



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

October 16, 2023

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, 2022 and 2021. 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, 2022 and 2021

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Amanda O'Rourke, CPA
Matt Smith, CPA
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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, 2022 and 2021, 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, 2022 and 2021, 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 Regarding Unwind of New Markets Tax Credits

As discussed in Note 1 to the financial statements, Historic Seattle and a certain lender (making up two loans totaling \$8,640,000 as of December 31, 2021), executed a put option in 2022 (the end of the recapture and compliance period of the New Markets Tax Credits). As a result, Historic Seattle purchased the lenders' interest in the loans (held at Twain Investment Fund 81, LLC, the Investment Fund) for \$1,000 and simultaneously cancelled a loan receivable of \$5,981,400 from the Investment Fund and also the two loans payable to lenders, resulting in a gain on tax credit unwind of \$2,658,600.

Our opinion is not modified with respect to this matter.

Emphasis of a Matter Regarding Change in Accounting Principle

As described in Note 1 to the financial statements, in 2022, Historic Seattle Adopted new accounting guidance, GASB Statement No. 87, Leases. Our opinion is not modified with respect to this matter.

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 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, 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
Andrew Van Ness, CPA



Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 20, 2023 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
April 20, 2023

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, 2022.

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 forces creating a turbulent real estate market, the threat to Seattle's historic built environment continued to be intense. In the face of long-standing and newly emergent challenges, Historic Seattle continued to effectively advocate for the preservation of historic structures throughout 2022. The organization offered compelling programs focused on diverse topics to both dedicated and new audience members. In addition to the purchase of the Garden House on Beacon Hill at the close of 2021, in 2022, Historic Seattle purchased a managing interest in yet another property, the Good Arts Building in Pioneer Square. In order to extend and amplify our advocacy influence, broaden our array of education programs and maintain our properties, Historic Seattle continued to grow philanthropic support and expand our communications reach. Historic Seattle continued an upward trend of improvement yielding an increase in organizational effectiveness and relevance.

ADVOCACY

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

In February, Historic Seattle and our community partners conducted our annual HeartBomb showing our love and affection for unreinforced masonry (URM) buildings throughout Seattle. We called upon the public to create special Valentines in support of the protection and investment in URMs. We successfully drew attention to this public safety/historic preservation issue and encouraged the Mayor and City Council to continue their work to address it. On Valentine's Day, the City Council issued a unanimous proclamation, noting: "...Significant cultural and architectural Unreinforced Masonry (URM) buildings are some of Seattle's most beloved community gathering places, the sweethearts, and icons of many neighborhoods. On this Valentine's Day, the Seattle City Council is pledging its adoration for our architectural and cultural past while reimagining the future with safe, seismically upgraded masonry buildings."

Our HeartBomb advocacy effort has successfully brought people together and has raised awareness about cherished historic buildings in Seattle. In previous years, Historic Seattle staff and the community have highlighted their love for Key Arena, The Showbox, C&P Coffee, and Bush Garden.

HISTORIC SEATTLE PRESERVATION AND DEVELOPMENT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our advocacy efforts also focused on preserving several properties of importance throughout the City including, but not limited to, the Wilshire Building at 229 Broadway East, the Caroline Horton House at 627 14th Avenue East, and the Steinhart Theriault and Anderson Building at 1264 Eastlake Avenue East. Staff continued their advocacy efforts to protect Freeway Park designed by Lawrence Halprin, Fire Station #26 in the South Park neighborhood, Battelle/Talaris in the Laurelhurst neighborhood and the Elephant Car Wash Sign in the South Lake Union neighborhood. Staff also continued grassroots efforts to save the Bush Garden property at 614 Maynard in the Seattle Chinatown International District, and the Third Church of Christ, Scientist building at 4740 17th Avenue Northeast in the University District.

Throughout 2022 whenever a meaningful historic property in Seattle was threatened with demolition, our advocacy team utilized timely and accurate communication with concerned constituents, expert legal opinion from counsel, and extensive knowledge of the City of Seattle's Landmarks Ordinance to make a definitive impact.

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 Arts Building, Good Shepherd Center, Phillips House, Victorian Row Apartments, Garden House, and Washington Hall.

