



Office of the Washington State Auditor
Pat McCarthy

January 21, 2020

Council
Pike Place Market Preservation and Development Authority
Seattle, Washington

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

We have reviewed the audit report issued by a certified public accounting (CPA) firm on the financial statements and compliance with federal grant requirements of the Pike Place Market Preservation and Development Authority for the fiscal year ended December 31, 2018. The Authority contracted with the CPA firm for this audit and requested that we accept it 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 Pike Place Market Preservation and Development Authority's compliance with federal grant agreements and, accordingly, we do not express an opinion on those financial statements or on compliance.

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

Sincerely,

Pat McCarthy
State Auditor
Olympia, WA

**PIKE PLACE MARKET PRESERVATION
AND DEVELOPMENT AUTHORITY**

FINANCIAL REPORT WITH SUPPLEMENTARY REPORTS
AND SCHEDULES IN ACCORDANCE WITH *GOVERNMENT
AUDITING STANDARDS* AND THE UNIFORM GUIDANCE

DECEMBER 31, 2018

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Note: There were no findings in the prior year. Accordingly, no summary schedule of prior-year audit findings is included.

INDEPENDENT AUDITORS' REPORT

To the Council
Pike Place Market Preservation
and Development Authority
Seattle, Washington

We have audited the accompanying financial statements and the aggregate blended and discretely presented component units of the Pike Place Market Preservation and Development Authority ("the PDA"), a public governmental corporation, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the PDA'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; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the PDA and the aggregate blended and discretely presented component units as of December 31, 2018, and the respective changes in their net position and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government 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, which consisted principally of inquiries of management regarding 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 an opinion on the financial statements that comprise the PDA's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 30, 2019, on our consideration of the PDA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the PDA'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 the PDA's internal control over financial reporting and compliance.

Emphasis of Matter

As discussed in Note 4 to the financial statements, in a prior year, the PDA and a lender that had made certain loans to Pike Place Market QB2 entered into a put/call option agreement to take place at the end of the earn-out period of a New Markets Tax Credit arrangement. The put portion of the option was exercised on February 28, 2018, and, effectively, all remaining assets of the Pike Place Market QB2 were transferred to the PDA, and the Pike Place Market QB2 was subsequently dissolved. Our opinion is not modified with respect to this matter.



May 30, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

We are pleased to present the Pike Place Market Preservation and Development Authority ("the PDA") financial report for the year ended December 31, 2018. This report was prepared by the PDA's finance staff. The 2018 financial statements were audited by the public accounting firm Peterson Sullivan LLP. The information presented in this report is the responsibility of the management of the PDA. To the best of our knowledge, the information presented is accurate in all material respects and is presented in a manner designed to fairly state the financial position and results of operations of the PDA and includes all necessary disclosures to present a complete understanding of the PDA's financial affairs.

Profile

The PDA is an independent public corporation created and chartered by the City of Seattle ("the City") in 1973 to own and operate the buildings and open spaces in the Pike Place Market Historic District ("the District"). After a citizen's initiative in 1971 directed the City to create a Historic District in and around the Pike Place Market ("the Market") and to rehabilitate the properties therein, the City purchased the majority of properties in the District, rehabilitated these buildings, and transferred them to the PDA to operate in accordance with the initiative directive and City charter. The PDA is not a component of the City, and the City is not financially accountable for the operations of the PDA. The PDA is an independent public corporation, and its governance rests in a 12-member Council. This Council appoints an Executive Director to administer the affairs of the PDA as prescribed by its charter.

The charter of the PDA directs the PDA to manage the buildings and open space in the Market so that the properties and traditional uses of the Market are preserved and maintained. The charter also directs the PDA to ensure that a place for farmers to sell their goods directly to consumers is maintained, that services to low- and moderate-income persons continue to be provided, and that opportunities for small, owner-operated businesses continue to be available in the Market.

The PDA owns approximately 80% of the property in the District. To that end, the PDA provides property management services to over 220 small commercial tenants within its properties in the nine-acre district. It offers space to four social service agencies at lower-than-market rates and provides approximately 400 residential units to the low- and moderate-income population. The PDA also offers year-round sales space on a daily basis to farmers wishing to sell directly to the public in a farmers' market venue. Daily rental spaces (daystalls) that are not rented to farmers are rented to craft vendors selling their original arts and crafts.

As an independent public agency, the PDA operations are primarily supported from its commercial, residential, and daystall tenants' rents.

The PDA, as a real estate owner and development entity, has some properties held in separate entities that it reports as discretely presented component units in these financial statements, and the PDA itself is referred to as the primary government, as required by the Government Accounting Standards Board.

Overview of the Financial Statements

Assets of the PDA exceeded liabilities at December 31, 2018, by \$147.0 million (net position). Of this, \$19.0 million is unrestricted and may be used to meet the PDA's ongoing operating obligations.

Net position increased by \$8.1 million in 2018 primarily due to a \$6.9 million bargain purchase gain on the acquisition of PPM Phase II Investment Fund, LLC ("PPM Investment Fund"). PPM Investment Fund was the effective owner of all debt of the Pike Place Market QALICB 2 ("PPMQB2"), a blended component unit of the PDA. PPMQB2 is a Washington State nonprofit corporation formed in 2010 to obtain funds under the new market tax credit ("NMTC") financing program, which commenced in 2010. PPMQB2's NMTC "earn-out" period ended on February 28, 2018, upon which U.S. Bank ("the NMTC Investor") exercised its put option to sell all interest in the PPM Investment Fund, a limited liability company wholly owned by U.S. Bank, for \$1,000 to the PDA. The bargain purchase gain recognized was the result of assets acquired (mainly building improvements and cash) exceeding other assets and liabilities cancelled (mainly a loan receivable from PPM Investment Fund and deferred obligations for future lease payments received in advance by the PDA from PPMQB2). Upon the PDA's acquisition of PPM Investment Fund, PPM Investment Fund and its wholly owned subsidiaries, as well as PPMQB2, were dissolved.

Noncurrent assets decreased by \$27.1 million primarily due to the cancellation of the loan receivable from PPM Investment Fund in 2018 as discussed above, which totaled \$25.6 million.

Long-term liabilities decreased \$28.4 million primarily due to the cancellation of master lease revenue advances from PPMQB2 in 2018 as discussed above, which totaled \$22.4 million. In addition, the PDA repaid its outstanding Series 2015B bonds of \$4.6 million in 2018. These bonds had an original maturity of December 2020.

Statements of Financial Position (or Net Position) – Excluding Blended and Discretely Presented Component Units

	2018	2017
Assets		
Current assets	\$ 5,079,584	\$ 6,806,994
Non-current assets	34,180,396	61,265,859
Capital assets, net	146,459,010	140,562,489
Total assets	<u>\$ 185,718,990</u>	<u>\$ 208,635,342</u>
Liabilities		
Accounts payable and accrued expenses	\$ 3,221,692	\$ 5,497,770
Accrued interest	92,928	114,667
Deferred revenue	308,442	253,990
Current portion of master lease revenue advance	199,207	665,539
Current portion of non-capital grant advances	526,316	526,316
Current portion of bonds payable	705,000	675,000
Total current liabilities	5,053,585	7,733,282
Master lease revenue advance, net of current portion	9,213,308	31,407,842
Non-capital grant advances, net of current portion	3,157,894	3,684,209
Loans payable, net of current portion	455,000	455,000
Bonds payable, net of current portion	20,798,670	26,434,992
Total long-term liabilities	33,624,872	61,982,043
Total liabilities	38,678,457	69,715,325
Net Position		
Net investment in capital assets	124,500,340	112,997,497
Restricted for required reserves	3,532,371	6,253,430
Unrestricted	19,007,822	19,669,090
Total net position	147,040,533	138,920,017
Total liabilities and net position	<u>\$ 185,718,990</u>	<u>\$ 208,635,342</u>

The statement of net position presents the assets, liabilities, and net position of the PDA at the end of the fiscal year. The purpose is to give a snapshot of the financial condition of the PDA at a certain point in time.

