



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

November 3, 2022

Council
Historic Seattle Preservation and Development Authority
Seattle, Washington

Contracted CPA Firm's Audit Report on Financial Statements

We have reviewed the audit report issued by a certified public accounting (CPA) firm on the financial statements of the Historic Seattle Preservation and Development Authority for the fiscal years ended December 31, 2021 and 2020. 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 and, accordingly, we do not express an opinion on those financial statements.

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

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**HISTORIC SEATTLE PRESERVATION AND
DEVELOPMENT AUTHORITY**

Financial Statements

December 31, 2021 and 2020

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INDEPENDENT AUDITOR'S REPORT

To the Council
Historic Seattle Preservation and Development Authority
Seattle, Washington

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the business-type activities of Historic Seattle Preservation and Development Authority (Historic Seattle), as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements, which collectively comprise Historic Seattle's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of Historic Seattle as of December 31, 2021 and 2020, and its change in net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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 of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Historic Seattle and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of a Matter

As discussed in Note 1 to the financial statements, the Historic Seattle and a certain lender (making up two loans totaling \$8,640,000 as of December 31, 2021), have entered into a put/call option to take place at the end of the recapture and compliance period of the New Markets Tax Credits in 2022. As a result, if the put option is exercised by the lender, Historic Seattle will purchase the lenders' interest in the loans for \$1,000. If the put option is not exercised, Historic Seattle may exercise a call option to purchase the lender's interest in the loans at an appraised fair market value.

Our opinion is not modified with respect to these matters.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Historic Seattle's ability to continue as a going concern twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Historic Seattle's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Historic Seattle's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States require that management's discussion and analysis on pages 4 to 10 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, 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.

Amanda O'Rourke, CPA
Matt Smith, CPA
Claire Chow, CPA
Jason Mallon, CPA



Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 19, 2022 on our consideration of Historic Seattle's internal control over financial reporting and 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Historic Seattle's internal control over financial reporting and compliance.

Greenwood Ohlund

Seattle, Washington
May 19, 2022

HISTORIC SEATTLE PRESERVATION AND DEVELOPMENT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of the financial performance of Historic Seattle Preservation and Development Authority (Historic Seattle) presents a narrative overview and analysis of the financial activities of Historic Seattle for the year ended December 31, 2021.

This information should be considered in conjunction with Historic Seattle's financial statements and notes to the financial statements, which follow.

FINANCIAL HIGHLIGHTS

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

Despite the continuation of the COVID-19 pandemic, Historic Seattle continued to effectively advocate for the preservation of historic structures, offered a wide-array of compelling programs to our audience, added one new property to our thoughtfully maintained portfolio of historic structures, and continued to grow philanthropic support for the organization. Despite tangible and ubiquitous challenges because of the global pandemic, Historic Seattle continued an upward trend of improvement yielding an increase in organizational effectiveness and relevance.

Historic Seattle continued to offer education programs on compelling topics that engaged a growing number of audience members. Our advocacy efforts focused on strategies to save and protect singular structures, and we tactically influenced preservation policy. In December 2021, we culminated years of due diligence and discussion and successfully acquired a new historic property. External impact was equaled with tangible internal change as Historic Seattle's staff, Council and Board took notable steps to organizationally improve in a variety of ways.

ADVOCACY

Our advocacy team continued to be instrumental leaders in successful grassroots advocacy efforts to save meaningful places to foster lively communities.

On February 9, 2021 Historic Seattle partnered with Keep Music Live Washington in our seventh annual heart bomb event. The event is always a fun, creative and effective form of advocacy where people gather at historic sites and local landmarks (both safe and threatened) to take a photograph with their homemade valentines. In 2021, the photos were shared on social media to raise awareness about the hometown, community-based music venues in Seattle and across the state that have been closed since March 2020 due to COVID-19.

Our advocacy efforts also focused on preserving several specific properties of note throughout the City. The Spanish Eclectic style, La Quinta Apartments, were built in 1927. They were developed by Frederick Anhalt, a well-known builder and designer of apartment buildings in Seattle. The landmark nomination report (prepared by Northwest Vernacular) was sponsored by Historic Seattle. The ¡Viva La Quinta! website was created and maintained by the residents and exemplified the wonderful community that lives in the building.

HISTORIC SEATTLE PRESERVATION AND DEVELOPMENT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Historic Seattle also supported the designation of the Cayton-Revels House on Capitol Hill. The home was built in 1902 for Horace Roscoe Cayton and Susie Revels Cayton. Born into enslavement by White people in Mississippi, Horace Cayton came to Seattle in 1890 and started the *Seattle Republican*, the first Black-owned newspaper in the city. Susie Cayton was the daughter of the first Black American U.S. Senator and joined Horace in the newspaper publishing business as the city's first female associate editor. The landmark nomination report detailed the Cayton family experience -- in which their success was inversely related to increasing racism and racist policies -- and also described Seattle's connection to the broader Black American experience.

Historic Seattle joined a robust coalition of regional tribes, community organizations, the City of Seattle, Oregon's Attorney General, and Washington's Attorney General to stop the sale of the National Archives Seattle (NARA) property at 6125 Sand Point Way NE. The effort was led by Washington Attorney General Bob Ferguson. Historic Seattle and like-minded advocacy partners worked to halt the sale of the building with the ultimate goal of keeping the archives in Seattle. In April, the Biden Administration's Office of Management and Budget, formally withdrew its approval of the sale of the NARA property and confirmed that any effort to sell the facility in the future must be preceded by meaningful and robust tribal consultation and an appropriate administrative process based on new factual record.

REAL ESTATE OPERATIONS AND DEVELOPMENT

Historic Seattle continued to steward and maintain its properties including the Belmont / Boylston House, Cadillac Hotel, Dearborn House, Egan House, Good Shepherd Center, Phillips House, Victorian Row Apartments, and Washington Hall.

Historic Seattle staff continued to make the necessary operational adjustments in response to the COVID-19 pandemic. COVID-19 severely curtailed the ability of our anchors partners at Washington Hall to continue their capacity and operations growth since the project was substantially completed in 2016.

Our apartment buildings, Belmont / Boylston House, Phillips House, and Victorian Row, continued to provide 41 affordable housing units to low-income residents, and the Good Shepherd Center continued to offer six, affordable housing units to local artists. Our tenant renting the Egan House continued to support the stewardship of this mid-century modern, City of Seattle Landmark. The pandemic had a negative impact on the revenue earned and forced an increase in vacancy rates at our residential properties.