Historic Seattle staff continued to make the necessary operational adjustments in response to the lasting impacts from the COVID-19 pandemic. COVID-19 continued to curtail the ability of our anchors partners at Washington Hall to continue their capacity and operations growth since the project was substantially completed in 2016. Use and re-activation of other community space within Historic Seattle's portfolio was slow to rebound in 2022. Vacancy rates at Historic Seattle's affordable housing properties remained abnormally high compared to pre-pandemic levels.

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, BuildingWork, 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. Throughout 2022, Historic Seattle worked tirelessly to assemble additional sources of grant funding to satisfy the 2:1 match requirement of Heritage Capital. Staff also completed hazardous materials testing at the Good Shepherd Center in advance of the seismic retrofit project.

After many months of negotiation and conversation with Seattle Parks and Recreation (SPR), Historic Seattle staff successfully closed on the sale of the easement at the Garden House (2336 15th Avenue South) in the Beacon Hill neighborhood of Seattle. Historic Seattle utilized our line of credit to underwrite the \$2M purchase in 2021. Historic Seattle sold an easement to SPR, in 2022, removing the development rights from the north and south parcels adjacent to the house. SPR used Conservation Futures Tax (CFT) Levy funds for this purchase. Historic Seattle combined these CFT-sourced sales proceeds with a grant from the City of Seattle's Department of Neighborhoods to pay off the line of credit. Historic Seattle also used these funds to retain the services of Rolluda Architects to assist with community engagement, and plan for initial and future repairs to the house.

Rolluda Architects helped Historic Seattle staff plan for initial, Phase 1, repairs to the building including replacement of deteriorated porch flooring on the west elevation and upgrades to the electrical system.

HISTORIC SEATTLE PRESERVATION AND DEVELOPMENT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

The firm also helped to develop a scope of work and budget for another grant application submitted to the Heritage Capital Program. This \$1M application, approved and recommended by the Program's grant panel will be earmarked for Phase 2 repairs that will include restoration of the exterior envelope, roof replacement, ADA upgrades, interior finish restoration, and site upgrades. Rolluda also helped Historic Seattle engage community members to help identify a community-centric use for the building.

In addition to the planning and programming of the Garden House, Historic Seattle became the majority shareholder in Good Arts LLC, the owner of the Good Arts Building, historically named Scheuerman Building, located at 110 Cherry Street in Pioneer Square. The mission of Good Arts LLC is to preserve and expand the presence of the creative class in Pioneer Square by responsibly renovating and operating the Good Arts Building specifically to supply affordable space for creation, promotion, and exhibition of a broad range of artistic endeavors. Historic Seattle staff quickly assumed responsibility for leasing, property management, maintenance, tenant relations, capital project management, accounts receivable and payable. The Good Arts Building provides Historic Seattle with an opportunity to quickly share in a mission-driven partnership that embodies our mission of saving meaningful places to foster lively communities.

Incorporating two new buildings into the portfolio within the calendar year, while maintaining and stewarding the existing properties was a noteworthy achievement by staff.

EDUCATIONAL PROGRAMMING

The lasting impact of 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. While adhering to King County Health guidelines, staff also offered in-person education opportunities and consistently adapted to changing COVID policies and procedures in alignment with host venues, program partners, and the community.

On two separate occasions throughout the year, Historic Seattle welcome constituents and supporters to the Dearborn House for refreshments, conversation, and updates from staff on recent initiatives and organizational efforts.

In February, staff highlighted a handful of 2020 and 2021 Preservation Award Winners. The education series ran through March and included both virtual and in-person events. Program attendees were exposed to the in-depth stories from those responsible for the rehabilitation of University Heights Center in the University District, Town Hall Seattle on First Hill, and Building 9 in Magnuson Park, The Lodge at St. Edward Park in Kenmore, and Wa Na Wari in Seattle's Central District. We also toured the Stone Cottage in West Seattle and learned about community advocacy efforts to save this unique structure. Carrying the advocacy theme forward, throughout April and into early May, we offered a four-part virtual Preservation Advocacy Workshop series. This program focused on tools and strategies for landmarking properties, a session dedicated to landmarking properties within King County, and a session highlighting the City of Seattle Landmark process. Our final workshop offered tips and resources on researching and writing landmark nominations.

