



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

September 24, 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 years ended December 31, 2017 and 2016. The Authority contracted with the CPA firm for this audit and requested that we accept in lieu of performing our own audit.

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

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

Sincerely,

Pat McCarthy
State Auditor
Olympia, WA

**CAPITOL HILL HOUSING
IMPROVEMENT PROGRAM**

Financial Statements and Single Audit Reports

For the Years Ended December 31, 2017 and 2016

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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, 2017 and 2016, 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, 2017 and 2016, 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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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 relate 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 departmental 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 21, 2018 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 solely 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 the effectiveness of CHHIP's 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.

Clark Nuber P.S.

Certified Public Accountants
May 21, 2018

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

Management's Discussion and Analysis For the Year Ended December 31, 2017

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, 2017.

Financial Highlights

- Assets exceeded liabilities (net position) at the close of 2017 totaled \$20,650,428.
- Unrestricted cash and cash equivalents at December 31, 2017 totaled \$3,579,429.
- CHHIP properties continue to operate with extremely low vacancy rates across the portfolio (blended and discrete component units) averaging 2.3 percent in 2017.
- During 2017, CHHIP invested \$500 thousand in upgrades to Central City Affordable Housing which included exterior renovations and a new roof.
- During 2017, CHHIP closed on permanent financing and began construction on the Union and 24th Associates (Liberty Bank Building) project. Anticipated completion is scheduled for early 2019.
- In partnership with Africatown Community Land Trust, CHHIP acquired a \$4.5 million parcel of land in the Central District for future development of affordable housing.
- CHHIP acquired a \$1.9 million parcel of land in Lake City for use in future development of affordable and/or work force housing.
- CHHIP entered into a memorandum of understanding with Seattle Central College and Sound Transit to develop approximately 80 units of affordable housing on Capitol Hill.
- Gross potential rent increased \$697,688 in 2017. The increase was driven primarily by completion of a rent comparability study at two HUD buildings, which increased the combined subsidy revenue from the properties by \$458,588 over the prior year.

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 current year 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's Discussion and Analysis For the Year Ended December 31, 2017

Overview of the Financial Statements (Continued)

The financial statements include the activities of CHHIP and 24 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 21 limited partnerships, limited liability limited partnership and limited liability companies, 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, Africatown Plaza LLLP, Africatown Plaza GP LLC, CHDA Lake City LLLP, CHDA Lake City GP 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, 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. CHDA has a majority interest in Africatown Plaza GP, LLC, which is the general partner of Africatown Plaza, LLLP. CHDA also has a 49.9995% interest in Africatown Plaza, LLLP. CHDA Lake City GP, LLC, of which CHDA is the sole member, is the managing member of CHDA Lake City, LLLP. CHHIP is the initial limited partner in CHDA Lake City, LLLP.

The financial statements also include as "Discrete Component Units" 12 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 most 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's Discussion and Analysis For the Year Ended December 31, 2017

Overview of the CHHIP Blended Entity Financial Position and Operations

	December 31,	2017	2016	2015
Assets:				
Current assets	\$	6,660,255	\$ 6,302,797	\$ 6,282,750
Noncurrent assets-				
Capital assets, net		55,236,302	50,474,043	42,386,701
Other		22,483,272	21,966,534	21,103,404
Total Assets	\$	84,379,829	\$ 78,743,374	\$ 69,772,855
Liabilities:				
Current liabilities	\$	4,634,281	\$ 5,613,961	\$ 2,603,367
Noncurrent liabilities		59,095,120	51,704,843	46,298,220
Total Liabilities	\$	63,729,401	\$ 57,318,804	\$ 48,901,587
Net Position:				
Invested in capital assets, net of related debt	\$	(1,491,519)	\$ 22,802	\$ (98,670)
Restricted		6,142,130	5,581,883	4,537,930
Unrestricted		15,999,817	15,819,885	16,432,008
Total Net Position	\$	20,650,428	\$ 21,424,570	\$ 20,871,268

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 decreased by \$774,142 in 2017 and increased \$553,302 in 2016. For 2017, a decrease of \$24,425 was due to change in component units which occurred when the development of Union and 24th was transferred to Union and 24th Associates LLC, and a decrease of \$749,717 due to operating results. For 2016, an increase of \$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 a decrease of \$557,524 due to operating results.

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

Management's Discussion and Analysis For the Year Ended December 31, 2017

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,	2017	2016	2015
Operating revenues-				
Tenant revenues	\$	11,095,359	\$ 10,282,273	\$ 8,627,945
Fees for services		977,678	942,236	946,344
Project development fees		511,659	12,552	400,062
Other		31,509	89,620	16,680
Nonoperating revenues-				
Contributions and grants		1,030,753	1,586,476	3,238,697
Interest income		280,688	254,915	255,871
(Loss) gain on sale of assets		(4,710)	5,000	377,292
Total Revenues		13,922,936	13,173,072	13,862,891
Operating expenses-				
Salaries, benefits and payroll taxes		6,006,001	5,411,605	4,454,492
Operating and maintenance		1,501,073	1,526,832	1,540,895
Other operating expenses		3,808,268	3,456,815	2,991,834
Depreciation and amortization		2,214,287	2,154,783	1,809,296
Nonoperating expenses-				
Grant to component unit		40,800	107,075	193,543
Interest expense		1,102,404	1,073,486	1,005,527
Total Expenses		14,672,833	13,730,596	11,995,587
Change in Net Position	\$	(749,897)	\$ (557,524)	\$ 1,867,304

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 7 percent in 2017, 18 percent in 2016, and 9 percent in 2015. We are limited in how much we can increase tenant revenues as our rents are regulated. Vacancy loss for 2017 was 2.3 percent which is the seventh year annual vacancy loss has been below approximately 4 percent. Vacancy loss for 2016 was 3.1 percent and for 2015 was 2.6 percent. CHHIP continues to work to turn and lease units faster.

CHHIP earns development fees for its management role in the development of new properties. During 2017 CHHIP earned development fees of \$449,106 primarily for the development of Union and 24th residential and commercial development. 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's Discussion and Analysis For the Year Ended December 31, 2017

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

Salaries, benefits and payroll tax expense increased by 11 percent in 2017, primarily due to a 21 percent increase in health care costs as well as the addition of four new staff positions. In 2016, salaries, benefits and payroll tax expense increased 21 percent. The increase was primarily due to the addition of two properties to the blended entity in 2016 with their related staff accounting for 4 percent of the increase along with a 12 percent increase in health insurance premiums. CHH also added four 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 eight positions.

As it did in 2016, operating and maintenance expense remained constant in 2017 as CHHIP continued to focus on improving efficiencies and reducing costs throughout the portfolio. Low vacancy rates also reduce turnover costs. Operating and maintenance expenses increased 19 percent in 2015. 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 non-amortizing 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 so long as the properties are managed in compliance with the loan agreements. Interest expense increased 2.7 percent in 2017, primarily due to the addition of debt used to finance the rehabilitation project at Mary Ruth Manor in 2016/2017.

In 2017 CHHIP received \$1,030,753 in contributions and grants representing 7.5% of total revenue. In 2017, this included \$122,205 in grants for capital improvements at the Brewster and \$50,048 at Mary Ruth Manor. These grants increase revenues without an offsetting expense. Excluding these grants, CHHIP received \$880,641 in 2017 which included awards from the Capitol Hill Housing Foundation, Enterprise Community Partners and continued support from the City Office of Economic Development.

In 2016 CHHIP received \$1,586,476 in contributions and grants, representing 12% 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 the City of Seattle Office of Economic Development, and Impact Capital in support of our development work.

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 \$1,307,642. In addition to the operating expenditures, we spent an additional \$114,612 on repair and maintenance funded from our building reserves.