Although tenants were occasionally late or unable to pay rent and vacancy rates rose at our properties, the impact of the pandemic underscored the importance of having a diversified portfolio: affordable and market rate housing, as well as performance, office, and museum space. Income loss associated with one type of property (ie. performance space) was offset by more consistent and stable revenue from another property type (ie. office).

Historic Seattle continued to make substantive progress on the seismic retrofit of the Good Shepherd Center. Staff used a preliminary and prioritized scope of work developed by our architect and received a rough order of magnitude cost estimate. This information was used for our application submitted to the State of Washington's Heritage Capital grant program. In August 2020, the grant panel recommended full funding for not only Historic Seattle's seismic project but 35 other projects across the state. Historic Seattle organized and led the state-wide coalition of grant recipients throughout Q1 2021 to ensure that funding was prioritized and successfully secured from the Washington State legislature.

HISTORIC SEATTLE PRESERVATION AND DEVELOPMENT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

After many months of negotiation, Historic Seattle staff successfully entered into a purchase and sale agreement with the owners of the Garden House (2336 15th Avenue South) in the Beacon Hill neighborhood of Seattle. Staff conducted due diligence and closed on the property in December. Historic Seattle utilized our line of credit to underwrite the \$2M purchase. Historic Seattle will sell an easement removing the development rights from the north and south parcels adjacent to the house to Seattle Parks and Recreation (SPR). SPR will use Conservation Futures Tax Levy funds for this purchase. Historic Seattle will combine these Tax Levy funds with a grant from the City of Seattle's Department of Neighborhood to pay off the line of credit, retain the services of an architect to assist with community engagement, and conduct initial repairs to the house.

EDUCATIONAL PROGRAMMING

The COVID-19 pandemic continued to challenge staff to creatively present forms of educational programming in novel and engaging ways. Virtual platforms continued to be used for programs that highlighted a wide-array of compelling programs including, but not limited to, the development and history of the West Seattle Streetcar from 1916-1940, history of the Stimson Green Mansion, Art Deco in Seattle, history of the Cayton-Revels House, and the development of Lake Union.

In May and in October 2021 we explored historic Filipino American gathering places in Seattle with Dorothy Cordova, Pio DeCano II, and Cynthia Mejia-Giudici. Historic Seattle partnered with the Filipino American National Historical Society (FANHS) and presented a virtual presentation that explored key sites and locations in Seattle/King County. On July 20, 2021 Candacy Taylor, author of the bestselling book *Overground Railroad: The Green Book and the Roots of Black Travel in America* talked about her work.

In August, Historic Seattle co-hosted a virtual, two-day conference that brought together preservationists from across the country to discuss the need for equity in the landmark designation process. Participants left the conference inspired and equipped with tools to help change the process in their local communities.

On December 14, Brad Holden of Seattle Artifacts and Cynthia Brothers of Vanishing Seattle hosted a one-hour program exploring the life and legacy of iconic neon sign designer Bea Haverfield. Ms. Haverfield's work included the signs for the Elephant Car Wash, Ivar's Pier 54 restaurant and Dick's Drive-In.

Staff also created hybrid alternatives to encourage safe, self-directed experiential learning in conjunction with the exchange of ideas and formation of an on-line community. In partnership with HistoryLink, our History Collective series presented a self-guided tour and discussion on the history of the Central District, Central Waterfront, and the Pike Place Market.

HISTORIC SEATTLE PRESERVATION AND DEVELOPMENT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

COMMUNITY AFFAIRS

Historic Seattle continued to internally adapt to the stark realities of the COVID-19 pandemic. Staff also recognized the impact experienced by our tenants. In response to the financial hardships faced by many of the individuals and organizations that lease space at our properties, staff created an emergency rent relief fund in October 2020. More than \$161,000 was contributed to the fund and was distributed to numerous individuals and organizations in January, March, May, and July 2021. 100% of the applicants received full or partial rent relief thanks to the generosity of our donors. Many of our tenants offered sincere thanks for the rental assistance. Nonsequitur, a non-profit tenant dedicated to the presentation of adventurous and experimental music and sound art at the Good Shepherd Center Chapel said, " Since 2007, we have leased the Chapel at Good Shepherd Center to present the Wayward Music Series of concerts. Of course, COVID shut that down, at which point we pivoted to commissioning local musicians to record audio streaming programs called Wayward in Limbo. We were able to use the Chapel for recording some of those, but for the most part we were paying rent for a big room we couldn't really use, and there was no income from concerts to help. We are very grateful for the Emergency Rent Relief grant that helped make it possible for us to continue to support artists in the creation of new work. The Chapel is now open again for the time being, and we are back to presenting live concerts."

Historic Seattle virtually celebrated the well-deserved preservation victories of others in 2021 via our "Preservation Celebration." The 2021 Preservation Award winners were Building 9 at Magnuson Park (Best Preservation Project Award), Lincoln High School (Beth Chave Rehabilitation Award), Louisa Hotel (Community Investment Award), South Park Yacht Club (Preserving Neighborhood Character Award), Town Hall (Exemplary Stewardship Award), Dan Say (Preservation Champion Award), and Wa Na Wari (Community Advocacy Award).

Historic Seattle continued to explore new and improved ways to engage, educate, and motivate our constituency in both print and electronic formats. Our newsletter, Preservation News, continued to offer timely and meaningful highlights of our activities. We found that a more focused communications strategy, that began in 2016, with attention to combining timely advocacy issues and organizational successes with fundraising appeals and programming, continued to yield successful results through 2021. We continued to use our website and social media platforms (Facebook, Instagram, Twitter and the Preservation in Progress blog) to reach the broader community.

Historic Seattle continued to build partnerships with other organizations to produce and promote programs and events and to expand advocacy for, and education related to, historic preservation in King County and nationally. In 2021, these organizations included the National Preservation Partners Network, National Trust for Historic Preservation, State of Washington Department of Archeology and Historic Preservation, WSU Tree Fruit Research and Extension Program, Dragon's Head Cider, Greenwood Cider, Press Then Press, Viva La Quinta, Capitol Hill Historical Society, Washington Trust for Historic Preservation, the City of Seattle, King County Historic Preservation Program, Buffalo Soldiers Museum, Friends of Mukai, Southwest Seattle Historical Society, Seattle Theater Group, 4Culture, Seattle City Light, Seattle Department of Transportation, the University of Washington, DCOMOMO WEWA, National Park Service and the Frye Art Museum.