Total assets of the PDA amounted to \$185.7 million and \$208.6 million at December 31, 2018 and 2017, respectively. Investments in Market properties are reflected in both the PDA (primary government) and the component units, as some of the properties have been master leased to four entities controlled by the PDA in 2018 and 2017 and capital spending has occurred in these properties.

The PDA's primary asset base is its real property in the Market Historic District, and these properties make up \$146.5 million of the total \$185.7 million (or 79%) of total assets as of December 31, 2018. The remainder of the PDA's total assets comprise, for the most part, current cash, designated cash reserves, a financing lease receivable, and loans receivable.

Total liabilities of the PDA were \$38.7 million and \$69.7 million at December 31, 2018 and 2017, respectively. The PDA's major liabilities consist of outstanding bonds and advanced master lease revenue.

Net position represents the PDA's equity and a strong financial position relative to the PDA's debt. Net position is divided into three categories. The first category is net investment in capital assets and represents the PDA's land, buildings, structures, equipment, and construction in progress, less any outstanding debt related to these assets. The second category is restricted for required reserves and represents assets, generally cash that has external limitations on the way it may be used. The last category of net position is unrestricted; these are available for use in the PDA's normal operations. Certain amounts of unrestricted net position are designated by the PDA Council for particular uses and those are described in more detail in the notes to the financial statements.

Statements of Revenues, Expenses, and Changes in Fund Net Position – Excluding Blended and Discretely Presented Component Units

	2018	2017
Operating revenue	\$ 20,880,081	\$ 14,144,969
Operating expenses	(20,690,556)	(18,593,510)
Operating gain (loss)	189,525	(4,448,541)
Non-operating revenue	8,810,002	6,970,010
Non-operating expenses	(879,011)	(1,104,397)
Net non-operating income	7,930,991	5,865,613
Income before capital grants and contributions	8,120,516	1,417,072
MarketFront capital grants and contributions, net		3,451,844
Change in net position	8,120,516	4,868,916
Net position, beginning of year	138,920,017	134,051,101
Net position, end of year	\$ 147,040,533	\$ 138,920,017

The purpose of this statement is to present the PDA's operations and net revenue earned from those operations. The PDA's operations are primarily real estate development and management. The PDA's real estate holdings consist of commercial and residential properties, and its primary revenue source is rent from these holdings. The PDA's purpose is to operate the Pike Place Market in accordance with its charter mandates, not necessarily to maximize income from operations. Residential rentals are made primarily to low- and moderate-income persons, and commercial spaces are leased to small and unique owner-operated businesses at rates not generally available in other parts of downtown Seattle. The PDA's objective is to be financially strong while preserving the traditional character of this unique commercial and residential community.

Approximately \$5.5 million and \$4.7 million of the total operating expenses as of December 31, 2018 and 2017, respectively, is depreciation and amortization expense. The increase in depreciation and amortization in 2017 is primarily due to the completion of the MarketFront project in the summer of 2017.

Non-operating revenue and income reflect the bargain purchase gain of PPM Investment Fund, non-capital grant revenue, and related party grant revenue. This revenue is classified as non-operating, as it is nonrecurring and not a part of the PDA's normal operations. Non-operating revenue also includes interest income from reserves and investments.

Non-operating expenses consist primarily of interest expense on bonds and loans payable.

The Impact of Blended and Discrete Component Units

The PDA has certain properties held in separate entities that it reports in its financial statements as blended and discrete component units. Blended component units include PPMQB2 (through its NMTC earn-out period and dissolution as of February 28, 2018, as discussed previously) and PPMQB3. Discrete component units include LaSalle Senior Housing LLC ("LaSalle") and Western Avenue Senior Housing LLC ("WASH"). The four organizations are independent from the PDA, but are managed by the PDA. PPMQB2 and PPMQB3 are reported as blended, as the PDA is the sole corporate member of both organizations.

The PDA always searches for ways to secure additional funds for capital improvements in the Market. As a result of these efforts, the PDA has benefited by participating in low-income housing tax credit ("LIHTC") and new market tax credit ("NMTC") financing programs, which commenced in 2003 (LaSalle), 2011 (PPMQB2), and 2016 (PPMQB3 and WASH). To facilitate the LIHTC, the PDA created LaSalle in 2003 and WASH in 2016, and to facilitate the NMTCs, the PDA created PPMQB2 in 2011 and PPMQB3 in 2016, and master leased certain buildings to each entity. The PDA maintains a Property Management Agreement and Master Lease Agreement with each entity, with exception to PPMQB3 (the PDA subleased the property in 2016 from PPMQB3). Based on these agreements, rents are earned by LaSalle, PPMQB2, and WASH. Each entity reimburses the PDA for operating expenses, capital repairs, lease payments, and management fees.

The PDA also entered into a "Transfer Agreement" with the PPMQB2, which allows PPMQB2 to grant to the PDA the excess cash over 4% of the aggregate unadjusted basis of the master leased property of PPMQB2. This amount received by the PDA from PPMQB2 is recorded as related party grant revenue in the non-operating revenue section of the statement of revenues, expenses, and changes in fund net position, based on the Governmental Accounting Standards Board ("GASB") criteria of revenue classification. Although classified as non-operating revenue per GASB, this revenue does not have any restrictions and can be used in the same manner as all other operating revenue generated by the PDA. The amount of related party grant revenue was \$603,639 and \$4,134,570 for the years ended December 31, 2018 and 2017, respectively. By combining the related party grant revenue amount (which is presented net of related party grant expense of \$40,000 in 2017, totaling \$4,174,570 in 2017) with the operating income (loss) results in operating income (loss) (including non-operating related party grant revenue) of \$793,164 and \$(313,971) for the years ended December 31, 2018 and 2017, respectively.

Economic and Other Factors Affecting the PDA's Future

Overall, the business of the PDA for 2019 reflects the following:

- Good economics – continued growth of net operating revenue
- New small businesses incubation
- Diverse businesses
- Expanded crafts market
- A change in what works as a farmer's market
- Growth in restaurants and dining
- More year-round traffic in last four to five years
- Nearing capacity for visitors in good weather, summer, weekends, and school breaks
- Waterfront and Overlook Walk
- Construction around the Market
- Social services

Our core priorities will continue to be as follows:

- Commercial – Focus on efficiency and effectiveness of our operations and incubating new small businesses
- Operations – Continued support of quality security, parking, and facilities efforts
- Farm and Daystall – Active recruitment of new farmers, artists, and crafters
- Marketing – Continued leverage of the Market's significant online assets with an additional focus on changing and improving our digital presence
- Preservation – Appropriate capital budget and maintenance program allocations to ensure preservation of existing assets
- Residential – Continued focus on delivering a high level of service and resident support

The Market continues to demonstrate economic growth with diverse revenue sources that meet and/or exceed local and national trends. Revenue projections for 2019 reflect thoughtful analysis of historic trends and actual performance in recent years.

With a continued focus on the health of the Market within the Historic District, it is also important to stay engaged with projects adjacent to the Market as they have a large impact on the its business operations.

Requests for Information

This financial report is designed to provide users with a general overview of the PDA's finances and to demonstrate the PDA's accountability for the money it receives. If you have any questions about this report or need additional financial information, a request should be addressed to the Pike Place Market Preservation and Development Authority, 85 Pike Street, Room 500, Seattle, WA 98101 or please call (206) 682-7453.

LaSalle, WASH, and PPMQB3 issue their own separate audited financial statements. These statements may also be obtained by contacting the Pike Place Market Preservation and Development Authority at the address or phone number indicated above. The financial statements of PPMQB2 for the period from January 1, 2018, to February 28, 2018, were not audited separately; therefore, these statements are not available.