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

Management's Discussion and Analysis For the Year Ended December 31, 2017

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, 2017 and 2016

	2017		2016	
	CHHIP	Discrete Component Units	CHHIP	Discrete Component Units
Current Assets:				
Cash and cash equivalents	\$ 3,579,429	\$ 1,341,287	\$ 3,201,074	\$ 1,613,070
Accounts receivable, net	2,671,199	762,496	2,918,843	745,145
Current portion of pledges receivable, net		66,953		126,492
Prepaid expenses and other current assets	368,637	25,907	141,890	28,797
Current portion of notes and interest receivable	40,990		40,990	
Total Current Assets	6,660,255	2,196,643	6,302,797	2,513,504
Restricted cash and cash equivalents	6,135,902	4,903,491	5,581,883	4,663,967
Deferred rent receivable		82,429		70,143
Notes and interest receivable	14,820,286		14,850,506	
Land, buildings and equipment, net	55,236,302	99,310,459	50,474,043	94,335,165
Investment in limited partnerships and LLCs	1,527,084		1,534,145	
Capitalized costs, net		189,662		215,985
Total Assets	\$ 84,379,829	\$ 106,682,684	\$ 78,743,374	\$ 101,798,764

See accompanying notes.

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

Balance Sheets - Liabilities and Net Position December 31, 2017 and 2016

	2017		2016	
	CHHIP	Discrete Component Units	CHHIP	Discrete Component Units
Current Liabilities:				
Accounts payable and accrued liabilities	\$ 1,720,267	\$ 3,698,512	\$ 1,627,736	\$ 2,747,700
Deferred income	95,107	46,919	45,500	43,303
Current portion of accrued interest payable	95,119	78,203	126,534	79,023
Current portion of notes payable	2,723,788	559,724	3,814,191	445,673
Total Current Liabilities	4,634,281	4,383,358	5,613,961	3,315,699
Security deposits	579,614	263,845	539,031	264,499
Long-term deferred income	437,239		449,791	
Notes payable, net of current portion	54,004,033	86,647,929	46,637,050	81,558,111
Accrued interest payable	4,074,234	2,878,743	4,078,971	2,435,993
Total Liabilities	63,729,401	94,173,875	57,318,804	87,574,302
Net Position:				
Restricted for building improvements	3,797,638	2,061,736	3,905,125	1,712,119
Restricted for other purposes	2,344,492	2,841,755	1,676,758	2,951,848
Total restricted	6,142,130	4,903,491	5,581,883	4,663,967
Invested in capital assets, net of related debt	(1,491,519)	12,102,806	22,802	12,331,381
Unrestricted	15,999,817	(4,497,488)	15,819,885	(2,770,886)
Total Net Position	20,650,428	12,508,809	21,424,570	14,224,462
Total Liabilities and Net Position	\$ 84,379,829	\$ 106,682,684	\$ 78,743,374	\$ 101,798,764

See accompanying notes.

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

Statements of Revenues, Expenses and Changes in Net Position For the Years Ended December 31, 2017 and 2016

	2017		2016	
	CHHIP	Discrete Component Units	CHHIP	Discrete Component Units
Operating Revenues:				
Gross rent potential	\$ 11,072,915	\$ 5,372,006	\$ 10,375,227	\$ 5,047,646
Vacancy loss	(205,529)	(93,552)	(332,705)	(124,943)
Laundry, parking and other tenant income	227,973	183,254	239,751	208,029
Fees for services	977,678		942,236	
Project development and other fees	511,659		12,552	
Other operating revenue	31,509	42,818	89,620	26,503
Total Operating Revenues	12,616,205	5,504,526	11,326,681	5,157,235
Operating Expenses:				
Salaries, benefits and payroll taxes	6,006,001	658,890	5,411,605	671,169
Utilities	1,388,329	418,167	1,275,452	433,509
Professional fees	469,191	226,181	487,270	232,608
Administrative	669,757	851,172	579,616	790,958
Master lease	567,000		554,000	
Taxes and insurance	520,604	213,654	437,052	194,155
Operating and maintenance	1,501,073	853,410	1,526,832	808,494
Bad debt expense	7,578	9,176	27,229	8,869
Grants to CHHIP and affiliates		755,930		720,830
Other	185,809	67,511	96,196	65,369
Depreciation and amortization	2,214,287	3,177,496	2,154,783	3,200,784
Total Operating Expenses	13,529,629	7,231,587	12,550,035	7,126,745
Operating Income (Loss)	(913,424)	(1,727,061)	(1,223,354)	(1,969,510)
Nonoperating Revenues (Expenses):				
Contributions and grants	1,030,753	788,559	1,586,476	943,209
Grant to component unit	(40,800)		(107,075)	
In-kind revenue		366,714		284,538
Interest income	280,688	4,095	254,915	2,777
Gain (loss) on disposition of assets	(4,710)	(1,315)	5,000	
In-kind expense		(366,714)		(284,538)
Interest expense	(1,102,404)	(1,768,676)	(1,073,486)	(1,683,712)
Total Nonoperating Revenues (Expenses)	163,527	(977,337)	665,830	(737,726)
Change in Net Position Before Capital Contributions and Other Changes	(749,897)	(2,704,398)	(557,524)	(2,707,236)
Capital Contributions and Other Changes:				
Change in component units	(24,245)	24,245	1,110,826	(682,824)
Syndication costs		(40,000)		(10,000)
Capital contributions		1,004,500		1,033,859
Total Capital Contributions and Other Changes	(24,245)	988,745	1,110,826	341,035
Change in Net Position	(774,142)	(1,715,653)	553,302	(2,366,201)
Beginning of year	21,424,570	14,224,462	20,871,268	16,590,663
End of Year	\$ 20,650,428	\$ 12,508,809	\$ 21,424,570	\$ 14,224,462

See accompanying notes.

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

Statements of Cash Flows For the Years Ended December 31, 2017 and 2016

	2017		2016	
	CHHIP	Discrete Component Units	CHHIP	Discrete Component Units
Cash Flows From Operating Activities:				
Receipts from tenants	\$ 11,968,462	\$ 5,478,961	\$ 10,985,629	\$ 5,187,142
Receipts for developer fees	964,652		485,296	
Payments to employees and for payroll taxes and benefits	(6,196,618)	(658,890)	(5,281,828)	(671,169)
Payments to suppliers	(5,332,067)	(3,453,163)	(5,037,547)	(3,402,419)
Net Cash Provided by Operating Activities	1,404,429	1,366,908	1,151,550	1,113,554
Cash Flows From Noncapital Financing Activities:				
Receipts from contributions and grants	1,040,609	848,098	1,505,670	895,877
Payment of grants	(40,800)		(107,075)	
Net Cash Provided by Noncapital Financing Activities	999,809	848,098	1,398,595	895,877
Cash Flows From Capital and Related Financing Activities:				
Acquisition of land, building and equipment	(7,480,769)	(6,520,802)	(3,936,440)	(554,354)
Proceeds from sale of land, building and equipment			5,000	
Proceeds from notes payable	8,590,360	5,087,510	3,039,690	(263,716)
Principal payments on notes payable	(1,712,980)	(559,255)	(1,264,044)	(1,183,678)
Interest paid on notes payable	(1,093,280)	(1,183,874)	(1,105,820)	(1,295,176)
Payment of financing costs	(58,818)	(66,725)		(36,665)
Payment of syndication costs		(40,000)		(10,000)
Capital contributions		1,004,500		1,033,859
Net Cash Used by Capital and Related Financing Activities	(1,755,487)	(2,278,646)	(3,261,614)	(2,309,730)
Cash Flows From Investing Activities:				
Net change in restricted cash and cash equivalents	(554,019)	(239,524)	(18,394)	76,301
Cash transfer due to change in component units	(27,286)	27,286	202,866	(202,866)
Cash received in assumption of property ownership			65,973	
Investment in limited partnership			(958,000)	
Receipts on repayment of notes receivable	89,118		1,375,734	
Interest receipts	221,791	4,095	197,606	2,776
Net Cash (Used) Provided by Investing Activities	(270,396)	(208,143)	865,785	(123,789)
Net Change in Cash and Cash Equivalents	378,355	(271,783)	154,316	(424,088)
Cash and cash equivalents, beginning of year	3,201,074	1,613,070	3,046,758	2,037,158
Cash and Cash Equivalents, End of Year	\$ 3,579,429	\$ 1,341,287	\$ 3,201,074	\$ 1,613,070

See accompanying notes.