In May, Historic Seattle welcomed jazz historian, Ken Steiner, to Washington Hall. Mr. Steiner discussed the evolution of jazz in Seattle and the pivotal role that the Hall has played in the local jazz and music scene since it was built in 1908. The program was framed with a performance by Stephanie Trick and Paolo Alderighi, pioneers of four-hands, jazz piano, and the always inspiring Garfield High School Jazz Band.

HISTORIC SEATTLE PRESERVATION AND DEVELOPMENT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Also in May, in partnership with the Black Heritage Society of Washington State, we discussed the tireless community advocacy effort to preserve The People's Wall, a mural created by artist Dion Henderson in the early 1970's. Commissioned by the Seattle Chapter of the Black Panthers, The People's Wall pays tribute to the life and legacy of the Black Panther Party. The Wall is all that remains of the Black Panther Party headquarters formerly at the corner of 20th Ave. and E. Spruce Street.

In June, Historic Seattle staff opened the newly purchased Garden House on Seattle's Beacon Hill and welcomed community members. For decades, the Garden House served as a hub for community activities. In coordination with Rolluda Architects and Rise LWP (Historic Seattle's diversity, equity, inclusion, and accessibility consultant), Historic Seattle staff engaged the Beacon Hill community and asked for timely and inspirational use ideas. By the conclusion of the event, a community-centric program began to take shape.

In July, in partnership with the Vashon-Maury Island Heritage Association, Historic Seattle offered a virtual program exploring the historically and culturally significant sites of Vashon-Maury Island. Virtual tour stops includes the Vashon Heritage Museum, the Mukai House and Garden, the Vashon Center for the Arts, Dockton Trail and the Point Robinson Light.

COMMUNITY AFFAIRS

Historic Seattle continued to internally adapt to the stark realities of the aftermath of the COVID-19 pandemic. Staff and donors also recognized the continued 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, through the generosity of donors, staff continued to offer tenants access to an emergency rent relief fund.

Historic Seattle celebrated the well-deserved preservation victories of others in 2022 via our "Preservation Celebration." The 2022 Preservation Award winners were the Frye Hotel & Bremer Apartments (Outstanding Stewardship), The Soul Pole (Preserving Neighborhood Character), University National Bank (Community Investment), Dr. James W. Washington Jr. & Mrs. Janie Rogella Washington Foundation (Community Advocacy), Lorne McConachie (Beth Chave Award for Preservation Champion), and Queen Anne Exchange (Best Preservation Project).

The event was emceed by writer, podcaster, and historian, Brad Holden. Mr. Holden is a columnist for Seattle Magazine, the Seattle Times, and contributing writer to HistoryLink.org. Musical performers were Daniel Pak and Chava Mirel.

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. Our focused communications strategy, with attention to combining timely advocacy issues and organizational successes with fundraising appeals and programming updates, continued to yield successful results through 2022. Not only did Historic Seattle offer timely and relevant monthly e-news with updates about our own organization, but additional attention was paid to the efforts, endeavors, and offerings of other organizations including our tenants, partners, and peer organizations. Through our website and social media platforms (Facebook, Instagram, Twitter and the Preservation in Progress blog), we continued to emphasize that historic preservation is not just about saving buildings. By highlighting the work of others, we were able to emphasize the important connection between people and place.

HISTORIC SEATTLE PRESERVATION AND DEVELOPMENT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 2022, these organizations included the National Preservation Partners Network, National Trust for Historic Preservation, State of Washington Department of Archeology and Historic Preservation, Capitol Hill Historical Society, Washington Trust for Historic Preservation, the City of Seattle, King County Historic Preservation Program, Buffalo Soldiers Museum, Friends of Mukai, 4Culture, Seattle City Light, the Georgetown Steam Plant Community Development Authority, Friends of the Pike Place Market, Seattle Department of Transportation, Seattle Parks and Recreation, the University of Washington, DOCOMOMO WEWA, Preservation Austin, Townsite Community Land Trust, Fort Worden PDA, Puyallup Tribe of Indians, and the National Park Service.