PIKE PLACE MARKET PRESERVATION AND DEVELOPMENT AUTHORITY

STATEMENT OF NET POSITION

December 31, 2018

ASSETS	Primary Government				Discrete Component Units
	PDA	Blended Component Units	Eliminations	Total	
Current Assets					
Cash and cash equivalents	\$ 3,974,521	\$ 49,699	\$ -	\$ 4,024,220	\$ 18,488
Accounts receivable, tenants	211,290			211,290	10,469
Accounts receivable, other	376,208			376,208	
Accounts receivable, related parties	164,389		(65,582)	98,807	
Prepaid master lease expense, current portion		199,207	(199,207)		
Prepaid expenses and other assets	353,176			353,176	
Total current assets	5,079,584	248,906	(264,789)	5,063,701	28,957
Long-Term Assets					
Designated cash and cash equivalents	20,253,550			20,253,550	
Restricted cash and cash equivalents	3,532,371	173,961		3,706,332	1,680,183
Financing lease receivable	3,084,350			3,084,350	
Prepaid master lease expense, less current portion		9,213,308	(9,213,308)		
Loans receivable - tax credit projects, less current portion	7,310,125			7,310,125	
Intangible assets, net of accumulated amortization					231,320
Capital assets, net	146,459,010	16,329,061		162,788,071	15,099,037
Total assets	\$ 185,718,990	\$ 25,965,236	\$ (9,478,097)	\$ 202,206,129	\$ 17,039,497
LIABILITIES AND NET POSITION					
Current Liabilities					
Accounts payable	\$ 1,643,782	\$ -	\$ -	\$ 1,643,782	\$ 25,678
Accounts payable, related party		65,582	(65,582)		88,966
Accrued expenses and deposits payable	1,577,910			1,577,910	51,135
Interest payable	92,928			92,928	1,684,286
Deferred revenue	308,442			308,442	
Current portion of master lease revenue advance	199,207		(199,207)		
Current portion of non-capital grant advances	526,316			526,316	
Current portion of bonds payable	705,000			705,000	19,790
Total current liabilities	5,053,585	65,582	(264,789)	4,854,378	1,869,855
Long-Term Liabilities					
Master lease revenue advance, net of current portion	9,213,308		(9,213,308)		
Non-capital grant advances, net of current portion	3,157,894			3,157,894	
Loans payable, net of current portion	455,000	10,250,000		10,705,000	4,780,110
Bonds payable, net of current portion	20,798,670			20,798,670	
Total long-term liabilities	33,624,872	10,250,000	(9,213,308)	34,661,564	4,780,110
Total liabilities	38,678,457	10,315,582	(9,478,097)	39,515,942	6,649,965
Net Position					
Net investment in capital assets	124,500,340	6,079,061		130,579,401	
Restricted for required reserves	3,532,371	173,961		3,706,332	
Unrestricted	19,007,822	9,396,632		28,404,454	10,389,532
Total net position	147,040,533	15,649,654		162,690,187	10,389,532
Total liabilities and net position	\$ 185,718,990	\$ 25,965,236	\$ (9,478,097)	\$ 202,206,129	\$ 17,039,497

See Notes to Financial Statements

PIKE PLACE MARKET PRESERVATION AND DEVELOPMENT AUTHORITY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION

For the Year Ended December 31, 2018

	Primary Government				
		Blended Component Units	Eliminations	Total	Discrete Component Units
	PDA				
Operating Revenue					
Rent	\$ 16,268,646	\$ 1,381,928	\$ (478,222)	\$ 17,172,352	\$ 624,967
Parking	3,968,531			3,968,531	
Management fees	205,247		(90,075)	115,172	
Security	67,296			67,296	
Contributions and grants	51,392			51,392	378,499
Miscellaneous	318,969			318,969	
Total operating revenue	20,880,081	1,381,928	(568,297)	21,693,712	1,003,466
Operating Expenses					
Property management	12,137,010	888,966	(568,297)	12,457,679	654,036
Depreciation and amortization	5,545,251	472,079		6,017,330	627,858
Parking	1,302,096			1,302,096	
Security	1,602,624			1,602,624	
Professional fees	103,575	3,629		107,204	62,446
Total operating expenses	20,690,556	1,364,674	(568,297)	21,486,933	1,344,340
Operating income (loss)	189,525	17,254		206,779	(340,874)
Non-Operating Revenue (Expenses)					
Interest income	782,328	123		782,451	
Forgiveness of interest	22,750			22,750	
Bargain purchase gain on acquisition of PPM Phase II Investment Fund, LLC	6,874,969			6,874,969	
Related party grant revenue (expense)	603,639	(603,639)			
Non-capital grant revenue	526,316			526,316	
Gain on forgiveness of loans payable, net of assets transferred		977,395		977,395	
Interest expense	(879,011)	(114,134)		(993,145)	(194,160)
Amortization of intangible assets					(10,873)
Net non-operating revenue (expenses)	7,930,991	259,745		8,190,736	(205,033)
Change in net position	8,120,516	276,999		8,397,515	(545,907)
Net Position, beginning of year	138,920,017	15,372,655		154,292,672	10,777,610
Contributed Capital from Members					157,829
Net Position, end of year	\$ 147,040,533	\$ 15,649,654	\$ -	\$ 162,690,187	\$ 10,389,532

See Notes to Financial Statements

PIKE PLACE MARKET PRESERVATION AND DEVELOPMENT AUTHORITY

STATEMENT OF CASH FLOWS For the Year Ended December 31, 2018

	Primary Government			Discrete
	PDA	Blended Component Units	Eliminations	Component Units
Cash Flows from Operating Activities				
Cash received from tenants for rent	\$ 16,062,266	\$ 1,381,928	\$ (478,222)	\$ 16,965,972
Cash received from parking	3,968,531			3,968,531
Cash received from management fees and other customers	591,131		(90,075)	501,056
Cash paid to employees	(6,672,881)			(6,672,881)
Cash paid to suppliers and others	(7,742,736)	(616,666)	568,297	(7,791,105)
Net cash flows from operating activities	6,206,311	765,262		6,971,573
Cash Flows from Non-Capital Financing Activities				
Advances from (to) related parties	680,050	(273,565)		406,485
Related party grant funds received (paid)	603,639	(603,639)		
Contributed capital				157,829
Net cash flows from non-capital financing activities	1,283,689	(877,204)		406,485
Cash Flows from Capital and Related Financing Activities				
Purchases of capital assets	(4,793,493)			(4,793,493)
Interest paid	(1,234,249)	(114,134)		(1,348,383)
Repayment of bonds payable	(5,228,334)			(5,228,334)
Net cash flows from capital and related financing activities	(11,256,076)	(114,134)		(11,370,210)
Cash Flows from Investing Activities				
Change in restricted cash	2,721,059	146,430		2,867,489
Interest received	644,434	123		644,557
Cash proceeds (payment) relating to acquisition of PPM Phase II Investment Fund, LLC and transfer of assets from PPMQB2 to the PDA	1,099,748	(1,099,748)		
Cash paid for acquisition of PPM Phase II Investment Fund, LLC	(1,000)			(1,000)
Net cash flows from investing activities	4,464,241	(953,195)		3,511,046
Net change in cash and cash equivalents	698,165	(1,179,271)		(481,106)
Cash and Cash Equivalents, beginning of year	23,529,906	1,228,970		24,758,876
Cash and Cash Equivalents, end of year	<u>\$ 24,228,071</u>	<u>\$ 49,699</u>	<u>\$ -</u>	<u>\$ 24,277,770</u>
Included in the Statement of Net Position as Follows:				
Cash and cash equivalents	\$ 3,974,521	\$ 49,699		\$ 4,024,220
Designated cash and cash equivalents	20,253,550			20,253,550
	<u>\$ 24,228,071</u>	<u>\$ 49,699</u>	<u>\$ -</u>	<u>\$ 24,277,770</u>

See Notes to Financial Statements

PIKE PLACE MARKET PRESERVATION AND DEVELOPMENT AUTHORITY

STATEMENT OF CASH FLOWS (Continued)