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

Statements of Cash Flows (Continued)

For the Years Ended December 31, 2017 and 2016

	2017		2016	
	CHHIP	Discrete Component Units	CHHIP	Discrete Component Units
Reconciliation of Operating Loss to Net				
Cash Provided by Operating Activities:				
Operating income (loss)	\$ (913,424)	\$ (1,727,061)	\$ (1,223,354)	\$ (1,969,510)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities-				
Depreciation and amortization	2,214,287	3,177,496	2,154,783	3,200,784
Partnership income	7,061		49,097	
Changes in assets and liabilities:				
Receivables	237,788	(17,351)	89,104	33,337
Prepaid expenses and other current assets	(226,816)	2,959	103,915	52,034
Accounts payable and accrued liabilities	(6,657)	(70,097)	(53,468)	(208,530)
Security deposits and deferred income	92,190	962	31,473	5,439
Net Cash Provided by Operating Activities	\$ 1,404,429	\$ 1,366,908	\$ 1,151,550	\$ 1,113,554
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	\$ (69)	\$ 69	\$ 85,608	\$ (85,608)
Lease receivable	\$ -	\$ -	\$ 184,074	\$ (184,074)
Restricted cash and cash equivalents	\$ -	\$ -	\$ 1,021,369	\$ (1,021,396)
Land, buildings and equipment, net	\$ (1,607,058)	\$ 1,607,058	\$ 4,231,134	\$ (4,231,134)
Accounts payable and accrued liabilities	\$ (1,020,909)	\$ 1,020,909	\$ 16,331	\$ (16,331)
Security deposits	\$ -	\$ -	\$ 26,850	\$ (26,850)
Deferred income	\$ (2,000)	\$ 2,000	\$ 326	\$ (326)
Accrued interest	\$ (27,258)	\$ 27,258	\$ 318,007	\$ (318,007)
Notes payable	\$ (560,000)	\$ 560,000	\$ 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, 2017 and 2016

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 35 apartment projects and 876 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 as well as one project currently under construction. 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, two apartment projects with 44 units owned by local nonprofit organizations. In total, CHHIP manages 1,413 units as of December 31, 2017. Subsequent to year end CH Real Estate Management Services ceased property management operations at one of the two third-party managed projects; however, the Organization plans to assume management of another 99-unit building in Seattle on June 1, 2018.

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 most 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.

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

Notes to Financial Statements For the Years Ended December 31, 2017 and 2016

Note 1 - Continued

During 2017, CHHIP and CHDA created four additional entities as part of new development projects in Lake City and the Central District. CHDA has a majority interest in Africatown Plaza GP, LLC, which is the general partner of Africatown Plaza, LLLP. CHDA also has a 49.9995% interest in Africatown Plaza, LLLP. CHDA Lake City GP, LLC, of which CHDA is the sole member, is the managing member of CHDA Lake City, LLLP. CHHIP is the initial limited partner in CHDA Lake City, LLLP. CH Development Association is also the controlling partner of Africatown Plaza and CHDA Lake City and, therefore, all associated entities are considered blended component units.

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 discrete component units in fiscal year 2015 to blended component units 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.

During 2017, an investor member was admitted to Union and 24th Associates LLC (Union and 24th), which included the transfer of 99.99% of the ownership interest of the LLC to the investor member. As such, Union and 24th changed from being reported as a blended component unit in fiscal year 2016, to a discrete component unit in 2017.

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, 2017 and 2016, the carrying amount of CHHIP's demand deposits was \$5,538,904 and \$4,768,354, respectively, and was not materially different from the bank balances.

At December 31, 2017 and 2016, CHHIP had \$4,176,427 and \$4,038,612, 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, 2017 and 2016, the restricted cash balances were held in deposits with the LGIP and other separate accounts as required by the agreements and donor imposed restrictions.

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

Notes to Financial Statements For the Years Ended December 31, 2017 and 2016

Note 1 - Continued

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, 2017 and 2016, of \$1,567,083 and \$1,651,507, 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.

Land, Buildings and Equipment - CHHIP capitalizes assets with a cost greater than \$5,000 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 2017 or 2016.

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 sheets. 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 statements of revenues, expenses and changes in net position.

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 eight 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.

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

Notes to Financial Statements

For the Years Ended December 31, 2017 and 2016

Note 1 - Continued

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.

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 position, 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. Net position restricted for other purposes reported on the balance sheets also includes a total of \$6,228 at December 31, 2017 that is the noncontrolling owner's interest in the Africatown Plaza entities that are included as blended component units.

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.

Reclassifications - Certain reclassifications have been made to 2016 amounts to conform to the 2017 presentation. The reclassifications have no effect on the previously reported total assets, liabilities, net position, or change in net position for 2016.

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

Notes to Financial Statements For the Years Ended December 31, 2017 and 2016

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>2017</u>	<u>2016</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 , repaid in full during 2017.		63,904
<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>Pantages Apartments LLC</u> Note receivable, interest at 6%, annual payments from available cash flow starting February 2006 through maturity on February 1, 2056.	68,393	93,608
<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
<u>New Market 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

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

Notes to Financial Statements For the Years Ended December 31, 2017 and 2016

Note 2 - Continued

	<u>2017</u>	<u>2016</u>
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.	<u>7,926,840</u>	<u>7,926,840</u>
Total principal	14,386,637	14,475,756
Accrued interest on the above notes	<u>474,639</u>	<u>415,740</u>
Total principal and interest	14,861,276	14,891,496
Less current portion of notes and interest receivable	<u>(40,990)</u>	<u>(40,990)</u>
Noncurrent Portion	<u>\$ 14,820,286</u>	<u>\$ 14,850,506</u>

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, 2017 and 2016

Note 3 - Land, Buildings and Equipment

Land, buildings and equipment activity consisted of the following:

	January 1, 2016	Increases	Decreases	Change in 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	<u>(31,527,722)</u>	<u>(2,154,783)</u>	<u>10,936</u>	<u>(3,421,428)</u>		<u>(37,092,997)</u>
	<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>
	January 1, 2017	Increases	Decreases	Change in Component Units	Net Transfers	December 31, 2017
Nondepreciable assets-						
Land	\$ 14,643,757	\$ 6,310,400	\$ -	\$ (560,000)	\$ -	\$ 20,394,157
Pre-development costs	1,492,739	1,430,640	(57)	(1,047,058)	(409,582)	1,466,682
Depreciable assets-						
Buildings and facilities	68,499,753	794,932	(30,972)		409,582	69,673,295
Equipment and vehicles	2,930,791	78,665	(2,460)			3,006,996
Less accumulated depreciation	<u>(37,092,997)</u>	<u>(2,214,287)</u>	<u>2,456</u>			<u>(39,304,828)</u>
	<u>\$ 50,474,043</u>	<u>\$ 6,400,350</u>	<u>\$ (31,033)</u>	<u>\$ (1,607,058)</u>	<u>\$ -</u>	<u>\$ 55,236,302</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 2017, Union and 24th transferred a portion of company interest to an investor member, changing the limited liability company to a discrete component unit. This transfer resulted in decrease of \$1,047,058 in pre-developments costs and \$560,000 in land costs.