INTERNAL IMPROVEMENTS

Throughout 2022, Historic Seattle Staff, Council and Board diligently worked to improve organizational effectiveness and efficiency. Highlights include the following:

Charter Changes

Historic Seattle PDA Council and Constituency voted to approve a variety of changes to Historic Seattle's Charter. These changes included, but were not limited to the following: use of gender neutral pronouns within the Charter, elimination of membership dues, updating language throughout the Charter to mirror current Seattle Municipal Code, and increase in the number of seats on the Historic Seattle PDA Council from 12 to 18.

Key Performance Indicators

Staff reviewed the goals and specific tactics outlined within our 5-year strategic plan and created measurable key performance indicators (KPI) used to gauge annual progress and effectiveness. Staff tracked and measured activities throughout 2022 and measured impacts vs. goals established for the year in Q4 2021. These indicators will help to establish goals through the conclusion of the strategic plan in December 2023.

Diversity, Equity, Inclusion, and Accessibility (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. Throughout 2022, we continued to focus on external engagement with diverse communities, and improved internal practices, procedures, and policies. We continued to understand that to truly earn the name "Historic Seattle" we must preserve meaningful places that embody the rich history and vibrancy of all Seattleites. In 2022, with the assistance from a consultant, Rise LWP, we began to implement policies, initiatives, and practices to address historic inequities in Historic Seattle's business practices and areas of focus. Implementation included review (with Council adoption in 2023) of changes to the Historic Seattle PDA Employee Handbook, implementation of an engagement plan used to identify community use and programming of the Garden House, and the presentation of a series of DEIA focused workshops for staff and Council members.

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.

HISTORIC SEATTLE PRESERVATION AND DEVELOPMENT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

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.

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 12 through 14.

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.

HISTORIC SEATTLE PRESERVATION AND DEVELOPMENT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS

	2022	2021	2020*
Current Assets	\$ 2,734,311	\$ 2,339,072	\$ 2,060,674
Noncurrent Assets	13,705,986	19,899,755	6,470,070
Capital Assets, net	18,139,565	19,386,377	17,713,699
Total assets	34,579,862	41,625,204	26,244,443
Current Liabilities	886,609	1,330,668	600,494
Long-Term Liabilities	6,714,503	16,501,676	15,740,755
Total liabilities	7,601,112	17,832,344	16,341,249
Deferred Inflows of Resources	13,179,282	14,313,245	-
Net Position			
Invested in capital assets, net of related debt	11,979,621	2,488,139	2,216,067
Restricted	517,133	148,414	404,382
Unrestricted	1,302,714	6,843,062	7,282,745
Total net position	\$ 13,799,468	\$ 9,479,615	\$ 9,903,194

* Historic Seattle has not estimated the impact of GASB Statement No. 87, Leases, on its assets, liabilities, deferred inflows of resources, and net position as of December 31, 2020. Historic Seattle recognized significant assets and deferred inflows of resources as of December 31, 2022 and 2021 as the result of GASB Statement No. 87, Leases, causing the large increases in these years from 2020.

The assets of Historic Seattle consist primarily of capital assets, its buildings and building improvements. This is consistent with Historic Seattle's mission to save meaningful places to foster lively communities. Capital assets are shown net of depreciation. Other assets include cash reserves for repairs and replacements and restricted cash.

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 6 for a more complete discussion.

The difference between total assets and total liabilities, net position, is one indicator of financial health. Net position increased by \$4,319,853 in 2022 and decreased by \$423,579 in 2021. The significant increase in 2022 is primarily the result of a gain on sale of an easement, and net gain on the unwind of the New Markets Tax Credit project.

HISTORIC SEATTLE PRESERVATION AND DEVELOPMENT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

The results of operations for Historic Seattle are presented below:

	2022	2021	2020
Operating Revenues	\$ 3,773,426	\$ 2,763,206	\$ 2,827,885
Operating Expenses	(3,460,096)	(3,139,611)	(2,933,250)
Change in net position from operations	313,330	(376,405)	(105,365)
Nonoperating Revenues and Expenses, net	574,943	(47,174)	(52,793)
Gain on sale of easement	772,980	-	-
Gain on tax credit unwind	2,658,600	-	-
Change in net position	\$ 4,319,853	\$ (423,579)	\$ (158,158)

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, 2022 and 2021, amounts to \$18,139,565 and \$19,386,377, 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 4.