HISTORIC SEATTLE PRESERVATION AND DEVELOPMENT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Historic Seattle was and continues to be committed to making tangible progress in resolving the lack of diversity in our staffing, governance, and storytelling. One such step is the creation of the recurring blog feature Seattle's Full Story, which launched in August 2020. We actively solicited compensated content for Seattle's Full Story from Black, Indigenous, and People of Color community members. Submissions told BIPOC stories of Seattle's history and/or preservation. The format was not limited to a traditional article format. We encouraged all forms of expression and storytelling: photography, poem, song, and video.

INTERNAL IMPROVEMENTS

Throughout 2021, Historic Seattle Staff, Council and Board diligently worked to improve organizational effectiveness and efficiency. Highlights include the following:

Term Limits

Historic Seattle PDA Council passed term limits associated with all Council seats. Each seat on Council shall now be limited to (2), 3-year terms.

Key Performance Indicators

Staff reviewed the specific tactics outlined within our 5-year strategic plan and created measurable indicators to gauge annual progress since the strategic plan was approved and implemented in 2019. These indicators will help to establish goals through the conclusion of the strategic plan in December 2023.

DEIA

Historic Seattle staff, Council and Foundation Board took deliberate individual steps to understand ways our explicit and implicit bias stifle our organization's ability to be diverse, equitable, inclusive and accessible. We may say that we focus on "communities" in the plural form; however, truth be told, we have consistently - since we were formed in 1973 - primarily focused on preserving structures built by white men and telling passively voiced stories often centered around these same white men. For us to truly earn the name "Historic Seattle" we must preserve meaningful places that represent all the rich history and vibrancy representing the true, collective Seattle. In 2021, with the assistance from a consultant, we began to explore tangible ways that Historic Seattle can implement policies, initiatives, and practices to address DEIA opportunities.

VOLUNTEERS

Historic Seattle volunteers contributed hundreds of hours of service on the Historic Seattle Council, Historic Seattle Preservation Foundation Board, and on committees including Real Estate, Audit, Advocacy/Education, Awards Benefit, and Executive.

INTRODUCTION TO THE FINANCIAL STATEMENTS

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

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

HISTORIC SEATTLE PRESERVATION AND DEVELOPMENT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

USING THESE FINANCIAL STATEMENTS

In addition to the Management's Discussion and Analysis, these financial statements include the Statement of Net Position, which provides information on the assets and liabilities of Historic Seattle, the Statement of Revenues, Expenses, and Changes in Fund Net Position, which presents information on how Historic Seattle's position changed during the year, and the Statement of Cash Flows. These statements appear on pages 10 through 12.

BASIC FINANCIAL STATEMENTS

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

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

FINANCIAL ANALYSIS

	2021	2020	2019
Current Assets	\$ 1,581,060	\$ 2,060,674	\$ 1,906,357
Noncurrent Assets	6,344,522	6,470,070	6,550,056
Capital Assets, net	19,386,377	17,713,699	18,565,050
Total assets	27,311,959	26,244,443	27,021,463
Current Liabilities	1,330,668	600,494	882,719
Long-Term Liabilities	16,501,676	15,740,755	16,077,392
Total liabilities	17,832,344	16,341,249	16,960,111
Net Position			
Invested in capital assets, net of related debt	2,488,139	2,216,067	2,271,447
Restricted	148,414	404,382	451,496
Unrestricted	6,843,062	7,282,745	7,338,409
Total net position	\$ 9,479,615	\$ 9,903,194	\$ 10,061,352

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

HISTORIC SEATTLE PRESERVATION AND DEVELOPMENT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

The liabilities consist primarily of long-term debt that was used to purchase, develop, and rehabilitate historic buildings. Many of these loans, provided by governmental entities, have below market interest rates and do not require annual debt service. See Note 7 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 \$423,579 in 2021 and decreased by \$158,158 in 2020.

The results of operations for Historic Seattle are presented below:

	2021	2020	2019
Operating Revenues	\$ 2,763,206	\$ 2,827,885	\$ 2,997,815
Operating Expenses	(3,139,611)	(2,933,250)	(3,141,842)
Change in net position from operations	(376,405)	(105,365)	(144,027)
Nonoperating Revenues and Expenses, net	(47,174)	(52,793)	(171,072)
Capital Grants	-	-	164,863
Change in net position	<u>\$ (423,579)</u>	<u>\$ (158,158)</u>	<u>\$ (150,236)</u>

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

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Historic Seattle's investment in capital assets as of December 31, 2021 and 2020, amounts to \$19,386,377 and \$17,713,669, respectively. This investment in capital assets includes real estate, furniture and equipment, and other assets. Additional information on Historic Seattle's capital assets can be found in Note 5.

Historic Seattle's real estate activity is financed, in part, by long-term debt secured by real estate. Historic Seattle had \$17,114,287 and \$15,657,189 of outstanding debt at December 31, 2021 and 2020, respectively. Additional information on Historic Seattle's debt can be found in Note 7.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of Historic Seattle's finances for all those with an interest in Historic Seattle's finances. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to Historic Seattle Preservation and Development Authority, 1117 Minor Avenue, Seattle, Washington 9810

HISTORIC SEATTLE PRESERVATION AND DEVELOPMENT AUTHORITY

STATEMENTS OF NET POSITION December 31, 2021 and 2020

ASSETS	2021	2020
Current Assets		
Cash and cash equivalents	\$ 1,218,418	\$ 1,628,991
Security deposits	65,176	65,273
Accounts receivable	180,685	179,785
Contributions receivable	58,502	131,731
Prepaid expenses and other assets	39,975	63,797
Inventory	18,304	18,543
Total current assets	1,581,060	2,088,120
Reserves	336,463	427,407
Restricted Cash	26,659	61,263
Note Receivable	5,981,400	5,981,400
Capital Assets, net	19,386,377	17,713,699
Total assets	<u>\$ 27,311,959</u>	<u>\$ 26,271,889</u>
LIABILITIES AND NET POSITION		
Current Liabilities		
Accounts payable	\$ 53,563	\$ 68,370
Accrued expenses	79,230	81,617
Security deposits	65,176	65,273
Prepaid rent and event fees	66,730	54,618
Current portion of notes payable	1,065,969	358,062
Total current liabilities	1,330,668	627,940
Deferred Interest	453,358	441,628
Notes Payable, net of current portion	16,048,318	15,299,127
Total liabilities	17,832,344	16,368,695
Net Position		
Invested in capital assets, net of related debt	2,488,139	2,216,067
Restricted	148,414	404,382
Unrestricted	6,843,062	7,282,745
Total net position	9,479,615	9,903,194
Total liabilities and net position	<u>\$ 27,311,959</u>	<u>\$ 26,271,889</u>

See accompanying notes to financial statements.