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

Notes to Financial Statements

For the Years Ended December 31, 2017 and 2016

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 \$567,000 and \$554,000 for fiscal years 2017 and 2016, respectively.

Minimum lease payments under these leases are as follows:

For the Year Ending December 31,

2018	\$ 596,617
2019	610,617
2020	625,617
2021	640,617
2022	655,617
Thereafter	<u>30,165,879</u>
	<u><u>\$ 33,294,964</u></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.

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

Notes to Financial Statements For the Years Ended December 31, 2017 and 2016

Note 4 - Continued

Minimum future lease revenue under the leases is as follows:

For the Year Ending December 31,

2018	\$ 1,160,842
2019	1,007,707
2020	827,615
2021	814,248
2022	801,819
Thereafter	<u>11,367,855</u>
	<u><u>\$ 15,980,086</u></u>

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,

2018	\$ 115,000
2019	120,000
2020	125,000
2021	130,000
2022	135,000
Thereafter	<u>15,960,080</u>
	<u><u>\$ 16,585,080</u></u>

Rental expense under this lease totaled \$110,000 and \$105,000 for fiscal years 2017 and 2016, respectively.

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

Notes to Financial Statements

For the Years Ended December 31, 2017 and 2016

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>2017</u>	<u>2016</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.	\$ 16,743,301	\$ 14,542,202
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.	22,904,609	22,904,609
City of Seattle land acquisition loan, bearing interest at 3% annually. Interest is deferred until maturity date. Loan matures October 30, 2021, at which point it will convert to a permanent loan, assuming certain criteria are met. If converted to permanent, the maturity date shall be October 30, 2071.	4,500,000	
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.	9,028,357	9,155,029
Equity equivalent investment loan, interest only at 2.5% payable quarterly, to be repaid in full December 2018.	350,000	350,000
Equity equivalent investment loan, interest only at 2.0% payable quarterly, to be repaid in full October 2021.	300,000	
Tenant improvements loan bearing interest at 6%, interest only for the first year, amortized over the next five years, due in full February 2019.	38,871	72,198
Loan for purchase of land, bearing interest at 3%, principal and interest due at maturity on December 2018. Repaid in full during 2017.		560,000

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

Notes to Financial Statements For the Years Ended December 31, 2017 and 2016

Note 5 - Continued

	<u>2017</u>	<u>2016</u>
Interim construction loan, bearing interest at 3.75%. Monthly interest only payments due through maturity. Principal and interest due in full on June 1, 2018 unless converted to a term loan prior to that date (or extended for up to 6 months). Conversion is anticipated in June 2018.	421,251	
Interim construction loan, variable interest rate with interest only payments due monthly beginning June 2016. Loan was converted to permanent on July 27, 2017 with total borrowings of \$2,760,000. Loan is included in permanent conventional loans.		2,379,461
Bridge loan for the development of Station House, bearing interest at 6%. Approved loan amount of \$1,000,000 drawn as expenditure occur. Interest payments due monthly. Principal due October 2018.	376,270	
Bridge loan for acquisition of Lake City land, bearing interest at 6.25%. Interest only payments due monthly. Principal and interest due September 2020.	1,971,900	
Predevelopment line of credit with one lender; maximum of \$500,000 available, interest at 6% with principal to be paid in full upon maturity in October 2018.	387,274	343,924
Bridge loans for the development of Union and 24th, bearing interest between 2% and 6%. Principal and interest were paid in full at close of permanent financing in August 2017.		<u>395,171</u>
Total principal	57,021,833	50,702,594
Less current portion of notes payable	(2,723,788)	(3,814,191)
Less unamortized financing costs	<u>(294,012)</u>	<u>(251,353)</u>
Noncurrent Portion	<u>\$ 54,004,033</u>	<u>\$ 46,637,050</u>

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

Notes to Financial Statements For the Years Ended December 31, 2017 and 2016

Note 5 - Continued

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

For the Year Ending December 31,	Principal	Interest
2018	\$ 2,723,788	\$ 1,120,538
2019	1,205,635	1,012,102
2020	2,826,290	964,983
2021	5,688,563	921,239
2022	942,176	861,627
2023 - 2027	5,677,347	3,378,888
2028 - 2032	11,083,462	1,653,363
2033 - 2037	13,213,258	829,434
2038 - 2042	6,733,133	493,228
2043 - 2047	2,847,940	152,437
2048 - 2052	2,677,872	173
2053 - 2057	1,402,369	
	<u><u>\$ 57,021,833</u></u>	<u><u>\$ 11,388,013</u></u>

Accrued interest payable on the above notes payable totaled \$4,169,353 and \$4,205,505 at December 31, 2017 and 2016, respectively and is presented separately from the above total for notes payable on the balance sheets. Interest expense on the above notes payable aggregated \$1,102,404 and \$1,073,486 for fiscal years 2017 and 2016, 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, 2017 and 2016

Note 5 - Continued

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)
Payment of financing costs	(145,751)	
Amortization of financing costs	18,390	
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

Long-term liability activity consisted of the following during 2017:

	Notes Payable	Accrued Interest Payable
Beginning balance, December 31, 2017	\$ 50,451,241	\$ 4,205,505
Increases-		
CHH	8,590,360	
Accrual		1,084,386
Decreases-		
Payments	(1,712,980)	(1,093,280)
Payment of financing costs	(58,818)	
Amortization of financing costs	18,018	
Transfers from changes in reporting unit-		
Union and 24th Associates LLC	(560,000)	(27,258)
Ending Balance, December 31, 2017	\$ 56,727,821	\$ 4,169,353

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

Notes to Financial Statements

For the Years Ended December 31, 2017 and 2016

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 eight 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 a ninth LLC, SOPI Village LLC. CHHIP is also the sole member of CHH Squire Park LLC which is a 9.65 percent owner in a tenth 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 2017 and 2016, CHHIP earned property management fees of \$613,973 and \$579,998 respectively, and limited partnership and LLC management fees of \$108,084 and \$106,185, respectively, from these entities. Additionally, CHHIP earned development and other fees totaling \$511,659 and \$12,552 in 2017 and 2016, respectively, from these entities.

The following is a summary of selected financial information as of and for the year ended December 31, 2017, from the limited partnerships and LLCs described above and also represents condensed financial information for the aggregated discretely presented component units:

	December 31, 2017		
	Assets	Liabilities	Equity
Affordable Apartments Associates LLC	\$ 7,000,484	\$ 5,904,162	\$ 1,096,322
Broadway & Pine Apartments LLC	7,484,091	5,273,505	2,210,586
Capitol Hill Housing Foundation	359,763	13,623	346,140
Helen V Apartments LLC	2,947,614	3,243,638	(296,024)
Holiday Apartments Limited Partnership	5,800,019	5,526,168	273,851
Jefferson & 12th LLC	10,387,040	8,657,972	1,729,068
Oleta Apartments Limited Partnership	1,668,106	1,414,942	253,164
Pantages Apartments LLC	7,184,287	5,779,816	1,404,471
Silvian Apartments LLC	3,563,420	2,924,812	638,608
SOPI Village LLC	7,637,512	5,802,956	1,834,556
Woodland Park Avenue LLC	3,739,659	4,045,712	(306,053)
Twelfth Avenue Arts Association and Subsidiary	20,074,799	21,185,480	(1,110,681)
Twelfth Avenue Arts Housing LLLP	20,556,250	17,116,193	3,440,057
Union and 24th Associates LLC	8,279,640	7,284,896	994,744
Discretely Presented Component Units	\$ 106,682,684	\$ 94,173,875	\$ 12,508,809
Squire Park Holdings LLC	\$ 11,338,936	\$ 8,257,538	\$ 3,081,398