For the Year Ended December 31, 2018

	Primary Government				Discrete Component Units
	PDA	Blended Component Units	Eliminations	Total	
Reconciliation of Operating Income (Loss) to Net Cash Flows from Operating Activities					
Operating income (loss)	\$ 189,525	\$ 17,254	\$ -	\$ 206,779	\$ (340,874)
Adjustments to reconcile operating income (loss) to net cash flows from operating activities					
Depreciation and amortization	5,545,251	472,079		6,017,330	627,858
Changes in operating assets and liabilities					
Accounts receivable, tenants and other	(35,677)			(35,677)	(3,402)
Master lease revenue advance/prepaid lease	(276,929)	276,929			
Prepaid expenses and other assets	(79,442)			(79,442)	
Accounts payable and accrued expenses	809,130	(1,000)		808,130	(5,915)
Deferred revenue	54,453			54,453	
Net cash flows from operating activities	<u>\$ 6,206,311</u>	<u>\$ 765,262</u>	<u>\$ -</u>	<u>\$ 6,971,573</u>	<u>\$ 277,667</u>

See Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS

Note 1. Organization and Summary of Significant Accounting Policies

Organization and Nature of Operations

Pike Place Market Preservation and Development Authority ("the PDA"), is a public governmental corporation established by charter issued by the City of Seattle ("the City") in 1973. The charter obligates the PDA to preserve, redevelop, and manage the Pike Place Market ("the Market"), which resides in a nine-acre historical district in downtown Seattle. According to the charter, the PDA is required to preserve these historical properties, assure the Market's economic viability, provide opportunities and services to low- and moderate-income people, maintain the tradition of a farmers' market for direct sale of fresh produce by the farmer to the consumer, and enhance the economic health of small owner-operated businesses, farmers, and craftspeople. The Market properties were renovated using a combination of private and federal funds during the 1970s and early 1980s. In addition, the State of Washington ("the State") Department of Community Development has a historic preservation easement on the property.

Discretely Presented Component Units

LaSalle Senior Housing LLC ("LaSalle") and Western Avenue Senior Housing, LLC ("WASH") are considered component units of the PDA (collectively, "the Discrete Component Units"), discretely presented in a separate column on the face of the PDA's basic financial statements. As the managing member of LaSalle and WASH, the PDA is financially accountable for and oversees the day-to-day operations of these separate legal entities. The Discrete Component Units report on a fiscal year-end consistent with the PDA primary government. The financial statements of the Discrete Component Units are presented in accordance with accounting principles (as opposed to governmental accounting principles) generally accepted in the United States, and the financial statements of the Discrete Component Units were audited separately. Copies of these financial statements may be obtained by contacting the PDA. The Discrete Component Units are also discussed in Note 12.

Financial Statement Presentation

Pike Place Market QALICB2 ("PPMQB2") and Pike Place Market QALICB3 ("PPMQB3") are considered blended component units of the PDA (collectively, "the Blended Component Units"), as the PDA is (or was) the sole corporate member of each. PPMQB2 was dissolved effective February 28, 2018, upon execution of a put option as described in Note 4. Operations of PPMQB2 were considered blended through this effective date and subsequent to this date were included within the PDA. The Blended Component Units are Washington State nonprofit tax-exempt organizations affiliated with the PDA. The Blended Component Units' financial data is included on the face of the PDA's basic financial statements. All inter-entity transactions are eliminated on the face of the PDA's basic financial statements. The Blended Component Units report on a fiscal year-end consistent with the PDA primary government. The financial statements of the Blended Component Units, for the purposes of these financial statements, are presented in accordance with governmental accounting principles. PPMQB3's financial statements were audited separately, and those audited statements were prepared using generally accepted accounting principles for nonprofit organizations, which differ from governmental accounting principles. Copies of these financial statements may be obtained by contacting the PDA. The financial statements of PPMQB2 for the period from January 1, 2018, to February 28, 2018, were not audited separately.

As noted above, the financial statements of the Discrete Component Units are presented in accordance with accounting principles generally accepted in the United States.

The following notes to the financial statements are presented excluding the financial information of the Blended and Discrete Component Units, which are summarized in Notes 11 and 12, respectively.

Basis of Accounting

Due to its business-like operations, the PDA is considered a stand-alone proprietary entity. The financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. All assets and all liabilities (whether current or noncurrent) associated with its activities are included on the statement of net position. Revenue is recognized when earned and expenses are recorded when an obligation has been incurred. Capital asset purchases are capitalized and, when appropriate, depreciated.

Cash and Cash Equivalents

For cash flow purposes, highly liquid investments with an original maturity of less than three months that are not restricted are considered cash equivalents. Designated and restricted cash and cash equivalents are described in Notes 2 and 3.

The PDA places cash and cash equivalents with banks and the State of Washington Local Government Investment Pool ("the LGIP"). The LGIP is an external investment pool in which all investments are reported at amortized cost (as opposed to fair value), as defined by Governmental Accounting Standard No. 79. Accordingly, participants' balances in the LGIP are not subject to interest rate risk, as the weighted-average maturity of the portfolio will not exceed 90 days, and are therefore considered cash and cash equivalents for the purpose of these financial statements. According to Governmental Accounting Standards guidelines, the balances are also not subject to custodial credit risk. The credit risk of the LGIP is limited as most investments are either obligations of the United States government, government-sponsored enterprises, or insured demand deposit accounts and certificates of deposit. Investments or deposits held by the LGIP are all classified as Category 1 risk level investments. They are either insured or held by a third-party custody provider in the LGIP's name.

At December 31, 2018, the PDA had other cash and cash equivalents in excess of federally insured limits.

Accounts Receivable

Accounts receivable from tenants are due for rent and related expenses and are generally unsecured. Accounts receivable from others are due for the reimbursement of expenses. Related party receivables are discussed in Note 4. The PDA considers all accounts greater than 30 days old to be past due and uses the allowance method for recognizing bad debts. When an account is deemed uncollectible, it is generally written off against the allowance. Management determined no allowance was necessary at December 31, 2018.

Capital Assets

The capitalization policy for building improvements includes all items with a unit cost of \$2,500 or more and an estimated useful life of more than 10 years. The capitalization policy for equipment includes all items with a unit cost of \$500 or more and an estimated useful life of more than five years. The costs of normal maintenance and repairs, which do not increase the value of the assets or materially extend asset lives, are charged to operating expenses in the year the expense is incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Buildings (excluding the garage) are depreciated over periods up to 70 years. Building improvements and the garage are amortized/depreciated over periods up to 40 years. Other property and equipment are depreciated over five years.

Capital assets are also discussed in Note 6.

Debt Premiums and Discounts

Debt premiums and discounts are netted against the debt payable and are deferred and amortized over the life of the related debt using the effective interest method.

Net Position

Net position is composed of various net earnings from operating revenue, non-operating revenue, capital grants and contributions, and expenses. Net position is classified in the following three components:

- Net investment in capital assets – This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, loans, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. As of December 31, 2018, the total invested in capital assets, net of accumulated depreciation, was \$146,459,010, and related debt was \$21,958,670.
- Restricted for required reserves – This component of net position consists of external constraints imposed by creditors (through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation, that restrict the use of net position. The PDA had restricted net position (primarily cash) of \$4,044,955 as of December 31, 2018 (see Note 3).
- Unrestricted – This component of net position consists of net position that does not meet the definition of "restricted for required reserves" or "net investment in capital assets."

Classification of Revenue and Expenses

The PDA distinguishes operating revenue and expenses from non-operating items in the preparation of its financial statements according to the following criteria:

Operating – Operating revenue and expenses generally result from providing rental, parking, and security services in connection with the PDA's principal ongoing operations. Principal operating revenue includes rent, parking, property management, and security fees. Operating expenses include property management, parking, security, professional fees, and other expenses related to the delivery of rental, parking, and security services.

Non-Operating – Almost all revenue and expenses not meeting the definition above are reported as non-operating revenue and expenses. Related party grant revenue (expense) is considered non-operating given that it is discretionary in nature and calculated based on a non-operating measure.

Rent Revenue

The PDA receives regular monthly income from residential and commercial tenants under operating leases. Revenue is recognized in accordance with the lease agreement rather than on the straight-line method over the lease term, as management believes the difference would be immaterial. Residential leases are stated at a fixed monthly rate, and commercial leases are stated at a base rate or a percentage of monthly sales, whichever is greater. Most commercial tenants pay rent based on a percentage of monthly sales. Generally, residential lease contracts are for a one-year term and are always cancelable with a 30-day notice by either party. Commercial lease contracts generally have terms up to 10 years and are noncancelable (see Note 9).

