested \$2.25 million in upgrades to Mary Ruth Manor which included a new roof, new exterior siding system, energy efficiency improvements and a new community meeting room.
- During 2016 CHHIP purchased the Union James, a two building property with 24 units, from Central Area Development Association.
- During 2016 CHHIP entered into a purchase and sale agreement with Sound Transit to purchase the development site at the Capitol Hill Light Rail Station known as B North.
- During 2016 CHHIP was the Seattle area interim Section 4 administrator for Local Initiatives Support Corporation.

Overview of the Financial Statements

CHHIP’s financial statements consist of three parts - management’s discussion and analysis (this section), financial statements prepared in accordance with Governmental Accounting Standards Board (GASB) standards, and supplemental schedules.

CHHIP’s financial statements provide information about CHHIP’s overall financial position and results of operations. The financial statements report information about CHHIP as a whole using accounting methods similar to those used by private sector companies. These statements, which are presented on the accrual basis, consist of the Balance Sheet, Statement of Revenues, Expenses and Changes in Net Position, and the Statement of Cash Flows. The Balance Sheet includes all of CHHIP’s assets and liabilities. All of the current year’s revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Position regardless of when cash is received or paid.

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

Management Discussion and Analysis For the Year Ended December 31, 2016

Overview of the Financial Statements (Continued)

The financial statements include the activities of CHHIP and 21 related entities that are required to be combined with CHHIP. These entities are three nonprofits, Elizabeth James Senior Housing, Central City Affordable Housing and CH Development Association and 18 limited partnerships and limited liability companies, Union and 24th Associates LLC, Larned Apartments Limited Partnership, Byron/Wetmore Limited Partnership, Ponderosa at Madison LLC, SOPI Village Manager LLC, Villa Apartments Limited Partnership, Gilman Court Limited Partnership, 1214 Boylston Avenue Limited Partnership, Fleming Apartments Limited Partnership, El Nor Limited Partnership, Harrison Family Housing Limited Partnership, Union James Affordable Housing LLC, CH TOD LLC, Holiday Affordable LLC, Twelfth Avenue Arts Master Tenant LLC, Twelfth Avenue Arts Development LLC, CHH Squire Park LLC, and CH Real Estate Management Services LLC. Although legally separate, the nonprofits were formed to meet the mission of CHHIP. Since CHHIP board members comprise all or a majority of the nonprofit boards' members, they are considered instrumentalities of CHHIP and are included in CHHIP's financial statements. CHHIP is the general partner and CH Development Association has replaced the investor limited partners in the eight limited partnerships. CHHIP is the sole member of CH Real Estate Management Services LLC, Ponderosa at Madison LLC, Holiday Affordable LLC, Union and 24th Associates LLC, CHH Squire Park LLC, Union James Affordable Housing LLC and CH TOD LLC, and has a majority interest in SOPI Village Manager LLC. CH Development Association is the sole member of Twelfth Avenue Arts Development LLC which is, in turn, the sole member of Twelfth Avenue Arts Master Tenant LLC.

The financial statements also include as "Discrete Component Units" 11 legally separate tax credit partnerships and limited liability companies for which CHHIP is financially accountable as the sole general partner or managing member. Additionally, the Capitol Hill Housing Foundation is included as a discrete component unit as is 12th Avenue Arts Associates LLC and Twelfth Avenue Arts Association. Financial information for these affiliates is aggregated and reported in a separate column from the CHHIP financial information. Audited financial statements are available for all of the discrete component units and may be requested from CHHIP.

The financial statements also include a "Notes to Financial Statements" section that provides additional information that is essential to a full understanding of the data provided in the financial statements.

The supplemental schedules provide a breakdown of CHHIP property operations at the building level.

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

Management Discussion and Analysis For the Year Ended December 31, 2016

Overview of the CHHIP Blended Entity Financial Position and Operations

	December 31,	2016	2015	2014
Assets:				
Current assets	\$	6,302,797	\$ 6,282,750	\$ 6,289,881
Noncurrent assets-				
Capital assets, net		50,474,043	42,386,701	41,990,400
Other		21,966,534	21,103,404	20,817,657
Total Assets	\$	78,743,374	\$ 69,772,855	\$ 69,097,938
Liabilities:				
Current liabilities	\$	5,613,961	\$ 2,603,367	\$ 5,203,120
Noncurrent liabilities		51,704,843	46,298,220	44,890,854
Total Liabilities	\$	57,318,804	\$ 48,901,587	\$ 50,093,974
Net Position:				
Invested in capital assets, net of related debt	\$	22,802	\$ (98,670)	\$ 1,200,111
Restricted		5,581,883	4,537,930	4,075,715
Unrestricted		15,819,885	16,432,008	13,728,138
Total Net Position	\$	21,424,570	\$ 20,871,268	\$ 19,003,964

The financial assets of CHHIP consist primarily of capital assets, its land, buildings and building improvements. This is consistent with CHHIP's mission to build vibrant and engaged communities through affordable housing and community development efforts in Seattle. Capital assets are shown net of depreciation. Other assets include cash reserves for repairs and replacements and debt service as required by our lenders.

The liabilities are predominantly long-term debt that has been used to purchase, develop and rehabilitate our apartment buildings. Many of these loans, provided by governmental entities, have below market interest rates and do not require annual debt service. See Note 5 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 \$553,302 in 2016 and \$1,867,304 in 2015. For 2016, \$1,110,826 was due to change in component units which occurred when CH Development Association acquired the limited partners' interests in El Nor Limited Partnership and Harrison Family Housing Limited Partnership, and \$(557,524) due to operations. For 2015, \$1,867,304 was due to positive operating results.

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

Management Discussion and Analysis For the Year Ended December 31, 2016

Overview of the CHHIP Blended Entity Financial Position and Operations (Continued)

The results of operations for CHHIP are presented below:

	For the Year Ended December 31,	2016	2015	2014
Operating revenues-				
Tenant revenues	\$	10,254,353	\$ 8,627,945	\$ 7,915,513
Fees for services		956,587	946,344	782,468
Project development fees		12,552	400,062	2,279,306
Other		117,540	16,680	36,224
Nonoperating revenues-				
Contributions and grants		1,586,476	3,238,697	1,047,051
Interest income		254,915	255,871	241,599
Net gain on 12th Avenue Arts transactions				
(Loss) gain on sale of assets		5,000	377,292	856,903
Total Revenues		13,187,423	13,862,891	13,159,064
Operating expenses-				
Salaries, benefits and payroll taxes		5,411,605	4,454,492	3,902,638
Operating and maintenance		1,526,832	1,540,895	1,294,781
Other operating expenses		3,471,166	2,991,834	2,606,333
Depreciation and amortization		2,154,783	1,809,296	1,907,280
Nonoperating expenses-				
Grant to the component unit		107,075	193,543	300,000
Interest expense		1,073,486	1,005,527	1,145,165
Total Expenses		13,744,947	11,995,587	11,156,197
Change in Net Position	\$	(557,524)	\$ 1,867,304	\$ 2,002,867

Results of Operations - Operating revenues are generated principally from rental income as well as property management and other fees paid by the discrete component units. Tenant revenues increased 18 percent in 2016, 9 percent in 2015, and 7 percent in 2014. We are limited in how much we can increase tenant revenues as our rents are regulated. Vacancy loss for 2016 was 3.2 percent which is the sixth year our annual vacancy loss has been below approximately 4 percent. Vacancy loss for 2015 was 2.6 percent and for 2014 was 4.1 percent. We continue to work to turn and lease units faster.

CHHIP earns development fees for its management role in the development of new properties. During 2016 CHHIP earned only a nominal amount in development fees related to the commercial components of the 12th Avenue Arts project. During 2015 CHHIP earned development fees of \$400,062 for commercial components of the 12th Avenue Arts project and the redevelopment fees of the Haines representing 2.9 percent of total revenues.

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

Management Discussion and Analysis For the Year Ended December 31, 2016

Overview of the CHHIP Blended Entity Financial Position and Operations (Continued)

Salaries, benefits and payroll tax expense increased by 21 percent in 2016. We added three properties to the blended entity in 2016 with their related staff accounting for 21 percent of the increase along with a 12 percent increase in health insurance premiums. We also added 4 staff positions. Salaries, benefits and payroll tax expense increased 14 percent in 2015 primarily driven by an 8 percent increase in employee benefits and an increase in staffing, approximately 8 positions. Salaries, benefits and payroll taxes increased 6 percent in 2014 which was driven by an 18 percent increase in employee benefits.

Operating and maintenance expense remained constant in 2016 despite 98 more units included in the blended entity. Operating and maintenance expenses increased 19 percent in 2015 compared to a 5 percent decrease in 2014. Low vacancy rates reduce turnover costs. Some variability is to be expected as building components wear out, long term tenants move out and our portfolio ages.

Interest expense, primarily from the long-term financing of the properties, continues to be a significant expense. Typically each property acquired has both amortizing and nonamortizing debt from commercial and governmental sources, respectively. A portion of the interest expense, under the terms of the financing, is deferred and will eventually be forgiven as long as the properties are managed in compliance with the loan agreements.

In 2016 CHHIP received \$1,586,476 in contributions and grants representing 12 percent of total revenue. In 2016 this included \$414,696 in grants for capital improvements at the Brewster. These grants increase revenues without an offsetting expense. Excluding these grants, CHHIP received \$1,171,780 in 2016 which included awards from Local Initiatives Support Corporation, the Capitol Hill Housing Foundation, and continued support from the City Office of Economic Development. In 2015 CHHIP received \$3,238,697 in contributions and grants representing 23 percent of total revenue. In 2015, contributions and grants included \$2,163,050 from Capitol Hill Housing Foundation for the 12th Avenue Arts project and \$200,000 to develop affordable housing. These grants in support of CHHIP increase revenues without an offsetting expense. Excluding these capital grants, CHHIP received \$875,647 in 2015 which included support for the operations and purchase of the Central Area Development Association properties, continued support from City of Seattle Office of Economic Development, and Impact Capital in support of our development work. In 2014 CHHIP received \$1,047,051 in contributions and grants representing 7.9 percent of total revenues. The 2014 contributions and grants include \$473,000 from Capitol Hill Housing Foundation for the 12th Avenue Arts project. These grants in support of CHHIP increase revenues without an offsetting expense. Excluding these capital grants CHHIP received \$574,051 in 2014. These grants continued support from City of Seattle Office of Economic Development, Impact Capital and Neighborhood Works to support our economic development work and development of affordable housing.

Supplemental Schedule - The supplemental Schedule of Departmental Operations provides additional insight into the financial operations of CHHIP. CHHIP budgets and manages financial performance based on its lines of business including its buildings (Property Operations) and organizational and off site activities (Administration and Management).