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

Notes to Financial Statements

For the Years Ended December 31, 2017 and 2016

Note 6 - Continued

	Year Ended December 31, 2017	
	Total Revenues	Net Income (Loss)
Affordable Apartment Associates LLC	\$ 335,409	\$ (127,868)
Broadway & Pine Apartments LLC	468,007	(334,940)
Capitol Hill Housing Foundation	1,144,297	(189,519)
Helen V Apartments LLC	658,422	135,608
Holiday Apartments Limited Partnership	343,927	(56,183)
Jefferson & 12th LLC	502,787	(315,200)
Oleta Apartments Limited Partnership	309,664	(24,140)
Pantages Apartments LLC	492,980	(280,447)
Silvian Apartments LLC	385,464	5,786
SOPi Village LLC	290,966	(323,812)
Woodland Park Avenue LLC	196,761	(203,417)
Twelfth Avenue Arts Association and Subsidiary	580,248	(326,122)
Twelfth Avenue Arts Housing LLLP	948,963	(670,143)
Union and 24th Associates LLC	5,999	5,999
Discretely Presented Component Units	\$ 6,663,894	\$ (2,704,398)
Squire Park Holdings LLC	\$ 1,201,485	\$ 114,786

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

Notes to Financial Statements

For the Years Ended December 31, 2017 and 2016

Note 6 - Continued

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 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
SOPV 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	<u>\$ 101,798,764</u>	<u>\$ 87,574,302</u>	<u>\$ 14,224,462</u>
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, 2017 and 2016

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)
SOPV 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	<u>\$ 6,387,759</u>	<u>\$ (2,707,236)</u>
Squire Park Holdings LLC	\$ 1,181,659	\$ 82,394

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 \$1,766,860 and \$2,170,679 at December 31, 2017 and 2016, respectively. The accounts receivable balance at December 31, 2017 and 2016, is reported net of an allowance for doubtful accounts totaling \$115,198 and \$168,799, 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, 2017 and 2016, CHHIP had \$28,566,114 and \$28,229,600 of outstanding guarantees and \$210,673 and \$210,673 of advances under guarantees, respectively.

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

Notes to Financial Statements For the Years Ended December 31, 2017 and 2016

Note 7 - Blended Component Units

The following condensed combining information is presented as of and for the years ended December 31, 2017 and 2016 for blended components as summarized in a single column titled CHHIP in the basic financial statements.

Condensed combining information for the 2017 balance sheet is presented below:

	<u>CHHIP</u>	<u>Housing Blended Component Units</u>	<u>Non-Housing Blended Component Units</u>	<u>Eliminations in Blending</u>	<u>Total</u>
Assets:					
Current assets	\$ 7,313,677	\$ 1,127,587	\$ 693,936	\$ (2,474,945)	\$ 6,660,255
Noncurrent assets-					
Capital assets, net	35,899,246	19,117,131	219,925		55,236,302
Other	<u>7,362,404</u>	<u>2,430,293</u>	<u>18,659,988</u>	<u>(5,969,413)</u>	<u>22,483,272</u>
Total Assets	<u>\$ 50,575,327</u>	<u>\$ 22,675,011</u>	<u>\$ 19,573,849</u>	<u>\$ (8,444,358)</u>	<u>\$ 84,379,829</u>
Liabilities:					
Current liabilities	\$ 4,601,747	\$ 1,775,453	\$ 732,026	\$ (2,474,945)	\$ 4,634,281
Noncurrent liabilities	<u>40,589,116</u>	<u>18,432,392</u>	<u>73,612</u>		<u>59,095,120</u>
Total Liabilities	<u>\$ 45,190,863</u>	<u>\$ 20,207,845</u>	<u>\$ 805,638</u>	<u>\$ (2,474,945)</u>	<u>\$ 63,729,401</u>
Net Position:					
Invested in capital assets, net of related debt	\$ (3,592,474)	\$ 1,881,030	\$ 219,925	\$ -	\$ (1,491,519)
Restricted	3,632,188	2,436,521	73,421		6,142,130
Unrestricted	<u>5,344,750</u>	<u>(1,850,385)</u>	<u>18,474,865</u>	<u>(5,969,413)</u>	<u>15,999,817</u>
Total Net Position	<u>\$ 5,384,464</u>	<u>\$ 2,467,166</u>	<u>\$ 18,768,211</u>	<u>\$ (5,969,413)</u>	<u>\$ 20,650,428</u>

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

Notes to Financial Statements For the Years Ended December 31, 2017 and 2016

Note 7 - Continued

Condensed combining information for the 2017 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	\$ 5,885,236	\$ 4,412,345	\$ 1,102,485	\$ (304,707)	\$ 11,095,359
Fees for services	2,637,616		45,180	(1,705,118)	977,678
Project development fees	511,659				511,659
Other	29,497	484	1,528		31,509
Total Operating Revenues	9,064,008	4,412,829	1,149,193	(2,009,825)	12,616,205
Operating expenses	9,088,871	3,142,126	1,094,170	(2,009,825)	11,315,342
Depreciation and amortization	1,084,528	1,099,422	30,337		2,214,287
Total Operating Expenses	10,173,399	4,241,548	1,124,507	(2,009,825)	13,529,629
Operating Income (Loss)	(1,109,391)	171,281	24,686		(913,424)
Nonoperating revenues (expenses)-					
Contributions and grants	1,244,889	8,005		(222,141)	1,030,753
Grant to component unit	(262,941)			222,141	(40,800)
Interest income	115,318	2,747	162,623		280,688
Loss on disposition of assets	(1,312)	(3,398)			(4,710)
Interest expense	(560,261)	(542,143)			(1,102,404)
Change in Net Position Before Capital Contributions and Other Changes	(573,698)	(363,508)	187,309		(749,897)
Capital Contributions and Other Changes:					
Change in component units	(24,245)				(24,245)
Total Capital Contributions and Other Changes	(24,245)				(24,245)
Change in Net Position	(597,943)	(363,508)	187,309		(774,142)
Net Position:					
Beginning of year	5,982,407	2,830,674	18,580,902	(5,969,413)	21,424,570
End of Year	\$ 5,384,464	\$ 2,467,166	\$ 18,768,211	\$ (5,969,413)	\$ 20,650,428

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

Notes to Financial Statements For the Years Ended December 31, 2017 and 2016

Note 7 - Continued

Condensed combining information for the 2017 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	\$ 21,571	\$ 1,466,042	\$ (83,184)	\$ -	\$ 1,404,429
Net cash provided by noncapital financing activities	991,804	8,005			999,809
Net cash used by capital and related financing activities	(1,347,454)	(355,275)	(52,758)		(1,755,487)
Net cash provided (used) by investing activities	<u>539,117</u>	<u>(977,960)</u>	<u>168,447</u>		<u>(270,396)</u>
Net change in cash and cash equivalents	205,038	140,812	32,505		378,355
Cash and cash equivalents, beginning of year	<u>2,244,062</u>	<u>213,711</u>	<u>743,301</u>		<u>3,201,074</u>
Cash and Cash Equivalents, End of Year	<u>\$ 2,449,100</u>	<u>\$ 354,523</u>	<u>\$ 775,806</u>	<u>\$ -</u>	<u>\$ 3,579,429</u>

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

Notes to Financial Statements For the Years Ended December 31, 2017 and 2016

Note 7 - Continued

Condensed combining information for the 2016 balance sheet is presented below:

	CHHIP	Housing Blended Component Units	Non-Housing Blended Component Units	Eliminations in Blending	Total
Assets:					
Current assets	\$ 9,138,611	\$ 992,088	\$ 438,257	\$ (4,266,159)	\$ 6,302,797
Noncurrent assets-					
Capital assets, net	26,631,859	23,599,838	242,346		50,474,043
Other	5,562,503	3,637,267	18,736,177	(5,969,413)	21,966,534
Total Assets	\$ 41,332,973	\$ 28,229,193	\$ 19,416,780	\$ (10,235,572)	\$ 78,743,374
Liabilities:					
Current liabilities	\$ 7,350,988	\$ 1,760,842	\$ 768,290	\$ (4,266,159)	\$ 5,613,961
Noncurrent liabilities	27,999,578	23,637,677	67,588		51,704,843
Total Liabilities	\$ 35,350,566	\$ 25,398,519	\$ 835,878	\$ (4,266,159)	\$ 57,318,804
Net Position:					
Invested in capital assets, net of related debt	\$ (5,666,240)	\$ 5,446,696	\$ 242,346	\$ -	\$ 22,802
Restricted	3,084,122	2,430,165	67,596		5,581,883
Unrestricted	8,564,525	(5,046,187)	18,270,960	(5,969,413)	15,819,885
Total Net Position	\$ 5,982,407	\$ 2,830,674	\$ 18,580,902	\$ (5,969,413)	\$ 21,424,570

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

Notes to Financial Statements For the Years Ended December 31, 2017 and 2016

Note 7 - Continued

Condensed combining information for the 2016 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	\$ 4,984,266	\$ 4,513,356	\$ 1,070,547	\$ (285,896)	\$ 10,282,273
Fees for services	1,895,455		30,732	(983,951)	942,236
Project development fees	12,552				12,552
Other	20,765	67,377	1,478		89,620
Total Operating Revenues	6,913,038	4,580,733	1,102,757	(1,269,847)	11,326,681
Operating expenses	6,925,883	3,770,712	968,504	(1,269,847)	10,395,252
Depreciation and amortization	1,414,082	712,280	28,421		2,154,783
Total Operating Expenses	8,339,965	4,482,992	996,925	(1,269,847)	12,550,035
Operating Income (Loss)	(1,426,927)	97,741	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	89,108	2,738	163,069		254,915
Gain on disposition of assets	5,000				5,000
Interest expense	(455,626)	(617,860)			(1,073,486)
Change in Net Position Before Capital Contributions and Other Changes	(309,044)	(517,381)	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	801,782	(517,381)	268,901		553,302
Net Position:					
Beginning of year	5,180,625	3,348,055	18,312,001	(5,969,413)	20,871,268
End of Year	\$ 5,982,407	\$ 2,830,674	\$ 18,580,902	\$ (5,969,413)	\$ 21,424,570

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

Notes to Financial Statements

For the Years Ended December 31, 2017 and 2016

Note 7 - Continued

Condensed combining information for the 2016 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	\$ (1,782,230)	\$ 3,065,747	\$ (131,967)	\$ -	\$ 1,151,550
Net cash provided by noncapital financing activities	1,389,952	8,643			1,398,595
Net cash used by capital and related financing activities	(752,509)	(2,494,281)	(14,824)		(3,261,614)
Net cash provided (used) by investing activities	<u>1,117,556</u>	<u>(414,840)</u>	<u>163,069</u>		<u>865,785</u>
Net change in cash and cash equivalents	(27,231)	165,269	16,278		154,316
Cash and cash equivalents, beginning of year	<u>2,271,293</u>	<u>48,442</u>	<u>727,023</u>		<u>3,046,758</u>
Cash and Cash Equivalents, End of Year	<u>\$ 2,244,062</u>	<u>\$ 213,711</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 2017 and 2016 were 2 percent of gross wages annually and were in the amounts of \$83,480 and \$76,670, respectively. As of December 31, 2017 and 2016, accrued pension costs, including employee deferrals, totaled \$98,588 and \$90,068, respectively. There were no Plan forfeitures for either years ended December 31, 2017 or 2016.

Note 9 - Acquisitions and Development

During 2017, CHHIP was engaged in the following acquisition and development projects:

Liberty Bank Building Apartments - During 2017, Union and 24th Associates LLC closed on permanent financing, admitted a third party investor member and began construction. Project is expected to be complete in early 2019.

Capitol Hill Transit Oriented Development - During 2017, CHHIP continued predevelopment work on a 110 unit affordable housing project at the Capitol Hill Light Rail Station known as Station House (formerly B North). Closing on permanent financing and beginning construction is expected in July 2018.

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

Notes to Financial Statements For the Years Ended December 31, 2017 and 2016

Note 9 - Continued

White Center Community Resource Center - In connection with several White Center community organizations, CHHIP continued to explore development of affordable housing and a community resource center on county owned property in White Center.

Lake City Development - During 2017, CHHIP acquired a parcel of property in Lake City. CHHIP is currently exploring different development scenarios, which would include affordable or work force housing.

Africatown Plaza Development - During 2017, CHHIP, in partnership with Africatown Community Land Trust, entered into a purchase and sale agreement to acquire a parcel of property in the Central District with the intent to develop approximately 135 units of affordable housing.

Resyndication Projects - CHHIP is evaluating the feasibility of syndicating or resyndicating seven existing properties as part of two separate tax credit projects. These projects will allow for much needed improvements and rehab work to be completed at the properties whose current physical needs exceed financial resources available at the property.

Seattle Central Annex Development - CHHIP is exploring the feasibility of a partnership with a nonprofit organization to develop approximately 75 units of affordable housing and transitional housing and education/health services for homeless youth on property currently owned by Seattle Central College.

Eldridge Development - CHHIP was selected as the developer for an approximately 80-unit affordable housing project on Capitol Hill. The site is currently owned by Sound Transit, but is to be acquired by Seattle Central as part of a land swap with Sound Transit.

Jazz House Development - During 2017, CHHIP entered into a memo of understanding with a nonprofit organization to explore the feasibility of developing approximately 90 units of affordable housing on top of performing arts education space in the Rainier Valley. Subsequent to year end, but prior to the issuance of these financial statements CHHIP paid a \$120,000 deposit toward the acquisition of land for development of this project.

Union and 14th - During 2017 CHHIP began predevelopment activities and community engagement for LGBTQ affirming senior affordable housing on a surface parking lot controlled by CHHIP.

HPN Loan - Subsequent to year end, CHHIP closed on a \$1.25 million loan from the Housing Partnership Fund for use toward predevelopment funding on pipeline projects as well as a general operating advance as necessary during 2018.

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 believes that those risks are immaterial to the financial statements.

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

Notes to Financial Statements For the Years Ended December 31, 2017 and 2016

Note 10 - Continued

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, 2017

	Property Operations	Administration & Management	Total
Receipts:			
Rents	\$ 11,272,851	\$ -	\$ 11,272,851
Vacancy	(205,529)		(205,529)
Tenant fees	227,973		227,973
Development fees		511,659	511,659
Fees for services		2,780,547	2,780,547
Contributions and grants		1,052,894	1,052,894
Other income	17,922	13,587	31,509
Total Receipts	11,313,217	4,358,687	15,671,904
Expenditures:			
On-site management expense	1,787,401		1,787,401
Office salaries, benefits and payroll taxes		4,468,539	4,468,539
Utilities	1,388,329		1,388,329
Professional fees	424,016	284,646	708,662
Insurance	275,460	39,375	314,835
Property management fees	1,182,231		1,182,231
Repairs, maintenance and improvements	1,621,028	64,666	1,685,694
Debt service	2,302,696		2,302,696
Reserves	586,923		586,923
Other	437,490	946,161	1,383,651
Total Expenditures	10,005,574	5,803,387	15,808,961
Operating Income (Loss)	1,307,643	(1,444,700)	(137,057)
Reconciliation to Statement of Income:			
Depreciation	(2,149,324)	(64,963)	(2,214,287)
Reserves additions	586,923		586,923
Interest income	26,097	254,591	280,688
Interest expense	(1,087,813)	(14,591)	(1,102,404)
Other income (expenses)	136,216		136,216
Gain (loss) on disposition of property	(4,710)		(4,710)
Fixed asset additions from operations	83,649		83,649
Expenses paid from reserves	(114,611)		(114,611)
Debt service payments	1,735,696		1,735,696
Frontline & bookkeeping charges	620,639	(620,639)	
Management fees	1,182,232	(1,182,232)	
Net Income	\$ 2,322,637	\$ (3,072,534)	\$ (749,897)

See independent auditor's report.