Master Lease Revenue Advance

On February 11, 2016, the PDA entered into a 50-year lease agreement allowing PPMQB3 to lease commercial space in the MarketFront building within the Pike Place Market Historic District. The PDA received \$9,711,325 from PPMQB3 for the lease of the building for the 50-year period from February 11, 2016, to February 28, 2066. The master lease revenue advance is being recognized on the straight-line method over the life of the lease. Lease revenue in 2018 was \$199,207, and lease revenue over each of the following full years under the agreement is expected to be \$199,207.

The current and noncurrent portions of the prepaid master lease payments are presented as follows in the statement of net position at December 31, 2018:

Current portion of master lease revenue advance	\$ 199,207
Master lease revenue advance, net of current portion	<u>9,213,308</u>
	<u>\$ 9,412,515</u>

This amount is considered an asset of PPMQB3 (a blended component unit) as it represents lease payments made in advance. The amount has been collected in advance by the PDA, so it is considered a liability by the PDA.

Parking and Management Fee Revenue

Parking and management fee revenue is recognized when the service is provided.

Non-Capital Grant Advances

Non-capital grant advances represent funds received by the PDA under an agreement with the Washington State Department of Transportation to restrict 450 of its existing parking spaces to short-term parking through December 31, 2025. Non-capital grant advances are recognized ratably over the term of the agreement.

Income Taxes

As a public governmental corporation, the PDA is exempt from income taxes.

Use of Estimates

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

Note 2. Cash and Cash Equivalents

The PDA's cash and cash equivalents are categorized to give an indication of the level of custodial risk assumed by the PDA. Category 1 includes cash and cash equivalents (including those at amortized cost held by the LGIP) that are insured or registered and are held by the PDA or its agent in the PDA's name. All cash and cash equivalents at December 31, 2018, are Category 1.

At December 31, 2018, the cost basis of cash and cash equivalents is as follows:

	Cost	Category
Investment in State of Washington LGIP	\$ 26,291,350	1
Money market and checking accounts	1,469,092	1
	<u>\$ 27,760,442</u>	

These amounts are presented in the statement of net position as follows:

Cash and cash equivalents	\$ 3,974,521
Designated cash and cash equivalents	20,253,550
Restricted cash and cash equivalents	3,532,371
	<u>\$ 27,760,442</u>

The composition of designated cash and cash equivalents is as follows:

Capital equipment and capital budget carryovers	\$ 14,780,972
MarketFront project reserve	2,900,624
Minimum operating reserve	1,357,064
Low-income housing reserve	910,179
Reserve for contingencies	304,711
	<u>\$ 20,253,550</u>

The composition of restricted cash and cash equivalents is discussed in Note 3.

Note 3. Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents consist of the following:

2015 bond reserves – Debt service reserve funds for special obligation and refunding bonds issued in 2015.

MarketFront project retainage reserve – Consists of retainage for construction performed through December 31, 2018, related to the MarketFront project that will be paid during 2019.

Security deposits – Funds held as tenant security deposits.

2009 bond reserves – Debt service reserves funds for bonds refunded in 2009.

Senior Center reserves – Funds reserved for Pike Market Senior Center capital maintenance and replacement.

Farm educational program – Funds restricted to support this program in future years.

The composition of restricted cash and cash equivalents is as follows:

2015 bond reserves	\$ 1,901,602
MarketFront project retainage reserve	554,641
Security deposits	446,491
2009 bond reserves	312,882
Senior Center reserves	310,625
Farm educational program	6,130
	<hr/>
	\$ 3,532,371
	<hr/>

Note 4. Related Party Transactions

LaSalle Senior Housing LLC (LaSalle)

LaSalle is a limited liability company formed by the PDA and the Market Foundation (described below) to develop and operate low-income residential housing in the LaSalle Building. The LaSalle Building is one of the buildings located in the Market. The PDA is the managing member of LaSalle and holds a 0.01% interest. The remaining 99.99% interest is held by an investment company called National Equity Fund Partners ("NEFP"). NEFP has the right to receive low-income housing tax credits resulting from this low-income residential housing project. In exchange, NEFP committed to invest over \$8,000,000 into LaSalle.

In April 2005, the PDA leased property to LaSalle for \$2,020,000 under a financing lease agreement, which terminates on December 31, 2085. Upon execution of this lease, LaSalle paid an initial rent payment of \$240,000 to the PDA. Interest at the rate of 4.68% compounded annually accrues on the unpaid balance of \$1,780,000. Interest earned from LaSalle was \$137,894 in 2018. Interest receivable from LaSalle (included with the unpaid principal balance to make up the financing lease receivable on the statement of net position) was \$1,304,350 at December 31, 2018. The financing lease receivable is unsecured.

LaSalle is liable to make annual payments (considered principal and interest) at a maximum of \$92,723, based on available net cash flows subjected to payment priority according to the agreement between the PDA and LaSalle that describes how the property is to be managed ("the Operating Agreement"), with all unpaid principal and accrued interest due on December 31, 2057. Beginning in 2058, annual rent payments will be \$100 through 2085, assuming the lease arrangement is still in existence. As of December 31, 2018, there were no available net cash flows, and no interest or principal has been paid to date.

Additionally, under this financing lease, the PDA was granted first right of refusal to purchase the residential portion of the LaSalle Building or the NEFP's interest in LaSalle after April 2021 (the end of the tax credit period). The purchase price is outlined in the Operating Agreement.

Certain administrative expenses are initially paid by the PDA and subsequently reimbursed by LaSalle. Additionally, the PDA earned management fees (including accounting fees) of \$90,394 in 2018. Accounts receivable related to unreimbursed expenditures and unpaid management fees at December 31, 2018, was \$45,225.

Under the Operating Agreement, the PDA has agreed to advance funds to cover operating deficits not funded from the operating reserve. Any such advances may be repaid from project cash flow in subsequent years or from proceeds of sale or refinance of the property, if that were to occur.

LaSalle is included in these financial statements as a discretely presented component unit. The determination of discrete instead of blended presentation was made given that the governing body of the PDA and its component unit are not substantively the same.

Western Avenue Senior Housing, LLC (WASH)

WASH is a limited liability company formed in 2016 by the PDA to construct and operate 40 low-income residential units in the MarketFront building. The PDA is the managing member of WASH (through Western Avenue Manager LLC, the PDA's wholly owned subsidiary) and holds a 0.01% interest. U.S. Bank is the 99.99% owner and investor member. In addition, U.S. Bank obtained the right to receive low-income housing tax credits resulting from this low-income residential housing project. In exchange, U.S. Bank committed to invest approximately \$8,000,000 into WASH.

In February 2016, the PDA leased the residential portion of the MarketFront building to WASH under a 100-year lease agreement, which terminates in December 2115. Under terms of the agreement, WASH pays the PDA a fixed annual amount of \$10. There is no financial statement impact recognized by the PDA or WASH for rent below fair market rates.

In addition, WASH entered into a property management agreement with the PDA, whereby the PDA earns 8% of gross rents collected. The agreement renews annually.

Certain administration expenses paid by the PDA on behalf of WASH are reimbursed by WASH. During 2018, the following transactions occurred between the PDA and WASH:

- As of December 31, 2018, \$43,741 of unreimbursed expenses is receivable from WASH.
- The PDA earned a management fee of \$24,778 from WASH in 2018.

Additionally, under the WASH Operating Agreement, the PDA was granted first right of refusal to purchase the residential portion of the MarketFront building or the U.S. Bank's interest in WASH after January 2032 (the end of the tax credit period). The purchase price is outlined in the WASH Operating Agreement.

Also, under the Operating Agreement, the PDA has agreed to advance funds to cover operating deficits not funded from the operating reserve. Any such advances may be repaid from project cash flow in subsequent years or from proceeds of sale or refinance of the property, if that were to occur.