Property Operations, which includes all building-based revenues and expenses, shows revenues exceeded expenditures plus debt service and scheduled reserve deposits by \$1,076,820. In addition to the operating expenditures, we spent an additional \$124,269 on repair and maintenance funded from our building reserves.

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

Management Discussion and Analysis For the Year Ended December 31, 2016

Overview of the CHHIP Blended Entity Financial Position and Operations (Continued)

Economic Factors Affecting CHHIP's Future

Significant economic factors affecting CHHIP are as follows:

- CHHIP faces risk from political and governmental decisions beyond its control such as changes to the Internal Revenue Code affecting the Low Income Housing Tax Credit, changes to federal and local rental subsidy programs or changes in state and local priorities for capital subsidies to develop new properties.
- CHHIP operates and develops affordable housing in and adjacent to Seattle and is subject to the ups and downs of the local real estate market conditions.
- Availability of credit and tax credit equity partners affects our ability to develop new projects and recapitalize existing projects.
- CHHIP faces increased competition for scarce resources such as state and local funds and corporate and foundation donations.
- Local employment trends affect resident incomes and therefore the demand for housing and the rental rates CHHIP can realize.
- Inflation may cause overall operating expenses to increase faster than it is desirable or allowable to raise rents for existing unit occupants which may generate higher turnover or vacancy. Certain operating expenses such as insurance or utilities may increase due to external events outside of the control of CHHIP.

Contacting CHHIP's Financial Management

The financial report is designed to provide a general overview of CHHIP's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Chief Executive Officer, Capitol Hill Housing Improvement Program, 1620 12th Avenue, Suite 205, Seattle, WA 98122.

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

Balance Sheets - Assets December 31, 2016 and 2015

	2016		2015	
	CHHIP	Discrete Component Units	CHHIP	Discrete Component Units
Current Assets:				
Cash and cash equivalents	\$ 3,201,074	\$ 1,613,070	\$ 3,046,758	\$ 2,037,158
Accounts receivable, net	2,918,843	815,288	3,034,805	815,664
Current portion of pledges receivable, net		126,492		79,160
Prepaid expenses and other current assets	141,890	28,797	160,197	166,439
Current portion of notes and interest receivable	40,990		40,990	
Total Current Assets	6,302,797	2,583,647	6,282,750	3,098,421
Restricted cash and cash equivalents	5,581,883	4,663,967	4,537,930	5,761,664
Leases receivable			184,074	
Notes and interest receivable	14,850,506		15,740,928	
Land, buildings and equipment, net	50,474,043	94,335,165	42,386,701	101,578,500
Investment in limited partnerships and LLCs	1,534,145		640,472	
Capitalized costs, net		215,985		205,801
Total Assets	\$ 78,743,374	\$ 101,798,764	\$ 69,772,855	\$ 110,644,386

See accompanying notes.

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

Balance Sheets - Liabilities and Net Position December 31, 2016 and 2015

	2016		2015	
	CHHIP	Discrete Component Units	CHHIP	Discrete Component Units
Current Liabilities:				
Accounts payable and accrued liabilities	\$ 1,627,736	\$ 2,747,700	\$ 1,643,940	\$ 3,652,110
Deferred income	45,500	43,303	108,218	39,660
Current portion of accrued interest payable	126,534	79,023	83,199	79,801
Current portion of notes payable	3,814,191	445,673	768,010	582,930
Total Current Liabilities	5,613,961	3,315,699	2,603,367	4,354,501
Security deposits	539,031	264,499	480,466	289,879
Long-term deferred income	449,791		462,343	
Notes payable, net of current portion	46,637,050	81,558,111	41,717,361	87,044,657
Accrued interest payable	4,078,971	2,435,993	3,638,050	2,364,686
Total Liabilities	57,318,804	87,574,302	48,901,587	94,053,723
Net Position:				
Restricted for building improvements	3,905,125	1,712,119	3,374,533	2,238,770
Restricted for other purposes	1,676,758	2,951,848	1,163,397	3,522,894
Total restricted	5,581,883	4,663,967	4,537,930	5,761,664
Invested in capital assets, net of related debt	22,802	12,331,381	(98,670)	13,950,913
Unrestricted	15,819,885	(2,770,886)	16,432,008	(3,121,914)
Total Net Position	21,424,570	14,224,462	20,871,268	16,590,663
Total Liabilities and Net Position	\$ 78,743,374	\$ 101,798,764	\$ 69,772,855	\$ 110,644,386

See accompanying notes.

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

Statements of Revenues, Expenses and Changes in Net Position For the Years Ended December 31, 2016 and 2015

	2016		2015	
	CHHIP	Discrete Component Units	CHHIP	Discrete Component Units
Operating Revenues:				
Gross rent potential	\$ 10,375,227	\$ 5,047,646	\$ 8,632,169	\$ 5,878,400
Vacancy loss	(332,705)	(124,943)	(226,179)	(85,625)
Laundry, parking and other tenant income	211,831	208,029	221,955	171,960
Fees for services	956,587		946,344	
Project development and other fees	12,552		400,062	
Other operating revenue	117,540	26,503	16,680	90,767
Total Operating Revenues	11,341,032	5,157,235	9,991,031	6,055,502
Operating Expenses:				
Salaries, benefits and payroll taxes	5,411,605	671,169	4,454,492	782,494
Utilities	1,275,452	433,509	1,065,812	542,196
Professional fees	501,621	232,608	356,764	161,869
Administrative	579,616	790,958	440,906	1,129,036
Master lease	554,000		571,000	
Taxes and insurance	437,052	194,155	372,094	251,452
Operating and maintenance	1,526,832	808,494	1,540,895	895,570
Bad debt expense	27,229	8,869	108,992	7,411
Grants to CHHIP and affiliates		720,830		2,943,571
Other	96,196	65,369	76,266	114,794
Depreciation and amortization	2,154,783	3,200,784	1,809,296	3,498,830
Total Operating Expenses	12,564,386	7,126,745	10,796,517	10,327,223
Operating Income (Loss)	(1,223,354)	(1,969,510)	(805,486)	(4,271,721)
Nonoperating Revenues (Expenses):				
Contributions and grants	1,586,476	943,209	3,238,697	2,233,837
Grant to the component unit	(107,075)		(193,543)	
In-kind revenue		284,538		306,988
Interest income	254,915	2,777	255,871	3,124
Gain (loss) on disposition of assets	5,000		377,292	(167,805)
In-kind expense		(284,538)		(306,988)
Interest expense	(1,073,486)	(1,683,712)	(1,005,527)	(1,776,502)
Total Nonoperating Revenues (Expenses)	665,830	(737,726)	2,672,790	292,654
Change in Net Position Before Capital Contributions and Other Changes	(557,524)	(2,707,236)	1,867,304	(3,979,067)
Capital Contributions and Other Changes:				
Change in component units	1,110,826	(682,824)		
Syndication costs		(10,000)		(17,500)
Capital contributions		1,033,859		6,614,090
Total Capital Contributions and Other Changes	1,110,826	341,035		6,596,590
Change in Net Position	553,302	(2,366,201)	1,867,304	2,617,523
Beginning of year	20,871,268	16,590,663	19,003,964	13,973,140
End of Year	\$ 21,424,570	\$ 14,224,462	\$ 20,871,268	\$ 16,590,663

See accompanying notes.

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

Statements of Cash Flows For the Years Ended December 31, 2016 and 2015

	2016		2015	
	CHHIP	Discrete Component Units	CHHIP	Discrete Component Units
Cash Flows From Operating Activities:				
Receipts from tenants and customers	\$ 10,985,629	\$ 5,187,142	\$ 9,153,729	\$ 6,517,382
Receipts for developer fees	485,296		1,355,361	
Payments to employees and for payroll taxes and benefits	(5,281,828)	(671,169)	(4,721,571)	(782,494)
Payments to suppliers	(5,037,547)	(3,402,419)	(4,097,030)	(5,701,846)
Net Cash Provided by Operating Activities	1,151,550	1,113,554	1,690,489	33,042
Cash Flows From Noncapital Financing Activities:				
Receipts from contributions and grants	1,505,670	895,877	3,324,301	2,207,319
Payment of grants	(107,075)		(193,543)	
Net Cash Provided by Noncapital Financing Activities	1,398,595	895,877	3,130,758	2,207,319
Cash Flows From Capital and Related Financing Activities:				
Acquisition of land, building and equipment	(3,936,440)	(554,354)	(2,175,556)	(5,058,439)
Proceeds from sale of land, building and equipment	5,000		366,667	
Proceeds from notes payable	3,039,690	(263,716)	1,771,882	8,702,113
Principal payments on notes payable	(1,264,044)	(1,183,678)	(2,982,189)	(9,589,737)
Interest paid on notes payable	(1,105,820)	(1,295,176)	(940,912)	(1,344,205)
Payment of financing costs		(36,665)		(35,925)
Payment of syndication costs		(10,000)		(17,500)
Capital contributions		1,033,859		6,614,090
Net Cash Used by Capital and Related Financing Activities	(3,261,614)	(2,309,730)	(3,960,108)	(729,603)
Cash Flows From Investing Activities:				
Net change in restricted cash and cash equivalents	(18,394)	76,301	(462,215)	(1,012,021)
Cash transfer due to change in component units	202,866	(202,866)		
Cash received in assumption of property ownership	65,973			
Investment in limited partnership	(958,000)			
Advances of notes receivable			(15,672)	
Receipts on repayment of notes receivable	1,375,734		29,655	
Interest receipts	197,606	2,776	186,287	3,124
Net Cash (Used) Provided by Investing Activities	865,785	(123,789)	(261,945)	(1,008,897)
Net Change in Cash and Cash Equivalents	154,316	(424,088)	599,194	501,861
Cash and cash equivalents, beginning of year	3,046,758	2,037,158	2,447,564	1,535,297
Cash and Cash Equivalents, End of Year	\$ 3,201,074	\$ 1,613,070	\$ 3,046,758	\$ 2,037,158

See accompanying notes.