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

Schedule of Property Operations For the Year Ended December 31, 2017

	18th Avenue	410 11th E.	Africatown Plaza	Berneva	Boylston Howell	Bremer	Brewster	Broadway	Burke Gilman Gardens	Byron Wetmore	Casa di Cinque	Centennial	CHDA Lake City LLLP
Receipts:													
Rents	\$ 125,237	\$ 53,509	\$ 19,785	\$ 117,720	\$ 305,748	\$ 428,686	\$ 305,476	\$ 62,652	\$ 183,534	\$ 129,231	\$ 96,369	\$ 338,429	\$ 42,547
Vacancy	(2,837)	(801)		(1,453)	(2,294)	(10,927)	(17,783)		(1,233)	(1,426)		(7,954)	
Tenant fees	1,161	928		1,925	11,844	10,541	4,289	1,249	3,187	2,004	1,095	14,986	
Other income				10	1,467					319			
Total Receipts	123,561	53,636		118,202	316,765	428,300	291,982	63,901	185,488	130,128	97,464	345,461	42,547
Expenditures:													
On-site management expense	12,630	9,696		39,199	84,372	62,529	57,546	8,376	25,753	22,472	7,841	38,663	2,493
Utilities	12,090	6,115		18,638	48,085	42,864	33,947	5,175	30,962	26,274	4,244	36,166	251
Professional fees	5,680	2,259		4,518	11,456	19,949	13,178	1,883	5,648	6,168	1,883	11,295	
Insurance	2,511	1,520	153	3,532	10,665	11,344	8,540	1,255	4,769	5,027	472	7,902	1,724
Property management fees	6,201	5,175		9,304	42,437	69,594	47,500	9,116	26,197	24,149	11,367	26,181	
Repairs, maintenance and improvements	23,816	8,575		14,351	45,368	77,365	43,891	6,024	38,059	28,773	6,423	31,785	4,096
Debt service	37,264			12,602	57,928	86,403	26,789	8,100	23,017	5,100	9,356	112,851	
Reserves	14,496	10,000		3,197	10,000	22,869	26,400	6,000	7,500	7,000		8,500	
Other	26,007	1,335	5,869	3,720	6,575	14,525	8,938	1,204	8,380	8,434	1,097	11,516	4,807
Total Expenditures	140,695	44,675	6,022	109,061	316,886	407,442	266,729	47,133	170,285	133,397	42,683	284,859	13,371
Operating Income (Loss)	(17,134)	8,961	(6,022)	9,141	(121)	20,858	25,253	16,768	15,203	(3,269)	54,781	60,602	29,176
Reconciliation to Statement of Income:													
Depreciation and amortization	(23,552)	(8,451)	(1,051)	(24,627)	(76,615)	(54,961)	(87,452)	(10,149)	(74,461)	(46,004)		(56,932)	(741)
Reserves additions	14,496	10,000		3,197	10,000	22,869	26,400	6,000	7,500	7,000		8,500	
Interest income - restricted	38	1,298		40	854	2,097	5,019	409	1,290	78	322	605	
Interest and financial expenses	(29,662)	2,599		548	(9,716)	(58,843)	5,049	(4,853)	2,984	1,944	(9,356)	(70,825)	
Other income (expense)						(1,312)							
Fixed asset additions from operations						9,200							
Expenses paid from reserves						(4,641)			(4,492)			(20,682)	
Debt service payments	37,264			12,602	57,928	86,403	26,789	8,100	23,017	5,100	9,356	112,851	
Frontline & bookkeeping charges	5,360	3,561		7,122	17,804	29,081	20,772	2,968	8,903	7,422	2,967	17,804	
Management fees	6,201	5,175		9,304	42,437	69,594	47,500	9,116	26,197	24,149	11,367	26,181	
Net Income (Loss)	\$ (6,989)	\$ 23,143	\$ (7,073)	\$ 17,327	\$ 42,571	\$ 126,298	\$ 63,377	\$ 28,359	\$ 6,141	\$ (3,580)	\$ 69,437	\$ 78,104	\$ 28,435

See independent auditor's report.

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

Schedule of Property Operations (Continued) For the Year Ended December 31, 2017

	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	\$ 182,851	\$ 551,677	\$ 587,092	\$ 623,340	\$ 323,096	\$ 306,492	\$ 308,607	\$ 304,661	\$ 361,268	\$ 465,484	\$ 242,223	\$ 125,518	\$ 216,606	\$ 327,849
Vacancy	(1,152)	(11,862)	(16,181)	(9,177)	(963)	(3,480)	(5,124)	(2,622)	(443)	(1,002)	(12,818)		(2,931)	(11,006)
Tenant fees	645	23,326	5,299	3,111	6,050	3,249	5,577	4,897	3,522	2,355	307		7,070	6,067
Other income		547	1,718	6,313			1,360	2,081	85					
Total Receipts	182,344	563,688	577,928	623,587	328,183	306,261	310,420	309,017	364,432	466,837	229,712	125,518	220,745	322,910
Expenditures:														
On-site management expense	50,170	114,480	159,104	135,038	44,456	19,674	45,429	66,928	39,669	54,282	66,503	221	44,589	40,978
Utilities	32,978	75,444	70,629	72,800	36,659	28,443	54,385	46,792	64,883	24,970	29,297		31,357	39,271
Professional fees	6,778	24,056	27,978	29,894	18,650	7,638	10,241	15,169	17,371	6,024	10,566	551	10,166	14,599
Insurance	4,199	13,382	15,542	21,012	7,476	4,232	7,580	9,453	9,579	4,165	4,367	1,605	5,784	6,045
Property management fees	8,911	91,013	79,373	36,000	38,651	45,376	45,228	48,983	20,256	30,021	12,680	4,906	33,683	44,733
Repairs, maintenance and improvements	32,119	74,436	89,774	153,950	35,129	37,613	66,916	46,205	41,040	18,991	39,897	644	36,305	42,928
Debt service		9,080	99,978	121,832	82,227	68,196	36,000	11,750	118,020	109,546	16,071	36,891	35,700	
Reserves	14,400	101,500	33,000	30,649	13,300	7,084	4,320	23,000	11,044	18,259	6,960	3,600	5,800	29,920
Other	3,574	25,307	11,901	20,277	5,159	43,686	7,544	5,535	10,726	7,161	5,436	17,701	5,641	43,831
Total Expenditures	153,129	528,698	587,279	621,452	281,707	261,942	277,643	273,815	332,588	273,419	191,777	66,119	209,025	262,305
Operating Income (Loss)	29,215	34,990	(9,351)	2,135	46,476	44,319	32,777	35,202	31,844	193,418	37,935	59,399	11,720	60,605
Reconciliation to Statement of Income:														
Depreciation and amortization	(38,039)	(63,729)	(139,448)	(82,526)	(98,457)	(40,347)	(53,557)	(126,057)	(85,647)	(83,962)	(16,770)	(14,522)	(44,141)	(89,894)
Reserves additions	14,400	101,500	33,000	30,649	13,300	7,084	4,320	23,000	11,044	18,259	6,960	3,600	5,800	29,920
Interest income - restricted	145	3,026	1,310	58	40	1,506	502	174	326	32	62	124	721	162
Interest and financial expenses	5,944	6,225	(72,185)	(65,662)	(57,582)	(42,977)	(21,414)	2,168	(92,219)	(76,832)	(3,020)	(3,565)	(13,989)	8,733
Other income (expense)		665						(3,398)	(19,256)					
Fixed asset additions from operations			7,099	6,292				5,630					17,450	
Expenses paid from reserves		(12,937)	(35,416)				(14,474)							
Debt service payments		9,080	99,978	121,832	82,227	68,196	36,000	11,750	118,020	109,546	16,071	36,891	35,700	
Frontline and bookkeeping charges	7,122	36,795	32,641	35,608	21,365	7,122	14,243	14,837	11,276	9,496	9,496	551	16,024	19,584
Management fees	8,911	91,013	79,373	36,000	38,651	45,376	45,228	48,984	20,256	30,021	12,680	4,906	33,683	44,733
Net Income (Loss)	\$ 27,698	\$ 206,628	\$ (2,999)	\$ 84,386	\$ 46,020	\$ 90,279	\$ 43,625	\$ 12,290	\$ (4,356)	\$ 199,978	\$ 63,414	\$ 87,384	\$ 62,968	\$ 73,843