HISTORIC SEATTLE PRESERVATION AND DEVELOPMENT AUTHORITY

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

For the Years Ended December 31, 2021 and 2020

	2021	2020
Operating Revenues		
Rents	\$ 2,409,870	\$ 2,554,129
Consulting fees	13,217	17,599
Event and membership dues	27,810	32,395
Operating grants	270,768	207,456
Other revenue	41,541	16,306
Total operating revenues	2,763,206	2,827,885
Operating Expenses		
Salaries, benefits, and taxes	1,226,145	1,126,999
Professional fees	94,819	91,283
Property and asset management fees	195,981	170,162
Office expense and other	186,729	160,426
Event expense	31,521	13,077
Insurance and taxes	136,471	126,115
Conference and training	2,605	2,161
Depreciation	718,650	724,796
Maintenance and utilities	546,690	513,796
Bad debts	-	4,435
Total operating expenses	3,139,611	2,933,250
Change in net position from operations	(376,405)	(105,365)
Nonoperating Revenues (Expenses)		
Grants	179,359	205,431
Interest income	89,801	90,989
Loss on sale of capital assets	-	(17,423)
Interest expense and debt issuance costs	(316,334)	(331,790)
Net nonoperating revenues (expenses)	(47,174)	(52,793)
Change in net position	(423,579)	(158,158)
Net Position, beginning of year	9,903,194	10,061,352
Net Position, end of year	\$ 9,479,615	\$ 9,903,194

See accompanying notes to financial statements.

HISTORIC SEATTLE PRESERVATION AND DEVELOPMENT AUTHORITY

STATEMENTS OF CASH FLOWS For the Years Ended December 31, 2021 and 2020

	2021	2020
Cash Flows from Operating Activities		
Receipts from tenants	\$ 2,421,082	\$ 2,503,731
Receipts from donors	343,997	75,879
Receipts from members and customers	82,568	66,300
Payments to suppliers	(1,185,562)	(1,021,451)
Payments to employees	(1,228,532)	(1,113,127)
Net cash flows from operating activities	433,553	511,332
Cash Flows from Noncapital Financing Activity		
Receipts from donors	179,359	205,431
Cash Flows from Capital and Financing Activities		
Payments for capital assets purchases	(2,391,328)	(208,868)
Proceeds from sale of capital asset	-	318,000
Proceeds from issuance of note payable	1,800,000	-
Payments on notes payable	(342,902)	(326,378)
Repayment of advance for Fall City development	-	(272,504)
Interest and debt issuance costs paid	(304,604)	(320,060)
Net cash flows from capital and financing activities	(1,238,834)	(809,810)
Cash Flows from Investing Activities		
Withdrawals from restricted cash, net	34,604	58,599
Withdrawals from reserves, net	90,944	21,387
Interest received	89,801	90,989
Net cash flows from investing activities	215,349	170,975
Net change in cash and cash equivalents	(410,573)	77,928
Cash and Cash Equivalents, beginning of the year	1,628,991	1,551,063
Cash and Cash Equivalents, end of the year	<u>\$ 1,218,418</u>	<u>\$ 1,628,991</u>
Reconciliation of Change in Net Position to Net Cash Provided from Operating Activities		
Change in net position from operations	\$ (376,405)	\$ (105,365)
Adjustments to reconcile change in net position from operations to net cash provided by operating activities		
Depreciation	718,650	724,796
Bad debts	-	4,435
Change in operating assets and liabilities		
Accounts and contributions receivable	72,329	(129,873)
Prepaid expenses, other assets, and inventory	24,158	21,603
Accounts payable and accrued expenses	(17,291)	12,156
Prepaid rent and event fees	12,112	(16,420)
Net cash flows from operating activities	<u>\$ 433,553</u>	<u>\$ 511,332</u>

See accompanying notes to financial statements.

HISTORIC SEATTLE PRESERVATION AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Note 1 – Operations and Summary of Significant Accounting Policies

Operations

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

Reporting Entity

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

Washington Hall QALICB was formed in April 2015, in conjunction with the New Markets Tax Credit financing transaction that closed on June 17, 2015 (Note 11). Washington Hall QALICB holds the Washington Hall building and underlying land as assets and leases the building to community organizations and other entities for performance, gathering, rehearsal, meeting and office space.

Basis of Accounting

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

Use of Estimates in the Preparation of Financial Statements

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

Net Investment in Capital Assets

The net investment in capital assets component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

HISTORIC SEATTLE PRESERVATION AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Restricted Net Position

Net position should be reported as restricted when constraints placed on net position use are either:

- Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or
- Imposed by law through constitutional provisions or enabling legislation.

Net position is restricted for the following purposes at December 31:

	2021	2020
Restoration projects	\$ 139,218	\$ 202,078
Other projects	5,670	74,670
Rent relief	3,526	127,634
	<u>\$ 148,414</u>	<u>\$ 404,382</u>

Unrestricted Net Position

All net position not reported in other categories.

Cash and Cash Equivalents

For the purpose of the statement of cash flows, Historic Seattle considers all highly liquid debt instruments purchased with maturities of three months or less to be cash equivalents. Reserves and restricted cash are not included in cash and cash equivalents.

Security Deposits

Security deposits for commercial tenants are included with cash and cash equivalents pursuant to the lease agreements. Security deposits for residential tenants are segregated in a separate bank account; the balance at December 31, 2021 and 2020 was \$65,176 and \$65,273, respectively.

Inventory

Inventory, valued at cost, consists of materials and costs related to a publications.

Capital Assets and Depreciation

Property and equipment are recorded at cost. Improvements with a cost of more than \$5,000 are capitalized, while expenditures for maintenance and repairs are charged to expense as incurred. Upon disposal of depreciable property, the appropriate property accounts are reduced by the related costs and accumulated depreciation. Interest costs incurred during the construction period are capitalized and added to the cost of the related building. Depreciation has been computed on the straight-line basis for furnishings and equipment over 3 to 10 years and for buildings and improvements over 10 to 40 years.

HISTORIC SEATTLE PRESERVATION AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Historic Seattle reviews its investment in real estate for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the real estate to the future net undiscounted cash flow expected to be generated by the rental property including any estimated proceeds from the eventual disposition of the real estate. If the real estate is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the real estate exceeds the fair value of such property. No impairment losses were recognized in 2021 and 2020.

Donated Property, Equipment, and Services

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

Classification of Revenues and Expenses

Historic Seattle distinguishes operating revenues and expenses from nonoperating and capital items in the preparation of its financial statements. Operating revenues and expenses generally result from providing rental services, public programs, and advocacy. The principal operating revenues include rental and management fees. The operating expenses include property management, professional fees and other expenses related to providing rental services. Revenues and expenses not meeting this broad definition are reported as nonoperating and capital revenues and expenses.