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

Statements of Cash Flows (Continued)

For the Years Ended December 31, 2016 and 2015

	2016		2015	
	CHHIP	Discrete Component Units	CHHIP	Discrete Component Units
Reconciliation of Operating Loss to Net				
Cash Provided by Operating Activities:				
Operating income (loss)	\$ (1,223,354)	\$ (1,969,510)	\$ (917,286)	\$ (4,271,721)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities-				
Depreciation and amortization	2,154,783	3,200,784	1,921,096	3,498,830
Partnership income	49,097		20,094	
Changes in assets and liabilities:				
Receivables	89,104	33,337	587,549	460,363
Prepaid expenses and other current assets	103,915	52,034	(27,618)	21,092
Accounts payable and accrued liabilities	(53,468)	(208,530)	56,544	315,550
Security deposits and deferred income	31,473	5,439	50,110	8,928
Net Cash Provided by Operating Activities	\$ 1,151,550	\$ 1,113,554	\$ 1,690,489	\$ 33,042
Schedule of Noncash Financing and Investing Activities:				
Noncash balance sheet net adjustments relating to change in component units, increase (decrease) to balance-				
Accounts receivables, net	\$ 460,963	\$ (32,961)	\$ -	\$ -
Prepaid expenses and other current assets	\$ 85,608	\$ (85,608)	\$ -	\$ -
Lease receivable	\$ 184,074	\$ (184,074)	\$ -	\$ -
Restricted cash and cash equivalents	\$ 1,021,396	\$ (1,021,396)	\$ -	\$ -
Land, buildings and equipment, net	\$ 4,231,134	\$ (4,231,134)	\$ -	\$ -
Accounts payable and accrued liabilities	\$ 16,331	\$ (16,331)	\$ -	\$ -
Security deposits	\$ 26,850	\$ (26,850)	\$ -	\$ -
Deferred income	\$ 326	\$ (326)	\$ -	\$ -
Accrued interest	\$ 318,007	\$ (318,007)	\$ -	\$ -
Notes payable	\$ 4,279,632	\$ (4,279,632)	\$ -	\$ -
Noncash additions to assets and liabilities from assumption of property-				
Land and buildings	\$ 2,077,066	\$ -	\$ -	\$ -
Mortgages payable	\$ 1,971,782	\$ -	\$ -	\$ -
Accrued interest	\$ 134,908	\$ -	\$ -	\$ -
Replacement reserves	\$ 33,111	\$ -	\$ -	\$ -
Closing costs paid by member recorded as capital contribution	\$ 15,230	\$ -	\$ -	\$ -
Operating assets	\$ 3,207	\$ -	\$ -	\$ -
Operating liabilities	\$ 24,326	\$ -	\$ -	\$ -

See accompanying notes.

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

Notes to Financial Statements For the Years Ended December 31, 2016 and 2015

Note 1 - Nature of Operations and Summary of Significant Accounting Policies

Organization - Capitol Hill Housing Improvement Program (CHHIP) is a public corporation chartered in 1975 under Washington State and municipal law as a public development authority. CHHIP has broad powers to assist residents and property owners in preserving and improving housing in the neighborhood and to undertake activities in support of those goals.

These financial statements include the accounts of CHHIP and CHHIP's blended component units. The blended component units include CH Development Association, Elizabeth James Senior Housing, Central City Affordable Housing and several wholly-owned or majority-owned limited partnerships and LLCs. CHHIP and its blended component units include 34 apartment projects and 871 units. Blended component units, although legally separate entities, are, in substance, part of CHHIP's operations. Twelfth Avenue Arts Development LLC (Twelfth Avenue Arts Development) was created in 2012 to act as the leveraged lender in a New Markets Tax Credit project as further described in Note 2. CH Development Association is the sole member of Twelfth Avenue Arts Development and, therefore, Twelfth Avenue Arts Development is considered a blended component unit. In addition, Twelfth Avenue Arts Development is the sole member of the Twelfth Avenue Arts Master Tenant LLC (Master Tenant) and, therefore, the Master Tenant is considered a blended component unit. CH Real Estate Management Services LLC, a manager-managed limited liability Company was established to manage properties as a for-profit organization, CHHIP is the sole member of the LLC.

Discrete Component Units - CHHIP serves as the general partner or managing member in several limited partnerships and LLCs (see Note 6). These limited partnerships and LLCs have investor limited partners or members who own majority interests in the entities. As general partner or managing member, CHHIP is financially accountable for and oversees the day-to-day operation of these properties. Each limited partnership and LLC is audited separately. Copies of the separately audited financial statements may be obtained by contacting CHHIP. The limited partnerships and LLCs include 11 apartment projects and 433 units. In addition, CHHIP manages Squire Park Plaza, a 60 unit apartment project, in which it has a minority interest. CHHIP manages through its affiliate CH Real Estate Management Services, 2 apartment projects with 44 units owned by local nonprofit organizations. In total, CHHIP manages 1,408 units.

Capitol Hill Housing Foundation (the Foundation) is incorporated in the State of Washington as a nonprofit corporation. The Foundation has received a tax exempt determination letter from the Internal Revenue Service. The Foundation operates with the intent to act primarily as a fundraising organization to supplement the resources that are available to CHHIP in support of its mission. The Foundation Board is independent of the CHHIP Board. Although CHHIP does not control the timing or amount of receipts from the Foundation, it is anticipated that the majority of the funds raised will be directed to activities of CHHIP by either the Foundation or its donors. Because of these restrictions, the Foundation is considered a discrete component unit of CHHIP.

12th Avenue Arts Associates LLC (12th Ave Arts Associates) was formed in 2012 to construct and own the commercial and parking components of the 12th Avenue Arts project (Note 2) with construction being completed and the project placed into operation during 2014. 12th Ave Arts Associates sole member is the Twelfth Avenue Arts Association (the Association). The Association was formed in 2012 as a nonprofit corporation in the State of Washington. The Association was formed with the exclusive purpose of supporting the mission of CHHIP and has a separate self-electing Board of Directors.

During 2016, all remaining ownership interests in El Nor LP (El Nor) and Harrison Family Housing LP (Harrison) were transferred to CH Development Association. As such, El Nor and Harrison changed from being reported as a discrete component unit in fiscal year 2015 to a blended component unit in fiscal year 2016. Prior to 2016, CHHIP had recognized an allowance for doubtful accounts of \$428,002 against the related party amounts receivable from Harrison. The allowance for doubtful accounts was eliminated in the transfer of ownership interests.

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

Notes to Financial Statements For the Years Ended December 31, 2016 and 2015

Note 1 - Continued

Basis of Accounting - The financial statements of CHHIP have been prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) applied to governmental units. These financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Contributions and grants are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Cash and Cash Equivalents - CHHIP considers all highly liquid temporary investments purchased with a maturity of three months or less at the acquisition date to be cash equivalents.

CHHIP's deposits and certificates of deposit are entirely covered by the federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool (the collateral pool) administered by the Washington Public Deposit Protection Commission. The FDIC insures the first \$250,000 of CHHIP's deposits at each financial institution with remaining balances insured by the collateral pool. As of December 31, 2016 and 2015, the carrying amount of CHHIP's demand deposits was \$4,768,354 and \$3,627,170, respectively, and was not materially different from the bank balances.

At December 31, 2016 and 2015, CHHIP had \$4,038,612 and \$3,957,518, respectively, in the Washington State's Local Government Investment Pool (LGIP). The LGIP is managed and operated by the Office of the State Treasurer (OST). The State Finance Committee is the administrator of the statute that created the pool and adopts appropriate rules. The State Treasurer is responsible for establishing the investment policy for the pool and reviews the policy annually. The LGIP portfolio is invested in a manner that meets the maturity, quality, diversification and liquidity requirements set forth by GASB for external investment pools that elect to measure, for financial reporting purposes, investments at amortized cost. The amounts invested in the pool are measured at the net asset value per share of the pool shares held by CHHIP.

Certain cash balances are restricted for building improvements and other specific uses in accordance with debt and regulatory agreements and donor imposed restrictions. At December 31, 2016 and 2015, the restricted cash balances were held in deposits with the LGIP and other separate accounts as required by the agreements and donor imposed restrictions.

CHHIP has a Board Designated Operating Reserve for the purpose of strengthening CHHIP's liquidity and financial position. The intent is to make annual deposits from operating surplus. The Board Designated Operating Reserve is held in the LGIP. The balance at December 31, 2016 and 2015, of \$1,651,507 and \$1,643,689, respectively, is included in cash and cash equivalents.

Accounts Receivable - Accounts receivable consist primarily of rents due from tenants, grants due from grantors and amounts due from the limited partnerships and LLCs as described in Note 6. Annually, tenant receivables are analyzed and the allowance for doubtful accounts is adjusted. Other receivable allowances are established for uncertain collectibles.

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

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

Notes to Financial Statements For the Years Ended December 31, 2016 and 2015

Note 1 - Continued

Land, Buildings and Equipment - CHHIP capitalizes assets with a cost greater than \$1,000 and an estimated useful life of one or more years. Land, buildings and equipment are recorded at cost or estimated fair value at the date of donation. Depreciation of buildings and equipment is recorded on a straight-line basis over their estimated useful lives of 5 to 40 years.

CHHIP reviews land, building and equipment for possible impairment whenever events or circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability is measured by a comparison of the future cash flows expected to result from the use of the asset and its eventual disposition. If these cash flows are less than the carrying amount of the asset, an impairment loss is recognized to write down the asset to its estimated fair value. No impairment losses were recognized in 2016 or 2015.

Financing Costs - Certain blended and discrete component units are not-for-profit or commercial entities that follow U.S. GAAP established by the Financial Accounting Standards Board (FASB). For those entities, financing costs are recorded as a deduction to the related debt liability on the balance sheet. Financing costs are amortized over the term of the applicable debt using the straight-line method. U.S. GAAP requires that the effective yield method be used to amortize financing costs; however, the effect of using the straight-line method is not materially different from the results that would have been obtained under the effective yield method. Amortization of financing costs are included as a component of interest expense on the statement of revenues, expenses, and changes in net position.

During 2016, CHHIP's component units implemented the requirements of the FASB's Accounting Standards Update No. 2015-03 - *Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs* (ASU 2015-03). ASU 2015-03 changes the accounting for debt issuance costs (financing costs) by requiring that such costs be reported on the statement of net position as a direct deduction to the related debt liability. Previously, financing costs were reported as a deferred charge asset on the statement of net position. CHHIP has restated the 2015 financial statements to conform to the 2016 presentation and as a result \$187,678 and \$2,122,507 of unamortized financing costs for CHHIP's blended and discrete component units, respectively, were reclassified from capitalized costs to mortgages payable on the balance sheet as of December 31, 2015.

Investment in Limited Partnerships and LLCs - CHHIP is the sole general partner and owns a 0.01 percent interest in three limited partnerships and is the managing member and owns a 0.01 percent interest in seven LLCs. CHHIP owns a 51 percent interest in, and is the managing member of SOPI Village Manager LLC, who is the managing member, and 0.01 percent owner of SOPI Village LLC. CHHIP is also the sole member of CHH Squire Park LLC which is a 9.65 percent owner in Squire Park Holdings LLC. Squire Park Holdings LLC owns and operates a 60 unit apartment community located in Seattle, Washington. The remaining ownership interests in these entities are owned by unrelated third parties. CHHIP records its investment in these partnerships and limited liability companies using the equity method of accounting as it is the general partner or managing member and possesses significant influence in the operating and financial policies of the investees.