See independent auditor's report.

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

Schedule of Property Operations (Continued) For the Year Ended December 31, 2017

	Lincoln Court	Mary Ruth Manor	Maxwell	Melrose	Miller Park	Park Hill	Ponderosa	Seneca	Master Tenant	Union James	Villa	Total
Receipts:												
Rents	\$ 266,058	\$ 486,071	\$ 42,384	\$ 258,877	\$ 135,896	\$ 406,919	\$ 212,246	\$ 326,057	\$ 966,750	\$ 352,810	\$ 683,096	\$ 11,272,851
Vacancy	(6,073)	(16,606)		(4,728)	(2,173)	(17,532)	(286)	(753)	(336)	(24,485)	(7,088)	(205,529)
Tenant fees	12,716	1,540	1,452	1,630	7,595	4,462	1,114	5,912	31,177	2,944	32,747	227,973
Other income	665	1,098				887		1,000		372		17,922
Total Receipts	273,366	472,103	43,836	255,779	141,318	394,736	213,074	332,216	997,591	331,641	708,755	11,313,217
Expenditures:												
On-site management expense	59,091	74,636	6,955	70,227	32,494	63,122	41,553	56,674	9,549	40,842	79,167	1,787,401
Utilities	38,874	30,759	4,421	42,876	18,812	53,646	23,915	36,267	114,026	38,137	113,877	1,388,329
Professional fees	10,918	13,986	1,506	11,295	4,518	11,295	10,988	19,243	6,504	21,196	28,969	424,016
Insurance	6,625	5,571	1,046	6,074	3,539	11,185	5,487	8,937	25,457	7,688	20,016	275,460
Property management fees	10,364	15,898	4,111	32,034	11,769	65,704	13,448	71,442	35,972	14,793	89,661	1,182,231
Repairs, maintenance and improvements	33,052	47,258	5,064	26,715	26,592	54,287	40,425	39,369	121,153	82,162	100,478	1,621,028
Debt service	95,423	53,761	4,644	32,688	22,385	53,820		53,130	567,000	100,430	194,714	2,302,696
Reserves	17,400	24,000	1,440	5,600	10,461	10,000	14,484	8,661	5,824	8,400	61,855	586,923
Other	9,353	7,523	1,088	6,217	3,311	6,418	6,981	4,937	51,043	13,778	10,955	437,490
Total Expenditures	281,100	273,392	30,275	233,726	133,881	329,477	157,281	298,660	936,528	327,426	699,692	10,005,574
Operating Income (Loss)	(7,734)	198,711	13,561	22,053	7,437	65,259	55,793	33,556	61,063	4,215	9,063	1,307,643
Reconciliation to Statement of Income:												
Depreciation and amortization	(78,228)	(88,807)	(6,913)	(33,391)	(35,933)	(40,271)	(10,125)	(110,925)	(30,337)	(26,346)	(245,956)	(2,149,324)
Reserves additions	17,400	24,000	1,440	5,600	10,461	10,000	14,484	8,661	5,824	8,400	61,855	586,923
Interest income - restricted	371	61	255	1,026	2,141	1,549	81	114		80	181	26,097
Interest and financial expenses	(74,955)	(105,484)	(827)	(12,689)	(6,548)	(36,787)		(39,201)		(79,241)	(135,575)	(1,087,813)
Other income (expense)		49,938							104,894			131,506
Fixed asset additions from operations		8,341				14,766			7,950	1,371	5,550	83,649
Expenses paid from reserves		(3,628)		(1,142)	(6,018)	(7,132)					(4,049)	(114,611)
Debt service payments	95,423	53,761	4,644	32,688	22,385	53,820		53,130		100,430	194,714	1,735,696
Frontline and bookkeeping charges	17,210	11,869	2,374	17,804	7,122	17,804	13,650	18,991		14,243	36,795	620,639
Management fees	10,364	15,898	4,111	32,034	11,769	65,704	13,448	71,442	35,972	14,793	89,661	1,182,232
Net Income (Loss)	\$ (20,149)	\$ 164,660	\$ 18,645	\$ 63,983	\$ 12,816	\$ 144,712	\$ 87,331	\$ 35,768	\$ 185,366	\$ 37,945	\$ 12,239	\$ 2,322,637

See independent auditor's report.

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

Schedule of Expenditures of Federal Awards For the Year Ended December 31, 2017

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	\$ -	\$ 128,608
Section 8 Housing Assistance Payments Program	14.195	WA19L000022		350,822
Section 8 Housing Assistance Payments Program	14.195	WA 19M000141		147,809
Section 8 Housing Assistance Payments Program	14.195	WA 19M000101		406,406
Section 8 Housing Assistance Payments Program	14.195	WA 190080005		255,574
State of Washington:				
Section 8 Housing Assistance Payments Program	14.195	15-46221-004		55,608
Total 14.195				1,344,827
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		16,323
Total 14.218				3,222,753
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 Partnerships 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-14-CB-MD-0001		26,000
Section 4 Capacity Building for Community Development and Affordable Housing	14.252	B-15-CB-MD-0001		60,000
Total 14.252				86,000
Total US Department of Housing and Urban Development				6,255,668
Total Federal Expenditures			\$ -	\$ 6,255,668

* 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

Notes to Schedule of Expenditures of Federal Awards For the Year Ended December 31, 2017

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, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of 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. CHHIP did not utilize the de minimis indirect cost rate during the year ended December 31, 2017.

Note 3 - Loans Outstanding

The Organization had the following loan balances outstanding at December 31, 2017. 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 Partnerships Program	14.239	1,000,000

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 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, 2017, and the related notes to the financial statements, which collectively comprise CHHIP's basic financial statements, and have issued our report thereon dated May 21, 2018.

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.

Clark Nuber P.S.

Certified Public Accountants
May 21, 2018

**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, 2017. 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 \$3,167,960 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 \$3,167,960 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, 2017.

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.

Clark Nuber P.S.

Certified Public Accountants
May 21, 2018

CAPITOL HILL HOUSING IMPROVEMENT PROGRAM

Schedule of Findings and Questioned Costs For the Year Ended December 31, 2017

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

14.218

14.195

Name of Federal Program or Cluster

Community Development Block
Grants/Entitlement Grants
Section 8 Housing Assistance Payments 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 (Continued)
For the Year Ended December 31, 2017

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, 2017**

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