Revenues and Receivables

Historic Seattle 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. 40% and 39% of total operating revenues were earned from two tenants during the years ended December 31, 2021 and 2020, respectively.

Rent revenue received in advance of the rental service period are recognized as unearned revenue.

Consulting revenues are recognized as revenue when the service is provided.

Membership dues are considered contributory, as little to no exchange of goods or services exists and is, therefore, recognized when the payment is received.

Contributions are recognized when all conditions have been met and, therefore, becomes unconditional.

Receivables are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to receivables. Based on prior experience, management has determined that expected losses on balances outstanding are immaterial at December 31, 2021 and 2020. Accordingly, no allowance for doubtful accounts has been recorded.

HISTORIC SEATTLE PRESERVATION AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Federal Income Tax

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

Note 2 – Reserves

Historic Seattle is required, under certain loan agreements, to fund replacement and operating reserves for its various buildings. The balance of these reserves (held in cash and cash equivalents) at December 31, 2021 and 2020 was \$336,463 and \$427,407, respectively.

Note 3 – Restricted Cash

In accordance with the New Markets Tax Credit financing, Washington Hall QALICB is required to maintain fee and expense restricted cash accounts during the seven-year New Markets Tax Credit compliance period. Funds are released according to the fee and expense agreement. The balance of these restricted cash balances at December 31, 2021 and 2020 was \$26,659 and \$61,623, respectively.

This account serves as collateral for the notes payable to Seattle Subsidiary Investment Fund IX, LLC (see Note 7).

Note 4 – Note Receivable

Historic Seattle Preservation Foundation acted as the Leverage Lender to the New Markets Tax Credit financing transaction which provided funding for the rehabilitation of Washington Hall. On June 17, 2015, the Foundation entered into a loan agreement with Twain Investment Fund 81, LLC, lending the LLC \$5,981,400. The principal amount of the loan represents the appraised value of the Washington Hall property and the sum of funds raised through our Capital Campaign to assist with the cost of the rehabilitation. The note matures June 30, 2048 and bears interest at 1.4363%. Payments are semi-annual, on June 10 and December 10. Payments are interest only through December 10, 2022. Beginning with the payment due on June 10, 2023, semi-annual amortizing payments of \$140,484 are due on each payment date.

The note is collateralized by an assignment of Twain Investment Fund 81, LLC's membership interest in Seattle Subsidiary Investment Fund IX, LLC, the sub-CDE (Community Development Entity) that provided the New Markets Tax Credit allocation to the Washington Hall transaction. If the requirements of the New Markets Tax Credit program are met during the required seven-year holding period, this loan will be effectively forgiven in 2022 upon Historic Seattle's acquisition of Twain Investment Fund 81, LLC (see also Note 10).

Interest earned from this note receivable was \$85,911 for both of the years ended December 31, 2021 and 2020.

HISTORIC SEATTLE PRESERVATION AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Note 5 – Capital Assets

Capital asset activity consisted of the following for 2021 and 2020:

	December 31, 2020	Additions	Retirements and Transfers	December 31, 2021
Buildings	\$ 26,586,905	\$ 489,776	\$ 65,312	\$ 27,141,993
Furniture and equipment	197,452	5,973	-	203,425
Accumulated depreciation	(12,001,626)	(718,650)	-	(12,720,276)
	14,782,731	(222,901)	65,312	14,625,142
Nondepreciable assets				
Land	2,675,333	1,844,000	-	4,519,333
Historical artifacts and preservation easement	66,946	-	-	66,946
Construction in progress	188,689	51,579	(65,312)	174,956
Capital assets, net	<u>\$ 17,713,699</u>	<u>\$ 1,672,678</u>	<u>\$ -</u>	<u>\$ 19,386,377</u>

	December 31, 2019	Additions	Retirements and Transfers	December 31, 2020
Buildings	\$ 26,507,914	\$ 78,991	\$ -	\$ 26,586,905
Furniture and equipment	192,312	5,140	-	197,452
Accumulated depreciation	(11,276,830)	(724,796)	-	(12,001,626)
	15,423,396	(640,665)	-	14,782,731
Nondepreciable assets				
Land	2,675,333	-	-	2,675,333
Historical artifacts and preservation easement	66,946	-	-	66,946
Construction in progress	399,375	124,737	(335,423)	188,689
Capital assets, net	<u>\$ 18,565,050</u>	<u>\$ (515,928)</u>	<u>\$ (335,423)</u>	<u>\$ 17,713,699</u>

Note 6 – Leases (Historic Seattle is the Lessor)

Mutual Life Building

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

Good Shepherd Center

Historic Seattle leases 32 separate spaces to tenants within the Good Shepherd Center, a historic building in the Wallingford district of Seattle. Leased space is primarily used as office space for nonprofit organizations and schools as well as residential artist studios. The leases, the majority of which expire over the next three years, contain rent escalation clauses of 3% to 5% per year.

HISTORIC SEATTLE PRESERVATION AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Other Properties

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

The cost and carrying amount of all Historic Seattle's leased assets at December 31, 2021 was \$29,832,647 and \$18,213,923, respectively.

Minimum rentals to be received from noncancelable operating leases from all leased properties are as follows for the years ending December 31:

2022	\$ 2,235,172
2023	1,868,026
2024	1,543,525
2025	1,248,852
2026	638,961
2027-2031	580,528
2032-2033	61,062
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	\$ 8,176,126
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HISTORIC SEATTLE PRESERVATION AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Note 7 – Notes Payable

Notes payable are as follows at December 31:

	2021	2020
Egan House		
Note payable to Beneficial Bank; monthly payment of principal and interest of \$840 with interest rate of 4.5% for the first 60 months starting December 15, 2017, then 59 consecutive monthly payments of principal and interest of \$852 with interest rate of Five Year Treasury Constant Maturity plus 2.75%, which was 4.01% at December 31, 2021; interest rate on final payment based on Five Year Treasury Constant Maturity; matures November 15, 2027; collateralized by the Egan House	\$ 135,242	\$ 139,353
Cadillac Rehabilitation LLC		
Note payable, Beneficial State Bank, issued December 15, 2015, bears interest at 4.4%; monthly payments of \$35,479 began January 2016; matures December 2030	3,146,755	3,425,343
Good Shepherd Center		
Note payable, Key Bank, bears interest at 4.32%; monthly payments of \$5,509; matures June 21, 2022	740,021	772,936
Note payable, City of Seattle, bears interest at 1%; if Historic Seattle remains in compliance with the terms of the loan, no further interest accrues after July 2021; lender will forgive repayment of 5% of the interest beginning July 2022 and for each year thereafter; matures July 2, 2041, or earlier without penalty; the borrower may extend the maturity date for up to seven, 5-year periods; in 2076, the unpaid principal and any remaining interest will be forgiven	475,299	475,299
Note payable, Washington State Department of Commerce, interest at 1%; payments were deferred until August 31, 2008, at which time annual payments of \$5,200 began and continue for 39 years, to August 31, 2047. 2020, 2021, and 2022 payments deferred by lender to maturity date	126,465	126,465