Revenue Recognition - Gross rent potential reflects gross rental revenue at full occupancy. CHHIP deducts vacancy loss from gross rent potential to reflect actual occupancy. Rental revenue is recognized monthly as earned. Development fee revenue is recognized over the development period using the percentage-of-completion method.

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

Notes to Financial Statements For the Years Ended December 31, 2016 and 2015

Note 1 - Continued

Operating Revenues and Expenses - Operating revenues include fees and charges from the ongoing operations of providing and developing affordable housing. Operating revenues also include operating subsidies and grants provided by the US Department of Housing and Urban Development (HUD). The use of this classification is based on guidance from HUD, one of the users of the financial statements. Operating expenses are those expenses that are directly incurred while in the operation of providing housing. This presentation results in an operating income that is higher than a nonoperating revenue presentation by the amount of the subsidies and/or grants. Overall it does not affect the presentation of the change in net assets in the statements of revenues, expenses, and changes in net assets, or the presentation of cash and cash equivalents in the statements of cash flows. All other revenues and expenses are considered nonoperating.

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

Federal Income Tax - CHHIP has been notified by the Internal Revenue Service that it is exempt from federal income taxes as an entity described in Section 115 of the Internal Revenue Code. CH Development Association, Elizabeth James Senior Housing, the Foundation, the Twelfth Avenue Arts Association and Central City Affordable Housing have been notified by the Internal Revenue Service that they are exempt from federal income taxes as entities described in Section 501(c)(3) of the Internal Revenue Code.

CHHIP's wholly-owned limited partnerships and LLCs that are reported as blended component units have no provision or benefit for income taxes included in these financial statements since taxable income or loss passes through to, and is reportable by, each partner or member individually.

Concentrations of Credit Risk - All of CHHIP's properties are located in Seattle, Washington except for one property included immediately outside of the Seattle city limits. As such, CHHIP's operations are directly linked to the economic conditions in the Seattle area.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These affect the reported amounts of assets, liabilities, revenues and expenses as well as the disclosure of contingent assets and liabilities. Actual results could differ from these estimates.

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

Notes to Financial Statements For the Years Ended December 31, 2016 and 2015

Note 2 - Notes and Interest Receivable

Notes and interest receivable consisted of the following amounts due from affiliated limited partnerships and LLCs (Note 6) and other unrelated third parties as of December 31:

	<u>2016</u>	<u>2015</u>
<u>Broadway & Pine LLC</u>		
Note receivable, interest at 5%, annual payments from available cash flow starting June 2007 through maturity on June 1, 2057.	\$ 180,000	\$ 180,000
<u>Helen V LLC</u>		
Developer fee note receivable, interest at 1%, monthly payments from available cash flow of \$1,163 , note matured December 31, 2015.	63,904	73,904
<u>Holiday Apartments LP</u>		
Note receivable, interest at 3%, annual payments from available cash flow through maturity on December 1, 2061.	354,654	354,654
<u>Jefferson & 12th LLC</u>		
Note receivable, interest at 5%, annual payments from available cash flow starting 2013 through maturity on May 1, 2063.	706,150	706,150
<u>Oleta Apartments Limited Partnership</u>		
Note receivable, interest at 0%, annual payments from available cash flow starting June 2003 through maturity on June 30, 2053. Repaid in full during 2016.		909,000
<u>Pantages Apartments LLC</u>		
Note receivable, interest at 6%, annual payments from available cash flow starting February 2006 through maturity on February 1, 2056.	93,608	122,341
<u>SOPI Village LLC</u>		
Note receivable, interest at 4%, annual payments from available cash flow starting in 2011 through maturity on December 31, 2061.	140,000	140,000
<u>Woodland Park Avenue LLC</u>		
Note receivable, interest at 0%, annual payments from available cash flow starting in 2009 through maturity on August 31, 2058.	140,000	140,000

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

Notes to Financial Statements

For the Years Ended December 31, 2016 and 2015

Note 2 - Continued

	2016	2015
<u>New Markets Tax Credits Loans</u>		
Note receivable from 12th Avenue Arts NMTC Investment Fund II LLC, interest at 1.0%, quarterly interest payments beginning April 15, 2013, quarterly principal and interest payments beginning April 15, 2028 through maturity on October 1, 2052.	4,870,600	4,870,600
Note receivable from 12th Avenue Arts NMTC Investment Fund II LLC, interest at 1.409%, quarterly interest payments beginning April 15, 2013, quarterly principal and interest payments beginning April 15, 2028 through maturity on October 1, 2052.	7,926,840	7,926,840
Total principal	14,475,756	15,423,489
Accrued interest on the above notes	415,740	358,429
Total principal and interest	14,891,496	15,781,918
Less current portion of notes and interest receivable	(40,990)	(40,990)
Noncurrent Portion	\$ 14,850,506	\$ 15,740,928

In December 2012, CHHIP entered into a New Markets Tax Credit transaction to partially finance the construction of the 12th Avenue Arts cultural and civic center. The New Markets Tax Credit Program was designed to stimulate investment and economic growth in low-income communities by offering 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 projects in low-income areas.

As a part of the transaction, Twelfth Avenue Arts Development, LLC, a blended component unit of CHHIP, made two loans to two QEIs totaling \$12,797,440, which in turn, lent a total of \$17,951,000 to two CDEs, which in turn was lent to 12th Avenue Arts Associates, LLC, a discrete component unit.

To earn the tax credit the QEI must remain invested in the CDE for a seven-year period ending in December 2019. CHHIP and Key Community Development Corporation have entered into put/call option agreements to take place at the end of the seven-year period. Under the agreements, Key Community Development Corporation can exercise put options to sell all interest in the QEIs for \$1,000 each to CHHIP. If Key Community Development Corporation does not exercise the put option within 90 days of the end of the seven-year period, CHHIP can exercise call options to purchase the interest of the QEIs at an appraised fair market value.

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

Notes to Financial Statements

For the Years Ended December 31, 2016 and 2015

Note 3 - Land, Buildings and Equipment

Land, buildings and equipment activity consisted of the following:

	January 1, 2015	Increases	Decreases	Net Transfers	December 31, 2015
Nondepreciable assets-					
Land	\$ 12,634,827	\$ 560,000	\$ -	\$ -	\$ 13,194,827
Pre-development costs	1,121,521		(159,629)	(529,718)	432,174
Depreciable assets-					
Buildings and facilities	55,522,398	1,773,138		529,718	57,825,254
Equipment and vehicles	2,338,367	123,801			2,462,168
Less accumulated depreciation	(29,626,713)	(1,901,009)			(31,527,722)
	<u>\$ 41,990,400</u>	<u>\$ 555,930</u>	<u>\$ (159,629)</u>	<u>\$ -</u>	<u>\$ 42,386,701</u>

	January 1, 2016	Increases	Decreases	New Blended Component Units	Net Transfers	December 31, 2016
Nondepreciable assets-						
Land	\$ 13,194,827	\$ 1,034,215	\$ -	\$ 414,715	\$ -	\$ 14,643,757
Pre-development costs	432,174	3,444,640	(9,731)		(2,374,344)	1,492,739
Depreciable assets-						
Buildings and facilities	57,825,254	1,470,575		7,072,338	2,131,586	68,499,753
Equipment and vehicles	2,462,168	71,292	(10,936)	165,509	242,758	2,930,791
Less accumulated depreciation	(31,527,722)	(2,154,783)	10,936	(3,421,428)		(37,092,997)
	<u>\$ 42,386,701</u>	<u>\$ 3,865,939</u>	<u>\$ (9,731)</u>	<u>\$ 4,231,134</u>	<u>\$ -</u>	<u>\$ 50,474,043</u>

During 2016, the limited partner interests in El Nor LP were transferred to CH Development Association, changing the limited partnership to a blended component unit. This transfer resulted in a net increase of \$2,104,327 to land, buildings, and equipment.

During 2016, the limited partner interests in Harrison Family Housing LP were transferred to CH Development Association, changing the limited partnership to a blended component unit. This transfer resulted in a net increase of \$2,126,807 to land, buildings, and equipment.

During 2016, management identified a land purchase and related note payable issuance totaling \$560,000 that was not reflected in the financial statements as of and for the year ended December 31, 2015. Management has restated the prior year balances of the financial statements to reflect the land and note payable addition as of and for the year ended December 31, 2015.

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

Notes to Financial Statements

For the Years Ended December 31, 2016 and 2015

Note 4 - Leases

Operating Leases - CHHIP or an affiliate, as lessee, leases administrative office space, commercial space, garage space and housing space.

CHHIP, as lessee, has entered into a master commercial lease with Jefferson & 12th LLC for the ground-level commercial premises with annual lease payments of \$100 for a period of 20 years through September 2032.

Twelfth Avenue Arts Master Tenant LLC (Master Tenant) has signed master lease agreements with 12th Avenue Arts Associates, LLC to lease the 12th Avenue Arts Associates, LLC's commercial and garage units. Master Tenant is an entity controlled by CHH. Master Tenant subleases the commercial unit to third-party tenants and subleases the garage unit to the City of Seattle. The master lease agreements commenced in December 2012 and have terms that end 45 years after commencement in December 2057.

Rental expense under these leases totaled \$554,000 and \$571,000 for fiscal years 2016 and 2015, respectively.

Minimum lease payments under these leases are as follows:

For the Year Ending December 31,

2017	\$ 567,000
2018	581,000
2019	595,000
2020	610,000
2021	625,000
Thereafter	<u>30,659,999</u>
	<u>\$ 33,637,999</u>

CHHIP, as lessor, leases apartments under noncancelable terms of less than one year. Additionally CHHIP leases commercial and parking space to other entities. Substantially all property is leased to a variety of lessees under short- and long-term lease agreements.

Minimum future lease revenue under the leases is as follows:

For the Year Ending December 31,

2017	\$ 1,140,051
2018	1,047,094
2019	934,137
2020	759,284
2021	744,560
Thereafter	<u>10,937,163</u>
	<u>\$ 15,562,289</u>

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

Notes to Financial Statements

For the Years Ended December 31, 2016 and 2015

Note 4 - Continued

City of Seattle Ground Lease - During 2012, Twelfth Avenue Arts Development, LLC, as lessee, entered into a ground lease with the City of Seattle for the parking garage land and condominium unit of the 12th Avenue Arts project (Note 2). Twelfth Avenue Arts Development, LLC assigned the lease to 12th Avenue Arts Associates, LLC in 2012 transferring all obligations under the lease other than the requirement to pay the minimum lease payments that which was retained by Twelfth Avenue Arts Development LLC. The lease term started in 2012 and extends through 2078, however the lease allows for a put option to be exercised for \$1,000 with the City starting in January 2020 that would effectively terminate this ground lease if exercised. CHHIP intends to exercise this option. Lease payments began August 2014 and are \$100,000 per year with a \$5,000 annual increase.