WASH is included in these financial statements as a discretely presented component unit. The determination of discrete instead of blended presentation was made given that the governing body of the PDA and its component unit are not substantively the same.

Pike Place Market QALICB2 (PPMQB2)

PPMQB2 is a Washington State nonprofit corporation formed in 2010 to obtain funds under the NMTC program. Certain board members are members of the PDA Council, and the PDA is the sole corporate member of PPMQB2. During 2014, the PDA leased six buildings (Corner, Economy, Sanitary, Soames-Dunn, Stewart, and Triangle) to PPMQB2 for purposes of renovating and rehabilitating them through the NMTC financing program ("the PPMQB2 Agreement"). All rent revenue is collected by the PDA and distributed to PPMQB2. Certain administration expenses paid by the PDA on behalf of PPMQB2 are reimbursed by PPMQB2.

PPMQB2's NMTC "earn-out" period ended on February 28, 2018, upon which U.S. Bank ("the NMTC Investor") exercised its put option to sell all interest in the PPM Phase II Investment Fund, LLC ("PPM Investment Fund"), a limited liability company wholly owned by U.S. Bank, for \$1,000 to the PDA. Up until the earn-out period end date, PPM Investment Fund, through other wholly owned subsidiaries, owned all debt due from PPMQB2, and also had a loan payable to the PDA. Upon the PDA's acquisition of PPM Investment Fund, PPM Investment Fund and its wholly owned subsidiaries were dissolved. As a result of this dissolution, the PPM Investment Fund loan payable to the PDA and the PDA loan receivable from PPM Investment Fund were cancelled, and all debt of PPMQB2 held by PPM Investment Fund was assigned to the PDA. On the effective date of the PDA's acquisition of PPM Investment Fund, the PDA entered into an agreement (referred to as "the Contribution Agreement") with PPMQB2 where the PDA accepted the transfer of all PPMQB2 assets in satisfaction of PPMQB2's debt. Therefore, the substance of this transaction is that the PDA exchanged its loan from PPM Investment Fund for the net book value of leasehold improvements, cash held at PPMQB2, and deferred prepaid master lease revenue advances, resulting in a gain as the net book value of the assets or unrecognized lease revenue were greater than the loan receivable cancellation.

A summary of the bargain purchase gain recognized by PDA is detailed below:

Transfer of building improvements (at net book value)	\$ 9,332,301
Cash transferred to the PDA	1,099,748
Net receivables from PPMQB2 cancelled	(212,685)
Cancellation of loan receivable due from PPM Investment Fund	(25,648,261)
Cancellation of master lease revenue advance	22,383,937
Acquisition costs	(79,071)
Purchase price	<u>(1,000)</u>
Bargain purchase gain on acquisition of PPM Phase II Investment Fund, LLC	<u>\$ 6,874,969</u>

During the period from January 1, 2018, to February 28, 2018, the following transactions occurred between the PDA and PPMQB2:

- The PDA collected \$1,000,028 in rent revenue from the tenants that was remitted to PPMQB2.
- The PDA earned \$77,772 in rent revenue relating to the leasing of the six buildings to PPMQB2 mentioned above.
- The PDA earned and received a management fee of \$90,075.
- Under a transfer agreement with the PDA ("the Transfer Agreement"), PPMQB2 was required to maintain 4% of the unadjusted bases in property in non-qualified financial property ("NQFP"), as defined by the Treasury Regulation Section 1.45-1(d)(i)(E) (effectively cash and cash equivalents), and NQFP held in excess of this threshold is to be granted to the PDA. Up until the earn-out period, \$603,639 was granted and paid to the PDA under the terms of the Transfer Agreement.
- Certain administrative and operating expenses initially paid by the PDA were subsequently reimbursed by PPMQB2 and totaled \$200,246.

PPMQB2 was included on these financial statements as a blended component unit until February 28, 2018. The determination of blended presentation was made give that the PDA is the sole member of PPMQB2.

Pike Place Market QALICB3 (PPMQB3)

PPMQB3 is a Washington State nonprofit corporation formed in 2016 to obtain funds under the NMTC program, which commenced in 2016. Certain PPMQB3 board members are members of the PDA Council, and the PDA is the sole corporate member of PPMQB3. During 2016, the PDA leased commercial space related to the MarketFront project to PPMQB3 for purposes of renovating and rehabilitating them through the NMTC financing program ("the PPMQB3 Agreement"). Simultaneously, PPMQB3 subleased the space back to the PDA with a term expiring on December 31, 2051.

Rent revenue from tenants is earned by the PDA, and the PDA pays an annual fixed sublease payment to PPMQB3. Certain administration expenses paid by the PDA on behalf of PPMQB3 are reimbursed by PPMQB3. During 2018, the following transactions occurred between the PDA and PPMQB3:

- The PDA earned \$199,207 from PPMQB3 in rent revenue relating to the leasing of commercial space within the MarketFront to PPMQB3.
- Certain administrative and operating expenses were initially paid by PDA on behalf of PPMQB3 in 2018. As of December 31, 2018, \$65,582 is receivable for unreimbursed amounts.

Under terms of the sublease from PPMQB3, the PDA is required to make fixed annual sublease payments. Future minimum payments are as follows for the years ending December 31:

2019	\$	392,533
2020		404,309
2021		416,438
2022		428,931
2023		441,799
Thereafter		19,535,860
	\$	<u>21,619,870</u>

Rent expense incurred under the sublease in 2018 to PPMQB3 was \$381,100.

Additionally, under the PPMQB3 Agreement, the PDA has guaranteed any future operating deficits PPMQB3, and the PDA has guaranteed payment of any unearned NMTCs to MS NMSC Equity Fund, LLC ("MS NMSC"), the NMTC investor, in the event of an NMTC recapture event. No recapture events occurred in 2018.

The PDA and MS NMSC have entered into a put/call option agreement to take place at the end of the seven-year NMTC reconveyance period ending January 2023. Under the agreement, MS NMSC can exercise a put option to sell all interest in the Pike Place MarketFront Investment Fund, LLC ("PPMIF"), a limited liability company 99.99% owned by MS NMSC, for \$1,000 to the PDA. If MS NMSC does not exercise the put option within six months of the end of the seven-year period, the PDA has an additional three months in which it can exercise a call option to purchase the interest of the PPMIF at an appraised fair market value. As a result, if the option is exercised, the outstanding loan balances of PPMQB3 are expected to be forgiven in consideration of PPMQB3 transferring all of its leasehold improvement property to the PDA.

Certain disclosures in these financial statements may be significantly impacted in the event that the put/call option is exercised.

PPMQB3 is included in these financial statements as a blended component unit. The determination of blended presentation was made given that the PDA is the sole member of PPMQB3.

The Market Foundation

The Market Foundation is a nonprofit corporation incorporated under the laws of the state of Washington. The Market Foundation raises money to help pay for the services for the needy within the Market's historical district and contributes to the PDA's food subsidy and capital programs. Under the terms of a service agreement, the PDA subsidizes certain Market Foundation employees' salary and benefits and a portion of its administrative office expenses. The total subsidized expenses incurred during 2018 were \$269,697. Other related administrative expenses of the Market Foundation are initially paid by the PDA and subsequently reimbursed by the Market Foundation. Total reimbursable other administrative expenses paid by the PDA on behalf of the Market Foundation were \$115,360 in 2018. Accounts receivable from the Market Foundation is \$9,841 at December 31, 2018.

Although the Market Foundation is a related party, due to lack of control, it is not included in these financial statements.