HISTORIC SEATTLE PRESERVATION AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Note 7 – Notes Payable, continued

	2021	2020
Belboy Apartments		
Note payable, City of Seattle, bears interest at 1%; interest accrued the first 20 years through December 2009; if Historic Seattle remains in compliance with the terms of the loan agreement, lender will forgive repayment of 5% of the interest beginning 2010 and for each year thereafter until maturity, December 22, 2029; the borrower may extend the maturity date for up to four, 5-year periods; in year 20, the unpaid principal and any remaining interest will be payable	\$ 415,087	\$ 415,087
Victorian Row Apartments		
Note payable, City of Seattle, bears interest at 1%; principal and accrued interest due at maturity, July 22, 2032	672,841	672,841
Note payable to Beneficial Bank; monthly payment of principal and interest of \$1,789 with interest rate of 4.5% for the first 84 months starting December 15, 2017, then monthly payments of principal and interest of \$1,831 with interest rate of Seven Year Treasury Constant Maturity plus 2.5%, which was 3.76% at December 31, 2021; rate to adjust every seven years based on rate at date of last payment in the cycle; matures November 15, 2047; collateralized by the Victorian Row Apartments	324,994	331,960
William B. Phillips/Heg House Apartments		
Note payable, City of Seattle, bears interest at 1% simple interest per annum, principal and interest due at maturity, December 4, 2032, secured by deed of trust	440,003	440,003
Note payable to Washington State Department of Commerce, noninterest bearing, annual payments of \$4,000, remaining principal due at maturity, December 31, 2043. 2020, 2021, and 2022 payments deferred by lender to maturity date	96,000	96,000

HISTORIC SEATTLE PRESERVATION AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Note 7 – Notes Payable, continued

	2021	2020
Washington Hall		
Note payable (Loan A), Seattle Subsidiary Investment Fund IX, LLC, issued June 17, 2015, interest at 1%; semi-annual interest only payments through December 2022, semi-annual amortizing payments of \$253,335 beginning June 2023 until maturity, December 2049; if requirements of the New Markets Tax Credit financing are met during the required seven-year holding period, Historic Seattle will purchase the lender's interest in the loan (see Note 10)	\$ 5,981,400	\$ 5,981,400
 Note payable (Loan B), Seattle Subsidiary Investment Fund IX, LLC, issued June 17, 2015, interest at 1%; semi-annual interest only payments through December 2022, semi-annual amortizing payments of \$112,602 beginning June 2023 until maturity, December 2049; if requirements of the New Markets Tax Credit financing are met during the required seven-year holding period, Historic Seattle will purchase the lender's interest in the loan (see Note 10)	 2,658,600	 2,658,600
Dearborn House		
Nonrevolving line of credit, Beneficial State Bank, issued April 27, 2015; variable interest based upon the Federal Reserve Bank's Three Year Treasury Constant Maturity Index plus 3%, with a floor of 4.25%, resulting in a rate of 4.25% at December 31, 2021; with monthly principal and interest payments through maturity of April 2026; collateralized by the Dearborn House	101,580	121,902
Garden House		
Revolving line of credit with Beneficial State Bank with a maximum amount of \$2,000,000, which was issued September 26, 2017. This line of credit bears interest at prime rate plus 0.75%, and a floor of 4.0%, resulting in a rate of 4.0% at December 31, 2021. Required monthly payments are interest only through maturity. The line of credit matures September 26, 2023 and is collateralized by the Dearborn House	1,800,000	-
Total	17,114,287	15,657,189
Less: current portion	(1,065,969)	(358,062)
	<u>\$ 16,048,318</u>	<u>\$ 15,299,127</u>

HISTORIC SEATTLE PRESERVATION AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Note 7 – Notes Payable, continued

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

Loans with Beneficial State Bank require financial covenants to be met each year. Historic Seattle was not in compliance with certain financial covenants during the year ended December 31, 2021. Beneficial State Bank has waived its right to default as a result of these financial covenants not met. Historic Seattle expects this noncompliance to be temporary, and meet all financial covenant requirements in the following year.

Following are the changes in notes payable for the year ended December 31, 2021:

Note Payable	December 31, 2020	Additions	Reductions	December 31, 2021	Current Portion
Cadillac Hotel					
Beneficial State Bank	\$ 3,425,343	\$ -	\$ (278,588)	\$ 3,146,755	\$ 293,492
Egan House					
Beneficial Bank	139,353	-	(4,111)	135,242	3,974
Good Shepherd Center					
Key Bank	772,936	-	(32,915)	740,021	740,021
City of Seattle	475,299	-	-	475,299	-
Washington State	126,465	-	-	126,465	-
Belboy Apartments					
City of Seattle	415,087	-	-	415,087	-
Victorian Row Apartments					
City of Seattle	672,841	-	-	672,841	-
Beneficial Bank	331,960	-	(6,966)	324,994	6,740
William B. Phillips/Heg					
House Apartments					
City of Seattle	440,003	-	-	440,003	-
Washington State	96,000	-	-	96,000	-
Washington Hall					
Seattle Subsidiary Investment					
Fund IX, LLC	5,981,400	-	-	5,981,400	-
Seattle Subsidiary Investment					
Fund IX, LLC	2,658,600	-	-	2,658,600	-
Dearborn House					
Beneficial State Bank	121,902	-	(20,322)	101,580	21,742
Garden House					
Revolving Line of Credit	-	1,800,000	-	1,800,000	-
	<u>\$ 15,657,189</u>	<u>\$ 1,800,000</u>	<u>\$ (342,902)</u>	<u>\$ 17,114,287</u>	<u>\$ 1,065,969</u>

HISTORIC SEATTLE PRESERVATION AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Following are the changes in notes payable for the year ended December 31, 2020:

Note Payable	December 31, 2019	Additions	Reductions	December 31, 2020	Current Portion
Cadillac Hotel					
Beneficial State Bank	\$ 3,691,348	\$ -	\$ (266,005)	\$ 3,425,343	\$ 280,881
Egan House					
Beneficial Bank	142,963	-	(3,610)	139,353	3,797
Good Shepherd Center					
Key Bank	804,348	-	(31,412)	772,936	30,170
City of Seattle	475,299	-	-	475,299	-
Washington State	126,465	-	-	126,465	7,912
Belboy Apartments					
City of Seattle	415,087	-	-	415,087	-
Victorian Row Apartments					
City of Seattle	672,841	-	-	672,841	-
Beneficial Bank	338,071	-	(6,111)	331,960	6,440
William B. Phillips/Heg					
House Apartments					
City of Seattle	440,003	-	-	440,003	-
Washington State	96,000	-	-	96,000	8,000
Washington Hall					
Seattle Subsidiary Investment					
Fund IX, LLC	5,981,400	-	-	5,981,400	-
Seattle Subsidiary Investment					
Fund IX, LLC	2,658,600	-	-	2,658,600	-
Dearborn House					
Beneficial State Bank	141,142	-	(19,240)	121,902	20,862
	<u>\$ 15,983,567</u>	<u>\$ -</u>	<u>\$ (326,378)</u>	<u>\$ 15,657,189</u>	<u>\$ 358,062</u>

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HISTORIC SEATTLE PRESERVATION AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Future principal and interest payments are as follows for the years ending December 31:

	Principal	Interest
2022	\$ 1,065,969	\$ 334,771
2023	2,428,832	283,006
2024	646,871	210,964
2025	665,734	192,102
2026	668,591	172,818
2027-2031	3,645,670	584,331
2032-2036	2,777,536	632,203
2037-2041	2,236,047	312,491
2042-2046	1,864,746	118,192
2047-2049	1,114,291	19,436
	<u>\$ 17,114,287</u>	<u>\$ 2,860,314</u>

Note 8 – Concentration of Credit Risk

Cash held by Historic Seattle includes cash and cash equivalents, security deposits, restricted cash, and reserves whose bank balances at several financial institutions total \$1,680,088 at December 31, 2021. Accounts at each financial institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. The Organization has not experienced any losses in such accounts. The Organization believes it is not exposed to any significant credit risk on its cash balances, and therefore does not maintain a written risk policy related to such balances. At December 31, 2021 the uninsured and uncollateralized cash balances totaled \$1,208,262.

Note 9 – Risk Management

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

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

Note 10 – Commitments and Contingencies

Amounts received from grantor agencies are subject to audit and adjustments by the grantor agency. Any disallowed cost, including amounts already collected, may constitute a liability for Historic Seattle. The amounts, if any, of expenditures, which may be disallowed by the grantor, are recorded at the time that such amounts can be reasonably determined, normally upon notification of the government agency. During the years ended December 31, 2021 and 2020, no such adjustments were made.

HISTORIC SEATTLE PRESERVATION AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Note 11 – New Markets Tax Credit Financing

In June 2015, the Organization entered into a New Markets Tax Credit (NMTC) transaction to help finance the rehabilitation of Washington Hall. As mentioned in Note 1, Washington Hall QALICB was formed for the purpose of facilitating the NMTC transaction as a Qualified Active Low Income Community Business (QALICB).

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

As part of the transaction, the Foundation committed to lend \$5,981,400 to Twain Investment Fund 81, LLC (Investment Fund) (Note 4). The amount borrowed at closing on June 17, 2015; amounted to \$8,640,000 (Loan A for \$5,981,400 and Loan B for \$2,658,600, see Note 7). This transaction generated \$2,658,600 of funding for the rehabilitation of the Washington Hall building.

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

To earn the tax credit the QEI must remain invested in the CDE for a seven-year period ending in 2022. The Foundation and U.S. Bancorp CDC have entered into a put/call option agreement to take place at the end of the seven-year period. Under the agreement, U.S. Bancorp CDC can exercise a put option to sell all interest in the QEI for \$1,000 to the Foundation. If U.S. Bancorp CDC does not exercise the put option within 180 days of the seven-year period, the Foundation can exercise a call option to purchase the interest of the QEI at an appraised fair market value.

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HISTORIC SEATTLE PRESERVATION AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Note 12 – Condensed Combining Information

The following is the condensed combining information for the blended component units of Historic Seattle for the years ended December 31, 2021 and 2020.

The following is the condensed statement of net position at December 31, 2021:

	Historic Seattle	Foundation	Cadillac Rehabilitation LLC	Washington Hall QALICB	Eliminations	Total December 31, 2021
Assets						
Current assets	\$ 492,230	\$ 555,261	\$ 442,606	\$ 90,963	\$ -	\$ 1,581,060
Noncurrent assets	307,669	5,981,400	-	55,453	-	6,344,522
Noncurrent assets, inter-entity	5,142,397	50,750	-	-	(5,193,147)	-
Capital assets, net	6,169,643	6,400	5,562,546	8,459,207	(811,419)	19,386,377
Total assets	\$ 12,111,939	\$ 6,593,811	\$ 6,005,152	\$ 8,605,623	\$ (6,004,566)	\$ 27,311,959
Liabilities and Net Position						
Current liabilities	\$ 1,018,333	\$ 2,895	\$ 296,090	\$ 13,350	\$ -	\$ 1,330,668
Long-term liabilities	5,008,413	-	2,853,263	8,640,000	-	16,501,676
Long-term liabilities, inter-entity	50,000	2,287,348	1,484,396	-	(3,821,744)	-
Total liabilities	6,076,746	2,290,243	4,633,749	8,653,350	(3,821,744)	17,832,344
Net position						
Invested in capital assets, net of related debt	338,753	6,400	1,485,701	(154,134)	811,419	2,488,139
Restricted	-	148,414	-	-	-	148,414
Unrestricted	5,696,440	4,148,754	(114,298)	106,407	(2,994,241)	6,843,062
Total net position	6,035,193	4,303,568	1,371,403	(47,727)	(2,182,822)	9,479,615
Total liabilities and net position	\$ 12,111,939	\$ 6,593,811	\$ 6,005,152	\$ 8,605,623	\$ (6,004,566)	\$ 27,311,959

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HISTORIC SEATTLE PRESERVATION AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

The following is the condensed statement of revenues, expenses, and changes in fund net position for the year ended December 31, 2021:

	Historic Seattle	Foundation	Cadillac Rehabilitation LLC	Washington Hall QALICB	Eliminations	Total December 31, 2021
Operating Revenues (Expenses)						
Rents	\$ 1,585,129	\$ -	\$ 764,216	\$ 60,525	\$ -	\$ 2,409,870
Consulting fees	13,217	-	-	-	-	13,217
Inter-entity management fees	57,943	-	-	-	(57,943)	-
Membership dues	283	27,527	-	-	-	27,810
Operating grants	29,737	241,031	-	-	-	270,768
Other revenues	28,014	13,527	-	-	-	41,541
Depreciation	(298,662)	-	(236,095)	(207,479)	23,586	(718,650)
Other operating expenses	(2,049,909)	(102,147)	(147,978)	(178,870)	57,943	(2,420,961)
Net operating gain (loss)	(634,248)	179,938	380,143	(325,824)	23,586	(376,405)
Nonoperating Revenues (Expenses)						
Grants	114,109	65,250	-	-	-	179,359
Interest income	649	88,627	433	92	-	89,801
Inter-entity grant revenue and other	701,639	-	-	238,893	(940,532)	-
Inter-entity grants expense	(42,956)	(647,732)	-	-	690,688	-
Interest expense and debt issuance costs	(82,723)	(16,479)	(201,200)	(86,400)	70,468	(316,334)
Net nonoperating revenues (expense)	690,718	(510,334)	(200,767)	152,585	(179,376)	(47,174)
Change in net position	56,470	(330,396)	179,376	(173,239)	(155,790)	(423,579)
Net position, beginning of year	5,978,723	4,633,964	1,192,027	125,512	(2,027,032)	9,903,194
Net position, end of year	<u>\$ 6,035,193</u>	<u>\$ 4,303,568</u>	<u>\$ 1,371,403</u>	<u>\$ (47,727)</u>	<u>\$ (2,182,822)</u>	<u>\$ 9,479,615</u>

The following is the condensed statement of net position at December 31, 2020:

	Historic Seattle	Foundation	Cadillac Rehabilitation LLC	Washington Hall QALICB	Eliminations	Total December 31, 2020
Assets						
Current assets	\$ 633,343	\$ 890,370	\$ 423,454	\$ 140,953	\$ -	\$ 2,088,120
Noncurrent assets	398,642	5,981,400	-	90,028	-	6,470,070
Noncurrent assets, inter-entity	5,080,576	50,000	-	-	(5,130,576)	-
Capital assets, net	4,201,814	6,400	5,798,641	8,541,850	(835,006)	17,713,699
Total assets	<u>\$ 10,314,375</u>	<u>\$ 6,928,170</u>	<u>\$ 6,222,095</u>	<u>\$ 8,772,831</u>	<u>\$ (5,965,582)</u>	<u>\$ 26,271,889</u>
Liabilities and Net Position						
Current liabilities	\$ 329,359	\$ 6,858	\$ 284,404	\$ 7,319	\$ -	\$ 627,940
Long-term liabilities	3,956,293	-	3,144,462	8,640,000	-	15,740,755
Long-term liabilities, inter-entity	50,000	2,287,348	1,601,202	-	(3,938,550)	-
Total liabilities	4,335,652	2,294,206	5,030,068	8,647,319	(3,938,550)	16,368,695
Net position						
Invested in capital assets, net of related debt	118,340	6,400	1,293,208	(36,887)	835,006	2,216,067
Restricted	-	404,382	-	-	-	404,382
Unrestricted	5,860,383	4,223,182	(101,181)	162,399	(2,862,038)	7,282,745
Total net position	5,978,723	4,633,964	1,192,027	125,512	(2,027,032)	9,903,194
Total liabilities and net position	<u>\$ 10,314,375</u>	<u>\$ 6,928,170</u>	<u>\$ 6,222,095</u>	<u>\$ 8,772,831</u>	<u>\$ (5,965,582)</u>	<u>\$ 26,271,889</u>

HISTORIC SEATTLE PRESERVATION AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

The following is the condensed statement of revenues, expenses, and changes in fund net position for the year ended December 31, 2020:

	Historic Seattle	Foundation	Cadillac Rehabilitation LLC	Washington Hall QALICB	Eliminations	Total December 31, 2020
Operating Revenues (Expenses)						
Rents	\$ 1,743,934	\$ -	\$ 758,143	\$ 52,052	\$ -	\$ 2,554,129
Consulting fees	17,599	-	-	-	-	17,599
Inter-entity management fees	57,813	-	-	-	(57,813)	-
Event and membership dues	235	32,160	-	-	-	32,395
Operating grants	58,565	148,891	-	-	-	207,456
Other revenues	14,082	2,224	-	-	-	16,306
Depreciation	(315,776)	-	(234,882)	(197,714)	23,576	(724,796)
Other operating expenses	(1,894,933)	(61,205)	(131,377)	(178,752)	57,813	(2,208,454)
Net operating gain (loss)	(318,481)	122,070	391,884	(324,414)	23,576	(105,365)
Nonoperating Revenues (Expenses)						
Grants	104,547	100,884	-	-	-	205,431
Interest income	1,042	89,205	533	209	-	90,989
Inter-entity grant revenue and other	440,484	-	-	215,360	(655,844)	-
Inter-entity grants expense	(85,910)	(304,406)	-	-	390,316	-
Loss on disposal of capital assets	(17,423)	-	-	-	-	(17,423)
Interest expense and debt issuance costs	(85,613)	(32,888)	(219,875)	(86,400)	92,986	(331,790)
Net nonoperating revenues (expense)	357,127	(147,205)	(219,342)	129,169	(172,542)	(52,793)
Change in net position	38,646	(25,135)	172,542	(195,245)	(148,966)	(158,158)
Net position, beginning of year	5,940,077	4,659,099	1,019,485	320,757	(1,878,066)	10,061,352
Net position, end of year	<u>\$ 5,978,723</u>	<u>\$ 4,633,964</u>	<u>\$ 1,192,027</u>	<u>\$ 125,512</u>	<u>\$ (2,027,032)</u>	<u>\$ 9,903,194</u>

**SUPPLEMENTAL REPORT IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

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 of
Historic Seattle Preservation and Development Authority
Seattle, Washington

We have audited, in accordance with the auditing standards generally accepted in the United States and the standards applicable to financial auditing standards generally accepted in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Historic Seattle Preservation and Development Authority (Historic Seattle) as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise Historic Seattle's basic financial statements and have issued our report thereon dated May 19, 2022.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Historic Seattle'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 Historic Seattle's internal control. Accordingly, we do not express an opinion on the effectiveness of Historic Seattle's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management of employees, on 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 controls, 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 weakness. However, material weaknesses may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Historic Seattle'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*.

Amanda O'Rourke, CPA
Matt Smith, CPA
Claire Chow, CPA
Jason Mallon, CPA



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.

Greenwood Ohlund

Seattle, Washington
May 19, 2022