Minimum lease payments under the City of Seattle ground lease are as follows:

For the Year Ending December 31,

2017	\$ 110,000
2018	115,000
2019	120,000
2020	125,000
2021	130,000
Thereafter	<u>16,095,071</u>
	<u><u>\$ 16,695,071</u></u>

Rental expense under this lease totaled \$105,000 and \$116,668 for fiscal years 2016 and 2015, respectively.

Note 5 - Notes Payable and Accrued Interest

Notes payable are generally nonrecourse and secured by the respective properties and bear simple interest rates unless otherwise noted:

	<u>2016</u>	<u>2015</u>
Permanent conventional loans, bearing compound interest from 3% to 8.63% generally with principal and interest due monthly, to be repaid in full at various dates through 2036. Interest expense was \$1,229,268 and \$620,935 in 2016 and 2015, respectively.	\$ 14,542,202	\$ 11,097,517

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

Notes to Financial Statements For the Years Ended December 31, 2016 and 2015

Note 5 - Continued

	2016	2015
City of Seattle loans, bearing interest from 1% to 3%. Interest is generally deferred until maturity and in some instances may be forgiven if certain conditions are met over the term of the loan. The loans are to be repaid in full at various dates through 2053. Certain loans may be forgiven in their entirety if conditions are met through the extended maturity date. Interest expense was \$107,183 and \$93,534 in 2016 and 2015, respectively.	22,904,609	22,165,506
State of Washington loans, bearing interest from 0% to 2% generally payable annually, to be repaid in full at various dates through 2051. In some instances annual payments are deferred to the second half of the loan term. Interest expense was \$61,535 and \$60,196 in 2016 and 2015, respectively.	9,155,029	8,316,434
Equity equivalent investment loan, interest only at 2.5% payable quarterly, to be repaid in full December, 2018.	350,000	268,186
Tenant improvements loan bearing interest at 6%, interest only for the first year, amortized over the next five years, due in full February 2019.	72,198	103,611
Loan for purchase of land, bearing interest at 3%, principal and interest due at maturity on December 2018.	560,000	560,000
Predevelopment line of credit with Impact Capital with a maximum of \$500,000 available, interest at 6%. Principal was paid in full upon maturity in October 2016.		161,795
Interim construction loan, variable rate interest (4.5% at December 31, 2016) with interest only due monthly beginning June 2016 and principal and interest due in full June, 2017 unless converted to a term loan prior to that date (or extended for up to 6 months). Conversion is anticipated June, 2017. Interest capitalized during 2016 was \$19,862.	2,379,461	
Bridge loans for the development of Union 24th, bearing interest between 2% and 6%. Principal and interest due by September 2017. Interest capitalized during 2016 was \$20,216.	739,095	
Total principal	50,702,594	42,673,049
Less current portion of notes payable	(3,814,191)	(768,010)
Less unamortized financing costs	(251,353)	(187,678)
Noncurrent Portion	\$ 46,637,050	\$ 41,717,361

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

Notes to Financial Statements For the Years Ended December 31, 2016 and 2015

Note 5 - Continued

Debt service requirements to maturity on these notes are as follows:

For the Year Ending December 31,	Principal	Interest
2017	\$ 3,814,191	\$ 1,260,510
2018	2,050,851	1,269,439
2019	1,155,317	1,226,169
2020	802,093	1,179,226
2021	834,056	1,129,650
2022-2026	5,008,650	4,775,377
2026-2031	9,806,313	2,701,480
2032-2036	10,877,852	1,075,318
2037-2041	9,124,718	606,445
2042-2046	3,076,825	225,473
2047-2051	1,269,431	1,712
2052-2056	2,882,297	
	<u>\$ 50,702,594</u>	<u>\$ 15,450,799</u>

Accrued interest payable on the above notes payable totaled \$4,205,505 and \$3,721,249 at December 31, 2016 and 2015, respectively and is presented separately from the above total for notes payable on the balance sheet. Interest expense on the above notes payable aggregated \$1,073,486 and \$893,727 for fiscal years 2016 and 2015, respectively and included the deferred interest on certain nonamortizing loans.

Substantially all notes payable are secured by deeds of trust on the related buildings. The notes payable to the City of Seattle and the State of Washington require rental of the apartment units to low or moderate income tenants at stipulated base rents with certain allowable increases, compliance with certain federal regulations as to discrimination and establishment of certain reserves for repairs and maintenance.

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

Notes to Financial Statements For the Years Ended December 31, 2016 and 2015

Note 5 - Continued

Long-term liability activity consisted of the following during 2015:

	Notes Payable	Accrued Interest Payable
Beginning balance, December 31, 2014	\$ 43,883,356	\$ 3,768,434
Increases-		
CHH	1,771,882	
Accrual		893,727
Decreases-		
Payments	(2,982,189)	(940,912)
Amortization of financing costs	(187,678)	
Ending Balance, December 31, 2015	\$ 42,485,371	\$ 3,721,249

Long-term liability activity consisted of the following during 2016:

	Notes Payable	Accrued Interest Payable
Beginning balance, December 31, 2015	\$ 42,485,371	\$ 3,721,249
Increases-		
CHH	3,105,861	
Accrual		1,137,161
Decreases-		
Payments	(1,264,044)	(1,105,820)
Amortization of financing costs	(127,361)	
Assumption of Union James Apartments debt in acquisition	1,971,782	134,908
Transfers from changes in reporting unit-		
El Nor LP	1,900,829	127,500
Harrison Family Housing LP	2,378,803	190,507
Ending Balance, December 31, 2016	\$ 50,451,241	\$ 4,205,505

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

Notes to Financial Statements

For the Years Ended December 31, 2016 and 2015

Note 6 - Investments in Limited Partnerships and LLCs

CHHIP is the sole general partner and owns a 0.01 percent interest in three limited partnerships and is the managing member and owns a 0.01 percent interest in seven limited liability companies. CHHIP owns a 51 percent interest in, and is the managing member of SOPI Village Manager LLC who is then the managing member and 0.01 percent owner of an eighth LLC, SOPI Village LLC. CHHIP is also the sole member of CHH Squire Park LLC which is a 9.65 percent owner in a ninth LLC, Squire Park Holdings LLC; neither of these entities is included as a discretely presented component unit. The remaining ownership interests in these entities are owned by unrelated third parties.

During 2016 and 2015, CHHIP earned property management fees of \$579,998 and \$681,239 respectively, and limited partnership and LLC management fees of \$106,185 and \$157,975, respectively, from these entities. Additionally, CHHIP earned development and other fees totaling \$12,552 and \$400,062 in 2016 and 2015, respectively, from these entities.

The following is a summary of selected financial information as of and for the year ended December 31, 2016, from the limited partnerships and LLCs described above and also represents condensed financial information for the aggregated discretely presented component units:

	December 31, 2016		
	Assets	Liabilities	Equity
Affordable Apartments Associates LLC	\$ 7,110,945	\$ 5,886,755	\$ 1,224,190
Broadway & Pine Apartments LLC	7,782,338	5,236,812	2,545,526
Capitol Hill Housing Foundation	544,765	9,106	535,659
Helen V Apartments LLC	2,944,641	3,376,273	(431,632)
Holiday Apartments Limited Partnership	5,896,640	5,566,606	330,034
Jefferson & 12th LLC	10,716,700	8,672,432	2,044,268
Oleta Apartments Limited Partnership	1,718,533	1,441,229	277,304
Pantages Apartments LLC	7,486,802	5,801,884	1,684,918
Silvian Apartments LLC	3,563,886	2,931,064	632,822
SOPI Village LLC	7,885,391	5,727,023	2,158,368
Woodland Park Avenue LLC	3,917,238	4,019,874	(102,636)
Twelfth Avenue Arts Association and subsidiary	20,701,158	21,485,717	(784,559)
Twelfth Avenue Arts Housing LLLP	21,529,727	17,419,527	4,110,200
Discretely Presented Component Units	\$ 101,798,764	\$ 87,574,302	\$ 14,224,462
Squire Park Holdings LLC	\$ 11,419,475	\$ 8,352,863	\$ 3,066,612

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

Notes to Financial Statements For the Years Ended December 31, 2016 and 2015

Note 6 - Continued

	Year Ended December 31, 2016	
	Total Revenues	Net Income (Loss)
Affordable Apartment Associates LLC	\$ 311,775	\$ (168,404)
Broadway & Pine Apartments LLC	429,966	(328,560)
Capitol Hill Housing Foundation	1,218,327	103,754
Helen V Apartments LLC	400,186	(113,617)
Holiday Apartments Limited Partnership	343,604	(47,191)
Jefferson & 12th LLC	512,587	(306,422)
Oleta Apartments Limited Partnership	309,993	(12,999)
Pantages Apartments LLC	491,573	(347,515)
Silvian Apartments LLC	366,425	(32,458)
SOPi Village LLC	277,445	(304,610)
Woodland Park Avenue LLC	198,811	(198,813)
Twelfth Avenue Arts Association and Subsidiary	580,195	(319,475)
Twelfth Avenue Arts Housing LLLP	946,872	(630,926)
Discretely Presented Component Units	\$ 6,387,759	\$ (2,707,236)
Squire Park Holdings LLC	\$ 1,181,659	\$ 82,394

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

Notes to Financial Statements

For the Years Ended December 31, 2016 and 2015

Note 6 - Continued

The following is a summary of selected financial information as of and for the year ended December 31, 2015, from the limited partnerships and LLCs described above and represents condensed financial information for the aggregated discretely presented component units:

	December 31, 2015		
	Assets	Liabilities	Equity
Affordable Apartments Associates LLC	\$ 7,349,157	\$ 6,031,884	\$ 1,317,273
Broadway & Pine Apartments LLC	8,201,320	5,327,234	2,874,086
Capitol Hill Housing Foundation	431,958	53	431,905
El Nor Limited Partnership	3,179,742	2,071,323	1,108,419
Harrison Family Housing Limited Partnership	2,362,436	2,788,031	(425,595)
Helen V Apartments LLC	3,139,353	3,457,368	(318,015)
Holiday Apartments Limited Partnership	6,077,308	5,700,083	377,225
Jefferson & 12th LLC	11,121,891	8,771,201	2,350,690
Oleta Apartments Limited Partnership	1,852,751	2,520,448	(667,697)
Pantages Apartments LLC	7,862,739	5,830,306	2,032,433
Silvian Apartments LLC	3,687,713	3,022,433	665,280
SOPi Village LLC	8,304,632	5,841,654	2,462,978
Woodland Park Avenue LLC	4,206,713	4,100,536	106,177
Twelfth Avenue Arts Association and subsidiary	22,463,259	22,928,343	(465,084)
Twelfth Avenue Arts Housing LLLP	22,525,921	17,785,333	4,740,588
Discretely Presented Component Units	<u>\$ 112,766,893</u>	<u>\$ 96,176,230</u>	<u>\$ 16,590,663</u>
Squire Park Holdings LLC	\$ 11,994,796	\$ 8,637,064	\$ 3,357,732