Summary of Related Party Receivables

Related party receivables (excluding the financing lease receivable from LaSalle) as of December 31, 2018, are as follows:

Due from LaSalle	\$ 45,225
Due from WASH	43,741
Due from PPMQB3	65,582
Due from the Market Foundation	<u>9,841</u>
Accounts receivable, related parties	<u>\$ 164,389</u>

Note 5. Loan Receivable – Tax Credit Projects

In 2016, the PDA loaned \$7,310,125 to Pike Place MarketFront Investment Fund, LLC ("PPMIF"). PPMIF used the loan proceeds, through other intermediary entities, to make a NMTC loan to PPMQB3. The loan bears interest at 1.1%. Beginning June 15, 2023 (after the end of the tax credit earn-out period), annual principal and interest payments are due in the amount necessary to repay the outstanding principal and unpaid interest of the loan by June 15, 2042 (maturity). The loan is effectively secured by the capital investments of PPMQB3. During 2018, the PDA earned \$73,101 of interest on this loan receivable.

Note 6. Capital Assets

The following is a summary of capital assets at cost for 2018:

Description	Balance, December 31, 2017	Additions	Retirements	Transfers	Balance, December 31, 2018
Land	\$ 5,268,168	\$ -	\$ -	\$ -	\$ 5,268,168
Construction in progress	646,843	42,936		(623,119)	66,660
Buildings	86,966,673	398,936			87,365,609
Building improvements	90,466,646	10,806,910		623,119	101,896,675
Equipment	1,176,275	174,509			1,350,784
Capital improvement plan	530,883	18,481			549,364
Total cost	185,055,488	11,441,772			196,497,260
Accumulated Depreciation					
Buildings	16,673,543	2,133,384			18,806,927
Building improvements	26,364,438	3,318,090			29,682,528
Equipment	992,043	81,016			1,073,059
Capital improvement plan	462,975	12,761			475,736
Total accumulated depreciation	44,492,999	5,545,251			50,038,250
Capital assets, net	\$ 140,562,489	\$ 5,896,521	\$ -	\$ -	\$ 146,459,010

Note 7. Long-Term Liabilities

Loans Payable

In December 2004, the PDA acquired land (referred to as the Creamery lot) from the City in exchange for a loan due to the City in the amount of \$455,000 (all of which was outstanding on December 31, 2018). There were no changes in the loan balance in 2018. The loan accrues interest at 5% per annum. According to the terms of the loan agreement, the principal and accrued interest become due in December 2023, at which time the City has agreed to forgive these amounts as long as the PDA used the land for the intended use outlined in the sales agreement. The PDA will recognize forgiveness of principal when compliance with terms of the loan have been significantly met (expected in 2023). Interest of \$22,750 was forgiven by the City for the year ended December 31, 2018.

Bonds Payable Summary

Bonds payable for the year ended December 31, 2018, are as follows:

Refunding Bonds - Revenue

2009 PDA Refunding Bonds, with interest at 5%, interest payments made semi-annually, and remaining annual principal payments ranging from \$386,000 to \$435,000 through May 1, 2021. \$ 1,235,833

Special Obligation and Refunding Bonds 2015A - MarketFront Project

Series 2015A PDA Special Obligation and Refunding Bonds, with interest at 5%, interest payments made semi-annually, and remaining annual principal payments ranging from \$290,000 to \$1,380,000 through December 1, 2040. 18,650,000
19,885,833
Less: current portion (705,000)
Plus: unamortized premiums on Series 2015A bonds payable 1,617,837
\$ 20,798,670

The PDA is required to maintain certain debt service reserve levels for each of the outstanding bond series. All reserve requirements were met in 2018.

Bonds Payable – Details

Refunding Bonds – Revenue

The PDA has issued and refunded various series of tax-exempt Special Obligation Revenue Bonds, beginning in 1991. The bonds were issued in order to refinance certain private bank mortgages.

The final refunding occurred in 2009 when the bonds were refinanced with the City with a face value of \$4,390,000.

Series 2015A and 2015B Special Obligation and Refunding Bonds – MarketFront Project

In June 2015, the PDA issued Special Obligation and Refunding Bonds ("the Series A Bonds") and Special Obligation Bonds ("the Series B Bonds"), collectively referred to as "2015 Bonds," for the purpose of financing the design, acquisition, construction, and equipping of parking and other improvements related to the MarketFront Project, and to also refinance and pay in full certain bonds, a commercial mortgage, and another long-term obligation previously outstanding of the PDA. The Series B Bonds were paid in full in 2018. The Series A Bonds are secured by restricted cash and, effectively, the unrestricted net position of the PDA. The bonds include a covenant that the PDA to maintain a minimum debt service coverage ratio. The PDA is in compliance with the bond covenant at December 31, 2018.

Following are the changes in bonds payable for the year ended December 31, 2018:

Bonds Payable	Balance, December 31, 2017	Additions	Repayments and Amortization	Balance, December 31, 2018	Current Portion
Series 2009 bonds	\$ 1,634,167	\$ -	\$ (398,334)	\$ 1,235,833	\$ 415,000
Series 2015A bonds	18,930,000		(280,000)	18,650,000	290,000
Series 2015B bonds	4,550,000		(4,550,000)	-	
	25,114,167	-	(5,228,334)	19,885,833	705,000
Unamortized bond premiums	1,995,825		(377,988)	1,617,837	
Total bonds payable	<u>\$ 27,109,992</u>	<u>\$ -</u>	<u>\$ (5,606,322)</u>	<u>\$ 21,503,670</u>	<u>\$ 705,000</u>

The principal and interest maturities of bonds payable are as follows for the years ending December 31:

	Principal	Interest	Total
2019	\$ 705,000	\$ 987,375	\$ 1,692,375
2020	740,000	951,625	1,691,625
2021	930,833	914,125	1,844,958
2022	575,000	875,500	1,450,500
2023	605,000	846,750	1,451,750
2024 - 2028	3,495,000	3,749,750	7,244,750
2029 - 2033	4,455,000	2,785,250	7,240,250
2034 - 2038	5,685,000	1,554,000	7,239,000
2039 - 2040	2,695,000	203,750	2,898,750
	<u>\$ 19,885,833</u>	<u>\$ 12,868,125</u>	<u>\$ 32,753,958</u>

Note 8. Employee Benefit Plan

The PDA has a defined contribution retirement plan covering substantially all employees. The plan provides for voluntary after-tax contributions by employees and contributions by the PDA at the discretion of the PDA's governing Council. The PDA incurred approximately \$420,000 in pension expense in 2018.

Note 9. Future Rental Revenue

The PDA leases space to commercial tenants under noncancelable agreements. The terms of the leases are generally up to 10 years with options to extend up to two years (however, certain longer-term leases do exist). Most commercial leases include percentage rent (based on a percentage of the tenant's sales) and fixed or variable escalation clauses. Future minimum rentals to be received excluding options to extend, percentage rent, and variable escalation clauses are approximately as follows for the years ending December 31:

2019	\$ 3,984,982
2020	3,227,875
2021	2,551,435
2022	1,876,342
2023	1,158,060
Thereafter	2,681,090
	<u>\$ 15,479,784</u>

Note 10. Risk Management

The PDA is subject to claims and litigation incidental to its business. Management believes the ultimate resolution of these routine matters will not have a material adverse effect on the PDA's statements of net position, operations, or cash flows. The PDA purchases commercial insurance coverage to mitigate such risks.

Note 11. Blended Component Units

As discussed in Note 1, PPMQB2 and PPMQB3 are considered component units of the PDA and are blended on the face of the PDA's basic financial statements.