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

Notes to Financial Statements

For the Years Ended December 31, 2016 and 2015

Note 6 - Continued

	Year Ended December 31, 2015	
	Total Revenues	Net Income (Loss)
Affordable Apartment Associates LLC	\$ 295,644	\$ (320,862)
Broadway & Pine Apartments LLC	428,732	(300,519)
Capitol Hill Housing Foundation	2,540,825	(842,262)
El Nor Limited Partnership	569,330	(43,957)
Harrison Family Housing Limited Partnership	332,877	(90,284)
Helen V Apartments LLC	404,702	(62,063)
Holiday Apartments Limited Partnership	331,837	(69,936)
Jefferson & 12th LLC	494,843	(334,095)
Oleta Apartments Limited Partnership	302,736	(17,258)
Pantages Apartments LLC	496,134	(380,849)
Silvian Apartments LLC	360,515	(25,736)
SOPV Village LLC	276,440	(281,312)
Woodland Park Avenue LLC	198,204	(199,389)
Twelfth Avenue Arts Association and Subsidiary	586,342	(350,544)
Twelfth Avenue Arts Housing LLLP	980,290	(660,001)
Discretely Presented Component Units	\$ 8,599,451	\$ (3,979,067)
Squire Park Holdings LLC	\$ 1,027,941	\$ (206,519)

In addition to the notes receivable described in Note 2, CHHIP has recorded accounts receivable from the limited partnerships and LLCs described above with a net balance of \$2,170,679 and \$2,486,900 at December 31, 2016 and 2015, respectively. The accounts receivable balance at December 31, 2016 and 2015, is reported net of an allowance for doubtful accounts totaling \$168,799 and \$596,801, respectively, and is included in accounts receivable in the balance sheets.

CHHIP as the general partner or managing member has the option to purchase partnership property and right of first refusal at any time during the last 12 months of the initial 15-year low-income housing tax credit compliance period for each of the housing limited partnerships and LLCs.

As a general partner or managing member, as applicable, of the above partnerships and LLCs, CHHIP is liable for recourse liabilities. The limited partnership and LLC agreements provide for various obligations of the general partner or managing member, including an obligation to provide funds for any development and operating deficits. CHHIP has guaranteed the outstanding debt and certain performance obligations of 12th Avenue Arts Associates LLC as part of the 12th Avenue Arts project (Note 2). At December 31, 2016 and 2015, CHHIP had \$28,543,600 and \$28,664,973 of outstanding guarantees and \$210,673 and \$210,673 of advances under guarantees, respectively.

During 2015, CHHIP sold its equity interest in Fire Station 7, a 5 unit apartment project for \$366,667 recognizing a gain on the sale of \$366,667.

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

Notes to Financial Statements For the Years Ended December 31, 2016 and 2015

Note 7 - Blended Component Units

The following condensed combining information is presented as of and for the year ended December 31, 2016 for blended components as summarized in single column titled CHHIP in the basic financial statements.

Condensed combining information for the balance sheet is presented below:

	CHHIP	Housing Blended Component Units	Non-Housing Blended Component Units	Eliminations in Blending	Total
Assets:					
Current assets	\$ 9,024,682	\$ 1,106,017	\$ 438,257	\$ (4,266,159)	\$ 6,302,797
Noncurrent assets-					
Capital assets, net	22,469,391	27,762,306	242,346		50,474,043
Other	6,608,513	2,591,257	18,736,177	(5,969,413)	21,966,534
Total Assets	<u>\$ 38,102,586</u>	<u>\$ 31,459,580</u>	<u>\$ 19,416,780</u>	<u>\$ (10,235,572)</u>	<u>\$ 78,743,374</u>
Liabilities:					
Current liabilities	\$ 4,616,220	\$ 4,495,610	\$ 768,290	\$ (4,266,159)	\$ 5,613,961
Noncurrent liabilities	25,580,559	26,056,696	67,588		51,704,843
Total Liabilities	<u>\$ 30,196,779</u>	<u>\$ 30,552,306</u>	<u>\$ 835,878</u>	<u>\$ (4,266,159)</u>	<u>\$ 57,318,804</u>
Net Position:					
Invested in capital assets, net of related debt	\$ (3,685,329)	\$ 3,465,785	\$ 242,346	\$ -	\$ 22,802
Restricted	2,720,261	2,794,026	67,596		5,581,883
Unrestricted	8,870,875	(5,352,537)	18,270,960	(5,969,413)	15,819,885
Total Net Position	<u>\$ 7,905,807</u>	<u>\$ 907,274</u>	<u>\$ 18,580,902</u>	<u>\$ (5,969,413)</u>	<u>\$ 21,424,570</u>

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

Notes to Financial Statements

For the Years Ended December 31, 2016 and 2015

Note 7 - Continued

Condensed combining information for the statement of revenues, expenses and changes in net position is presented below:

	CHHIP	Housing Blended Component Units	Non-Housing Blended Component Units	Eliminations in Blending	Total
Operating Revenues:					
Tenant revenues	\$ 4,388,255	\$ 5,109,367	\$ 1,042,627	\$ (285,896)	\$ 10,254,353
Fees for services	1,909,806		30,732	(983,951)	956,587
Project development fees	12,552				12,552
Other	20,765	67,377	29,398		117,540
Total Operating Revenues	6,331,378	5,176,744	1,102,757	(1,269,847)	11,341,032
Operating expenses	6,940,234	3,770,712	968,504	(1,269,847)	10,409,603
Depreciation and amortization	857,611	1,268,751	28,421		2,154,783
Total Operating Expenses	7,797,845	5,039,463	996,925	(1,269,847)	12,564,386
Operating Income (Loss)	(1,466,467)	137,281	105,832		(1,223,354)
Nonoperating revenues (expenses)-					
Contributions and grants	1,586,476				1,586,476
Grant to component unit	(107,075)				(107,075)
Interest income	88,981	2,865	163,069		254,915
Gain on disposition of assets	5,000				5,000
Interest expense	(400,598)	(672,888)			(1,073,486)
Change in Net Position Before Capital Contributions and Other Changes	(293,683)	(532,742)	268,901		(557,524)
Capital Contributions and Other Changes:					
Change in component units	1,110,826				1,110,826
Total Capital Contributions and Other Changes	1,110,826				1,110,826
Change in Net Position	817,143	(532,742)	268,901		553,302
Net Position:					
Beginning of year	7,088,664	1,440,016	18,312,001	(5,969,413)	20,871,268
End of Year	\$ 7,905,807	\$ 907,274	\$ 18,580,902	\$ (5,969,413)	\$ 21,424,570

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

Notes to Financial Statements For the Years Ended December 31, 2016 and 2015

Note 7 - Continued

Condensed combining information for the statement of cash flows is presented below:

	CHHIP	Housing Blended Component Units	Non-Housing Blended Component Units	Eliminations in Blending	Total
Net cash provided (used)					
by operating activities	\$ (1,886,956)	\$ 3,170,473	\$ (131,967)	\$ -	\$ 1,151,550
Net cash provided by noncapital financing activities	1,411,901	(13,306)			1,398,595
Net cash (used) provided by capital and related financing activities	(672,956)	(2,573,834)	(14,824)		(3,261,614)
Net cash provided (used) by investing activities	<u>1,091,094</u>	<u>(388,378)</u>	<u>163,069</u>		<u>865,785</u>
Net change in cash and cash equivalents	(56,917)	194,955	16,278		154,316
Cash and cash equivalents, beginning of year	<u>2,211,565</u>	<u>108,170</u>	<u>727,023</u>		<u>3,046,758</u>
Cash and Cash Equivalents, End of Year	<u>\$ 2,154,648</u>	<u>\$ 303,125</u>	<u>\$ 743,301</u>	<u>\$ -</u>	<u>\$ 3,201,074</u>

Note 8 - Employee Benefits

CHHIP contributes to a Simplified Employee Pension plan (SEP), a defined contribution benefit plan, on behalf of all eligible employees. CHHIP's contribution is discretionary. Contributions for 2016 and 2015 were 2 percent of gross wages annually and were in the amounts of \$76,670 and \$61,115 for the years ended December 31, 2016 and 2015, respectively. As of December 31, 2016 and 2015, accrued pension costs, including employee deferrals, totaled \$90,068 and \$80,115, respectively. There were no Plan forfeitures for either years ended December 31, 2016 or 2015.

Note 9 - Acquisitions and Development

During 2016, CHHIP was engaged in the following acquisition and development projects:

Union James Apartments - On February 11, 2016, Union James Affordable Housing LLC, of which CHHIP is the sole member, purchased the two apartment buildings that make up the Union James Apartments, by assuming the existing debt.

Liberty Bank Building Apartments - During 2016, CHHIP continued predevelopment work on a 115 unit affordable housing project. CHHIP entered into a Memorandum of Understanding with three Central Area organizations to incorporate community priorities in the development of the project. Groundbreaking is scheduled for June, 2017 and the project will be completed in 2018.

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

Notes to Financial Statements For the Years Ended December 31, 2016 and 2015

Note 9 - Continued

Capitol Hill Transit Oriented Development - During 2016, CHHIP entered into a purchase and sale agreement with Sound Transit to purchase the development site at the Capitol Hill Light Rail Station known as B North.

Harvey Apartments - CHHIP continues to explore feasible options for rehabilitation and/or redevelopment of the 20 unit apartment project owned by Central Area Development Association.

White Center Community Resource Center - CHHIP entered into a Letter of Intent with three White Center community organizations and King County Department of Community and Human Services to explore development of affordable housing and a community resource center on county owned property.

Lake City - During May 2017, CHHIP entered into a purchase and sale agreement to purchase a site in Lake City with the intent to construct an 85-unit apartment project.

Other - Management is evaluating the redevelopment of certain CHHIP owned properties including a surface parking lot that potentially could be developed into a 55 unit apartment project.

Note 10 - Contingencies

CHHIP 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. Management is of the opinion that those risks are immaterial to the financial statements.

In connection with various federal, state, and city grants and loan programs, CHHIP is obligated to operate in accordance with those grant and loan requirements and is subject to audit by those agencies. In cases of noncompliance, the agencies involved may require that CHHIP refund payment of program funds. The amount, if any, of expenses which may be disallowed by the agencies cannot be determined at this time, although CHHIP expects such amounts, if any, to be immaterial.

Note 11 - Risk Management

CHHIP 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. Property loss coverage is on a replacement basis with a deductible of \$5,000 per occurrence. Settled claims have not exceeded coverage purchased during the past three years.

SUPPLEMENTARY INFORMATION

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

Schedule of Departmental Operations For the Year Ended December 31, 2016

	Property Operations	Administration & Management	Total
Receipts:			
Rents	\$ 10,494,399	\$ -	\$ 10,494,399
Vacancy	(332,705)		(332,705)
Tenant fees	211,831		211,831
Development fees		12,552	12,552
Fees for services		2,854,955	2,854,955
Contributions and grants		1,586,476	1,586,476
Other income	92,121	49,262	141,383
Total Receipts	10,465,646	4,503,245	14,968,891
Expenditures:			
On-site management expense	1,617,297		1,617,297
Office salaries, benefits and payroll taxes		3,966,839	3,966,839
Utilities	1,274,888	564	1,275,452
Professional fees	417,685	290,650	708,335
Insurance	266,149	170,903	437,052
Property management fees	1,115,734		1,115,734
Repairs, maintenance and improvements	1,619,046	76,971	1,696,017
Debt service	2,290,577		2,290,577
Reserves	509,650		509,650
Other	277,802	756,425	1,034,227
Total Expenditures	9,388,828	5,262,352	14,651,180
Operating Income	1,076,818	(759,107)	317,711
Reconciliation to Statement of Income:			
Depreciation	(2,091,992)	(62,791)	(2,154,783)
Reserves additions	509,650		509,650
Interest income	12,678	242,237	254,915
Interest expense	(1,049,142)	(24,345)	(1,073,487)
Other income (expenses)	(87,721)		(87,721)
Gain on disposition of property		5,000	5,000
Fixed asset additions from operations	58,881		58,881
Expenses paid from reserves	(124,267)		(124,267)
Debt service payments	1,736,577		1,736,577
Front-line charges	597,888	(597,888)	
Management fees	1,300,480	(1,300,480)	
Net Income	\$ 1,939,850	\$ (2,497,374)	\$ (557,524)

See independent auditor's report.

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

Schedule of Property Operations For the Year Ended December 31, 2016

	18th Avenue	410 11th E.	Berneva	Boylston Howell	Bremer	Brewster	Broadway	Burke Gilman Gardens	Byron Wetmore	Casa di Cinque	Centennial
Receipts:											
Rents	\$ 122,467	\$ 52,944	\$ 114,046	\$ 305,511	\$ 422,392	\$ 301,561	\$ 59,400	\$ 181,312	\$ 128,754	\$ 73,435	\$ 326,511
Vacancy	(20)	(1,272)	(2,482)	(4,126)	(10,585)	(25,481)		(2,748)	(2,473)	(1,376)	(9,478)
Tenant fees	871	1,649	1,818	20,296	11,207	5,739	1,214	4,025	2,358	1,223	12,289
Other income	476			1,690		11,790					205
Total Receipts	123,794	53,321	113,382	323,371	423,014	293,609	60,614	182,589	128,639	73,282	329,527
Expenditures:											
On-site management expense	12,335	9,073	37,907	76,733	62,716	51,631	7,645	23,177	12,331	7,267	45,144
Utilities	12,855	6,067	12,238	48,040	42,254	32,338	4,833	16,843	25,280	6,361	33,851
Professional fees	5,460	2,053	4,106	23,623	16,768	11,977	1,711	5,133	5,756	1,711	10,266
Insurance	2,465	1,513	3,524	10,664	11,286	8,498	1,246	4,762	3,679	460	7,869
Property management fees	6,034	5,265	9,194	29,424	68,338	47,086	8,643	26,078	23,860	10,684	25,768
Repairs, maintenance and improvements	23,399	14,715	20,668	40,619	60,859	31,821	7,122	39,598	33,605	7,078	32,008
Debt service	37,264		10,005	57,928	86,403	26,789	8,083	23,017	5,100	6,225	112,851
Reserves	14,496	10,000	3,121	10,000	22,131	26,400	6,000	7,500	7,000		8,500
Other	1,505	1,000	1,706	4,494	10,808	6,010	1,046	8,075	2,286	538	4,311
Total Expenditures	115,813	49,686	102,469	301,525	381,563	242,550	46,329	154,183	118,897	40,324	280,568
Operating Income (Loss)	7,981	3,635	10,913	21,846	41,451	51,059	14,285	28,406	9,742	32,958	48,959
Reconciliation to Statement of Income:											
Depreciation and amortization	(23,412)	(8,451)	(24,953)	(77,662)	(55,271)	(74,434)	(10,149)	(74,631)	(44,357)	(150)	(56,920)
Reserves additions	14,496	10,000	3,121	10,000	22,131	26,400	6,000	7,500	7,000		8,500
Interest income - restricted	35	557	5	367	835	1,773	143	588	70	154	314
Interest and financial expenses	(30,421)	2,599	383	(12,187)	(61,114)	4,434	(5,069)	(9,682)	1,944	(6,225)	(74,122)
Other income (expense)											
Fixed asset additions from operations	1,203		3,883		1,726			4,350			2,020
Expenses paid from reserves				(6,061)		(2,150)		(2,404)	(438)		
Debt service payments	37,264		10,005	57,928	86,403	26,789	8,083	23,017	5,100	6,225	112,851
Frontline and bookkeeping charges	5,076	3,385	6,769	16,922	27,639	19,742	2,820	8,461	6,769	2,820	16,922
Management fees	6,034	5,265	9,194	29,424	68,338	47,086	8,643	26,078	23,860	10,684	25,768
Net Income (Loss)	\$ 18,256	\$ 16,990	\$ 19,320	\$ 40,577	\$ 132,138	\$ 100,699	\$ 24,756	\$ 11,683	\$ 9,690	\$ 46,466	\$ 84,292

See independent auditor's report.

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

Schedule of Property Operations (Continued) For the Year Ended December 31, 2016

	Central City Affordable Housing	Devonshire	El Nor	Elizabeth James Senior Housing	Fleming LP	Fredonia	Joe Black	Gilman Court LP	Harrison	Hazel Plaza	Holden Vista	Jefferson & 12th Commercial	John Carney	Larned Apartments LP
Receipts:														
Rents	\$ 179,988	\$ 546,723	\$ 575,490	\$ 611,940	\$ 319,345	\$ 297,107	\$ 302,930	\$ 302,399	\$ 358,775	\$ 266,318	\$ 236,606	\$ 125,844	\$ 214,446	\$ 295,647
Vacancy	(11,127)	(10,515)	(6,876)	(14,621)	(4,960)	(25,215)	(16,328)	(8,965)	(2,971)	(13,000)	(20,031)		(4,979)	(57,197)
Tenant fees	332	25,135	5,361	3,191	6,526	4,326	6,356	6,294	3,809	2,273	1,263		6,712	2,502
Other income		745	100	462	304		8	256	41,438					1,080
Total Receipts	169,193	562,088	574,075	600,972	321,215	276,218	292,966	299,984	401,051	255,591	217,838	125,844	216,179	242,032
Expenditures:														
On-site management expense	34,868	106,248	130,622	112,770	40,031	17,420	43,886	60,964	38,686	50,804	65,599	2,423	47,433	46,281
Utilities	28,512	68,696	70,447	67,217	36,884	25,628	48,518	44,305	62,077	21,105	28,709		27,183	36,658
Professional fees	6,774	21,739	29,700	26,819	17,779	4,106	8,509	15,847	14,773	9,392	13,032	507	8,974	13,468
Insurance	4,130	13,286	15,248	20,339	7,310	4,234	7,364	9,305	9,448	4,084	4,187	1,582	5,747	5,899
Property management fees	8,792	92,328	77,881	36,000	37,739	45,620	42,569	46,856	18,914	18,359	9,984	4,059	33,317	39,587
Repairs, maintenance and improvements	55,416	93,613	93,332	102,833	38,495	36,087	60,418	41,952	49,385	29,572	39,882	49	25,381	31,875
Debt service		9,080	102,853	121,832	82,227	68,196	36,000	50,920	118,020	109,546	15,877	36,891	35,700	
Reserves	14,400	101,500	33,000	30,348	13,300	6,920	4,320	10,000	11,044	20,658	6,960	3,600	5,800	9,920
Other	2,516	11,313	11,576	14,881	5,124	24,356	7,694	5,122	10,237	4,302	6,922	7,086	6,100	57,911
Total Expenditures	155,408	517,803	564,659	533,039	278,889	232,567	259,478	285,271	332,584	267,822	191,152	56,197	195,635	241,599
Operating Income (Loss)	13,785	44,285	9,416	67,933	42,326	43,651	33,488	14,713	68,467	(12,231)	26,686	69,647	20,544	433
Reconciliation to Statement of Income:														
Depreciation and amortization	(36,790)	(64,221)	(140,034)	(86,707)	(98,439)	(40,782)	(53,208)	(128,235)	(89,300)	(84,209)	(16,545)	(14,522)	(41,955)	(90,402)
Reserves additions	14,400	101,500	33,000	30,348	13,300	6,920	4,320	10,000	11,044	20,658	6,960	3,600	5,800	9,920
Interest income - restricted	208	1,286	1,313	93	31	578	346	165	273	27	61	42	416	121
Interest and financial expenses	15,124	6,225	(74,772)	(67,973)	(60,039)	(44,706)	(22,384)	560	(95,018)	(77,667)	(4,128)	(5,478)	(14,940)	8,733
Other income (expense)		(192)	(185,544)	(161)		2,264			(17,161)			(7,450)	115	55,193
Fixed asset additions from operations	1,438		7,638	4,291		1,228					1,304			
Expenses paid from reserves		(2,582)	(1,885)	(11,685)		(1,994)	(9,700)		(4,685)		(3,135)		(553)	(1,895)
Debt service payments		9,080	102,853	121,832	82,227	68,196	36,000	50,920	118,020	109,546	15,877	36,891	35,700	
Frontline and bookkeeping charges	6,768	34,971	31,022	33,844	20,306	6,769	13,537	14,101	10,717	9,024	9,025	507	15,229	18,614
Management fees	8,792	92,328	263,376	36,000	37,739	45,620	42,569	46,856	18,914	18,359	9,984	4,059	33,317	39,587
Net Income (Loss)	\$ 23,725	\$ 222,680	\$ 46,383	\$ 127,815	\$ 37,451	\$ 87,744	\$ 44,968	\$ 9,080	\$ 21,271	\$ (16,493)	\$ 46,089	\$ 87,296	\$ 53,673	\$ 40,304

See independent auditor's report.