Summarized blended component unit statement of net position information as of December 31, 2018, is as follows:

	Pike Place Market QALICB2	Pike Place Market QALICB3	Total
Assets			
Current assets			
Cash and cash equivalents	\$ -	\$ 49,699	\$ 49,699
Prepaid master lease, current portion		199,207	199,207
Total current assets		248,906	248,906
Restricted cash		173,961	173,961
Prepaid master lease, less current portion		9,213,308	9,213,308
Capital assets, net		16,329,061	16,329,061
Total assets	\$ -	\$ 25,965,236	\$ 25,965,236
Liabilities and Net Position			
Current liabilities			
Accounts payable, related party	\$ -	\$ 65,582	\$ 65,582
Long-term liabilities			
Loans payable, net		10,250,000	10,250,000
Total liabilities		10,315,582	10,315,582
Net position			
Net investment in capital assets		6,079,061	6,079,061
Restricted for requires reserves		173,961	173,961
Unrestricted		9,396,632	9,396,632
Total net position		15,649,654	15,649,654
Total liabilities and net position	\$ -	\$ 25,965,236	\$ 25,965,236

Summarized blended presented component unit statement of revenues, expenses, and changes in fund net position information for the year ended December 31, 2018, is as follows:

	Pike Place Market QALICB2	Pike Place Market QALICB3	Total
Operating Revenue			
Rent	\$ 1,000,828	\$ 381,100	\$ 1,381,928
Total operating revenue	1,000,828	381,100	1,381,928
Operating Expenses			
Property management	400,439	488,527	888,966
Depreciation and amortization	46,221	425,858	472,079
Professional fees	3,629		3,629
Total operating expenses	450,289	914,385	1,364,674
Operating income (loss)	550,539	(533,285)	17,254
Non-Operating Revenue (Expenses)			
Interest income	3	120	123
Interest expense		(114,134)	(114,134)
Gain on forgiveness of loans payable, net of assets transferred	977,395		977,395
Related party grant expense	(603,639)		(603,639)
Net non-operating expenses	373,759	(114,014)	259,745
Change in net position	924,298	(647,299)	276,999
Net Position, beginning of year	(924,298)	16,296,953	15,372,655
Net Position, end of year	\$ -	\$ 15,649,654	\$ 15,649,654

Note 12. Discretely Presented Component Units

As discussed in Note 1, LaSalle and WASH are considered component units of the PDA and are discretely presented in a separate column on the face of the PDA's basic financial statements.

Summarized discretely presented component unit statement of net position information as of December 31, 2018, is as follows:

	LaSalle Senior Housing LLC	Western Avenue Senior Housing LLC	Total
Assets			
Current assets			
Cash and cash equivalents	\$ 1,876	\$ 16,612	\$ 18,488
Accounts receivable, tenants	3,989	6,480	10,469
Total current assets	5,865	23,092	28,957
Restricted cash	1,426,981	253,202	1,680,183
Intangible assets, net of accumulated amortization	231,320		231,320
Capital assets, net	6,526,749	8,572,288	15,099,037
Total assets	<u>\$ 8,190,915</u>	<u>\$ 8,848,582</u>	<u>\$ 17,039,497</u>
Liabilities and Net Position			
Current liabilities			
Accounts payable	\$ 9,574	\$ 16,104	\$ 25,678
Accounts payable, related party	45,225	43,741	88,966
Deposits payable	24,639	26,496	51,135
Interest payable	1,658,595	25,691	1,684,286
Current portion of loans payable	19,790		19,790
Total current liabilities	1,757,823	112,032	1,869,855
Long-term liabilities			
Loans payable, net	3,477,226	1,302,884	4,780,110
Total liabilities	5,235,049	1,414,916	6,649,965
Net position			
Unrestricted	2,955,866	7,433,666	10,389,532
Total liabilities and net position	<u>\$ 8,190,915</u>	<u>\$ 8,848,582</u>	<u>\$ 17,039,497</u>

Summarized discretely presented component unit statement of revenues, expenses, and changes in fund net position information for the year ended December 31, 2018, is as follows:

	LaSalle Senior Housing LLC	Western Avenue Senior Housing LLC	Total
Operating Revenue			
Rent	\$ 310,402	\$ 314,565	\$ 624,967
Contributions and grants	378,499		378,499
Total operating revenue	688,901	314,565	1,003,466
Operating Expenses			
Property management	491,000	163,036	654,036
Depreciation and amortization	398,351	229,507	627,858
Professional fees	32,668	29,778	62,446
Total operating expenses	922,019	422,321	1,344,340
Operating loss	(233,118)	(107,756)	(340,874)
Non-Operating Expenses			
Interest expense	(180,205)	(13,955)	(194,160)
Amortization of intangible assets	(10,873)		(10,873)
Net non-operating expenses	(191,078)	(13,955)	(205,033)
Change in net position	(424,196)	(121,711)	(545,907)
Net Position, beginning of year	3,380,062	7,397,548	10,777,610
Capital Contributions		157,829	157,829
Net Position, end of year	\$ 2,955,866	\$ 7,433,666	\$ 10,389,532

S U P P L E M E N T A R Y R E P O R T S A N D S C H E D U L E S
I N A C C O R D A N C E W I T H G O V E R N M E N T A U D I T I N G
S T A N D A R D S A N D T H E U N I F O R M G U I D A N C E

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

To the Council
Pike Place Market Preservation
and Development Authority
Seattle, Washington

We have audited, in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements and the aggregate blended and discretely presented component units of the Pike Place Market Preservation and Development Authority ("the PDA"), a public governmental corporation, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the PDA's basic financial statements, and have issued our report thereon dated May 30, 2019.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of This Report

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

Petersen Sullivan LLP.
May 30, 2019

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE**

To the Council
Pike Place Market Preservation
and Development Authority
Seattle, Washington

Report on Compliance for Each Major Federal Program

We have audited the Pike Place Market Preservation and Development Authority's ("the PDA") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the PDA's major federal programs for the year ended December 31, 2018. The PDA's major federal programs are identified in the summary of audit results section of the accompanying schedule of findings and questioned costs.

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 the PDA'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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the PDA'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 the major federal program. However, our audit does not provide a legal determination of the PDA's compliance.

Opinion on Each Major Federal Program

In our opinion, the PDA has complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2018.

Report on Internal Control over Compliance

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

Handwritten signature in blue ink that reads "Peterson Sullivan LLP".

May 30, 2019

PIKE PLACE MARKET PRESERVATION AND DEVELOPMENT AUTHORITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended December 31, 2018

<u>Federal Grantor/Program Title</u>	<u>Award Number</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>
Department of Housing and Urban Development			
<i>Section 8 Project-Based Cluster</i>			
Passed through the Bremerton Housing Authority - Contract Management Services			
Section 8 Housing Assistance Payments Program*	WA-19-8023-005	14.195	\$ 470,133
Section 8 Housing Assistance Payments Program*	WA-19-8023-004	14.195	<u>540,568</u>
Total Section 8 Project-Based Cluster			1,010,701
<i>Housing Voucher Cluster</i>			
Passed through the Seattle Housing Authority			
Section 8 - Housing Choice Vouchers	WA001VO0142	14.871	180,756
Section 8 - Housing Choice Vouchers	WA001VO0178	14.871	<u>47,994</u>
Total Housing Voucher Cluster			<u>228,750</u>
Total Department of Housing and Urban Development and federal expenditures			<u><u>\$ 1,239,451</u></u>

* Denotes a major program

See Notes to Schedule of Expenditures of Federal Awards

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards ("the Schedule") includes the federal grant activity of the Pike Place Market Preservation and Development Authority ("the PDA") under programs of the federal government for the year ended December 31, 2018. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administration Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of the PDA, it is not intended to and does not present the financial position, changes in net position, or cash flows of the PDA.

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 the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Pass-through entity identifying numbers are presented where available.

Note 3. Indirect Cost Rate

The PDA has elected not to use the 10% de minimus indirect cost rate as allowed under the Uniform Guidance.

PIKE PLACE MARKET PRESERVATION AND DEVELOPMENT AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended December 31, 2018

A. Summary of Audit Results

Financial Statements:

Type of auditors' report issued: Unmodified

Internal Control over Financial Reporting:

Material weaknesses identified: None reported

Significant deficiencies identified not considered to be material weaknesses: None reported

Noncompliance material to financial statements noted: None reported

Federal Awards:

Material weaknesses identified: None reported

Significant deficiencies identified not considered to be material weaknesses: None reported

Type of auditors' report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported: None reported

Identification of Major Programs:

<u>Program Title</u>	<u>CFDA Number</u>
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Section 8 Housing Assistance Payments Program	14.195
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Dollar threshold used to distinguish between Type A and B programs: \$ 750,000

Auditee qualified as low-risk auditee: Yes

B. Findings - Financial Statement Audit

None reported

C. Findings and Questioned Costs - Major Federal Awards Program Audit

None reported