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

Schedule of Property Operations (Continued) For the Year Ended December 31, 2016

	Lincoln Court	Mary Ruth Manor	Maxwell	Melrose	Miller Park	Park Hill	Ponderosa	Seneca	Master Tenant	Union James	Villa	Total
Receipts:												
Rents	\$ 263,915	\$ 247,651	\$ 42,072	\$ 245,446	\$ 133,224	\$ 404,594	\$ 207,015	\$ 323,530	\$ 928,176	\$ 308,082	\$ 668,803	\$ 10,494,399
Vacancy	(10,784)	(4,329)		(5,352)	(3,748)	(11,638)	(9,766)	(4,795)		(18,525)	(6,942)	(332,705)
Tenant fees	12,239	3,855	1,233	1,353	5,598	3,606	1,947	8,033	57	1,484	35,657	211,831
Other income	1,969	576							27,920		3,102	92,121
Total Receipts	267,339	247,753	43,305	241,447	135,074	396,562	199,196	326,768	956,153	291,041	700,620	10,465,646
Expenditures:												
On-site management expense	53,386	60,833	6,463	65,094	26,990	56,916	41,668	46,640	11,817	27,350	76,146	1,617,297
Utilities	38,110	34,207	4,195	36,508	17,261	48,766	21,703	34,663	92,573	32,722	107,281	1,274,888
Professional fees	9,924	16,489	1,369	8,276	4,106	10,266	11,087	16,606	16,308	5,934	37,337	417,685
Insurance	6,594	4,312	1,043	6,027	3,534	11,181	5,374	8,771	24,692	6,933	19,359	266,149
Property management fees	21,240	13,847	4,081	29,579	11,642	62,277	13,314	73,588		12,477	101,310	1,115,734
Repairs, maintenance and improvements	47,914	43,744	14,220	21,983	21,523	39,737	75,257	45,268	105,696	90,024	103,898	1,619,046
Debt service	95,423	54,899	4,644	32,688	22,385	58,249		53,130	554,000	59,638	194,714	2,290,577
Reserves	17,400	24,000	1,440	5,600	10,461	1,000	14,484	8,491		8,400	31,456	509,650
Other	3,841	10,764	784	6,790	2,428	4,314	4,877	2,157	14,574	4,052	6,302	277,802
Total Expenditures	293,832	263,095	38,239	212,545	120,330	292,706	187,764	289,314	819,660	247,530	677,803	9,388,828
Operating Income (Loss)	(26,493)	(15,342)	5,066	28,902	14,744	103,856	11,432	37,454	136,493	43,511	22,817	1,076,818
Reconciliation to Statement of Income:												
Depreciation and amortization	(78,618)	(34,493)	(6,913)	(37,215)	(35,933)	(38,832)	(10,910)	(112,941)	(28,421)	(24,173)	(247,804)	(2,091,992)
Reserves additions	17,400	24,000	1,440	5,600	10,461	1,000	14,484	8,491		8,400	31,456	509,650
Interest income - restricted	104	32	167	432	978	731	75	122		55	181	12,678
Interest and financial expenses	(76,804)	(28,451)	(951)	(13,560)	(15,217)	(38,222)		(39,909)		(68,321)	(141,784)	(1,049,142)
Other income (expense)		(50,191)					(25)		114,796	(15)	675	(87,721)
Fixed asset additions from operations		12,401				1,204	7,844		4,244	1,371	2,736	58,881
Expenses paid from reserves		(875)	(16,000)		(1,139)	(9,197)		(16,305)			(31,584)	(124,267)
Debt service payments	95,423	54,899	4,644	32,688	22,385	58,249		53,130		59,638	194,714	1,736,577
Frontline and bookkeeping charges	16,357	11,281	2,256	16,922	6,768	16,922	12,973	23,545		11,281	34,971	597,888
Management fees	21,240	13,876	4,081	29,579	11,642	62,277	13,314	72,811		12,477	101,309	1,300,480
Net Income (Loss)	\$ (31,391)	\$ (12,863)	\$ (6,210)	\$ 63,348	\$ 14,689	\$ 157,988	\$ 49,187	\$ 26,398	\$ 227,112	\$ 44,224	\$ (32,313)	\$ 1,939,850

See independent auditor's report.

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

Schedule of Expenditures of Federal Awards For the Year Ended December 31, 2016

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Identifying Number	Passed Through to Subrecipients	**	Federal Disbursements/ Expenditures
US Department of Housing and Urban Development:					
Pass-Through Program From-					
Housing Authority of the City of Bremerton:					
Section 8 Housing Assistance Payments Program	14.195	WA 19M000017	\$	-	\$ 100,505
Section 8 Housing Assistance Payments Program	14.195	WA19L000022			180,138
Section 8 Housing Assistance Payments Program	14.195	WA 19M000141			141,415
Section 8 Housing Assistance Payments Program	14.195	WA 19M000101			402,816
Section 8 Housing Assistance Payments Program	14.195	WA 190080005			230,365
State of Washington:					
Section 8 Housing Assistance Payments Program	14.195	15-46221-004			60,590
Total 14.195					1,115,829
City of Seattle:					
Community Development Block Grants/Entitlement Grants-					
410 Apartments*	14.218	Unknown			30,100
Bremer Apartments*	14.218	Unknown			102,630
Fredonia Apartments*	14.218	Unknown			409,760
Gale Place Apartments*	14.218	Unknown			286,400
Lincoln Court Apartments*	14.218	Unknown			1,203,904
Park Hill Apartments*	14.218	Unknown			282,303
El Nor Apartments*	14.218	Unknown			493,698
Union James Apartments*	14.218	Unknown			397,635
Office of Economic Development - Capitol Hill Chamber of Commerce	14.218	Unknown			17,500
Total 14.218					3,223,930
Rental Rehabilitation Program-					
Gale Place Apartments*	14.230	Unknown			480,000
Park Hill Apartments*	14.230	Unknown			122,088
Total 14.230					602,088
State of Washington:					
HOME Investment Partnership Program*	14.239	04-40403-004			1,000,000
Total 14.239					1,000,000
Enterprise Community Partners, Inc.:					
Section 4 Capacity Building for Community Development and Affordable Housing*	14.252	B-10-CB-MD-0001			67,383
Section 4 Capacity Building for Community Development and Affordable Housing*	14.252	B-13-CB-MD-0001			82,172
Section 4 Capacity Building for Community Development and Affordable Housing	14.252	B-14-CB-MD-0001			52,000
Local Initiatives Support Corporation:					
Section 4 Capacity Building for Community Development and Affordable Housing	14.252	40257-0047			30,000
Section 4 Capacity Building for Community Development and Affordable Housing	14.252	40257-0046			30,000
Section 4 Capacity Building for Community Development and Affordable Housing	14.252	40257-0043			20,000
Section 4 Capacity Building for Community Development and Affordable Housing	14.252	40257-0045			80,000
Total 14.252					361,555
Total US Department of Housing and Urban Development					6,303,402
Total Federal Expenditures			\$	-	\$ 6,303,402

* Denotes outstanding loan

** No federal assistance reported on the Schedule of Expenditures of Federal Awards was passed through to subrecipients during the year.

See accompanying notes to schedule of expenditures of federal awards and independent auditor's report.

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

Schedule of Expenditures of Federal Awards For the Year Ended December 31, 2016

Note 1 - Basis of Presentation

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

Note 2 - Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, and the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Organization did not utilize the de minimis indirect cost rate during the year ended December 31, 2016.

Note 3 - Loans Outstanding

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

<u>Program Title</u>	<u>CFDA Number</u>	<u>Amount Outstanding</u>
Community Development Block Grants/Entitlement Grants	14.218	\$ 3,206,430
Rental Rehabilitation Program	14.230	602,088
HOME Investment Partnership Program	14.239	1,000,000
Section 4 Capacity Building for Community Development and Affordable Housing	14.252	149,555

SINGLE AUDIT REPORTS

**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***

Independent Auditor's Report

**To the Board of Directors
Capitol Hill Housing Improvement Program
Seattle, Washington**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and the aggregate discretely presented component units of Capitol Hill Housing Improvement Program (CHHIP), as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise CHHIP's basic financial statements, and have issued our report thereon dated May 22, 2017.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered CHHIP'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of CHHIP's internal control. Accordingly, we do not express an opinion on the effectiveness of CHHIP'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.



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COMPLIANCE AND OTHER MATTERS

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

PURPOSE OF THIS REPORT

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



Certified Public Accountants
May 22, 2017

**Report on Compliance for Each Major Federal Program and
Report on Internal Control Over Compliance
Required by the Uniform Guidance**

Independent Auditor's Report

**To the Board of Directors
Capitol Hill Housing Improvement Program
Seattle, Washington**

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited Capitol Hill Housing Improvement Program's (CHHIP's) compliance with types of compliance requirements described in the U.S. Office of Management and Budget's Compliance Supplement that could have a direct and material effect on each of CHHIP's major federal programs for the year ended December 31, 2016. CHHIP's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

CHHIP's financial statements include the operations of certain HUD projects and Elizabeth James Senior Housing, blended component unit of CHHIP, that in total received \$3,466,278 in federal awards. Those projects are subject to U.S. Department of Housing and Urban Development (HUD) reporting requirements. Those HUD projects were audited as a separate organizational unit and Elizabeth James Senior Housing as a legally separate entity as permitted by 2 CFR 200.514(a) and HUD. Accordingly, the federal awards of \$3,466,278 are excluded from the accompanying schedule of expenditures of federal awards.

Management's Responsibility

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

Auditor's Responsibility

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

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



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Opinion on Each Major Federal Program

In our opinion, CHHIP complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2016.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

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

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

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

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



Certified Public Accountants
May 22, 2017

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

Schedule of Findings and Questioned Costs For the Year Ended December 31, 2016

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:

Unmodified

Internal control over financial reporting:

- Material weaknesses identified?

☐ Yes

☒ No

- Significant deficiencies identified?

☐ Yes

☒ None reported.

Noncompliance material to financial statements noted?

☐ Yes

☒ No

Federal Awards

Internal control over major programs:

- Material weaknesses identified?

☐ Yes

☒ No

- Significant deficiencies identified?

☐ Yes

☒ None reported.

Type of auditor's report issued on compliance
for major programs:

Unmodified

Any audit findings disclosed that are required to
be reported in accordance with 2 CFR 200.516(a)?

☐ Yes

☒ No

Identification of Major Programs

CFDA Numbers

14.239

14.230

Name of Federal Program or Cluster

HOME Investment Partnership Program
Rental Rehabilitation Program

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

\$ 750,000

Auditee qualified as low-risk auditee?

☒ Yes

☐ No

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

**Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2016**

Section II - Financial Statement Findings

No matters were reported.

Section III - Findings and Questioned Costs for Federal Awards

No matters were reported.

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

**Schedule of Prior Audit Findings
For the Year Ended December 31, 2016**

There were no prior audit findings; therefore, no matters are reportable.