Historic Seattle's real estate activity is financed, in part, by long-term debt secured by real estate. Historic Seattle had \$6,606,664 and \$17,114,287 of outstanding debt at December 31, 2022 and 2021, respectively. Additional information on Historic Seattle's debt can be found in Note 6.

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, 2022 and 2021

ASSETS	2022	2021
Current Assets		
Cash and cash equivalents	\$ 1,671,589	\$ 1,218,418
Security deposits	65,618	65,176
Accounts receivable	185,968	180,685
Contributions receivable	64,020	58,502
Current portion of leases receivable	725,792	758,012
Prepaid expenses and other assets	21,324	58,279
Total current assets	2,734,311	2,339,072
Reserves	340,166	336,463
Restricted Cash	-	26,659
Note Receivable	-	5,981,400
Leases Receivable, net of discount and current portion	12,853,252	13,555,233
Equity Method Investment - Good Arts LLC	512,568	-
Capital Assets, net of depreciation	18,139,565	19,386,377
Total assets	\$ 34,579,862	\$ 41,625,204
LIABILITIES AND NET POSITION		
Current Liabilities		
Accounts payable	\$ 314,279	\$ 53,563
Accrued expenses	88,017	79,230
Security deposits	65,618	65,176
Prepaid event fees and other	61,446	66,730
Current portion of notes payable	357,249	1,065,969
Total current liabilities	886,609	1,330,668
Deferred Interest	465,088	453,358
Notes Payable, net of current portion	6,249,415	16,048,318
Total liabilities	7,601,112	17,832,344
Deferred Inflow of Resources		
Deferred inflow of resources - leases	13,179,282	14,313,245
Net Position		
Invested in capital assets, net of related debt	11,979,621	2,488,139
Restricted	517,133	148,414
Unrestricted	1,302,714	6,843,062
Total net position	13,799,468	9,479,615
Total liabilities, deferred inflows and net position	\$ 34,579,862	\$ 41,625,204

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, 2022 and 2021

	2022	2021
Operating Revenues		
Lease revenue	\$ 2,579,719	\$ 2,409,870
Interest income - leases	556,380	-
Consulting fees	47,543	13,217
Event and membership dues	25,750	27,810
Operating grants	524,320	270,768
Other revenue	39,714	41,541
Total operating revenues	3,773,426	2,763,206
Operating Expenses		
Salaries, benefits, and taxes	1,271,696	1,226,145
Depreciation	715,414	718,650
Maintenance and utilities	688,099	546,690
Office expense and other	269,521	186,729
Property and asset management fees	215,561	195,981
Insurance and taxes	151,765	136,471
Professional fees	90,158	94,819
Event expense	39,004	31,521
Bad debts	15,043	-
Conference and training	3,835	2,605
Total operating expenses	3,460,096	3,139,611
Change in net position from operations	313,330	(376,405)
Nonoperating Revenues (Expenses)		
Grants	886,023	179,359
Interest income	41,163	89,801
Gain on equity method investment	1,571	-
Gain on sale of easement	772,980	-
Gain on tax credit unwind	2,658,600	-
Interest expense and debt issuance costs	(353,814)	(316,334)
Net nonoperating revenues (expenses)	4,006,523	(47,174)
Change in net position	4,319,853	(423,579)
Net Position, beginning of year	9,479,615	9,903,194
Net Position, end of year	\$ 13,799,468	\$ 9,479,615

See accompanying notes to financial statements.

HISTORIC SEATTLE PRESERVATION AND DEVELOPMENT AUTHORITY

STATEMENTS OF CASH FLOWS For the Years Ended December 31, 2022 and 2021

	2022	2021
Cash Flows from Operating Activities		
Receipts from tenants	\$ 2,725,770	\$ 2,421,082
Receipts from donors	518,802	343,997
Receipts from members and customers	113,007	82,568
Payments to suppliers	(1,458,106)	(1,185,562)
Payments to employees	(1,262,909)	(1,228,532)
Net cash flows from operating activities	636,564	433,553
Cash Flows from Noncapital Financing Activity		
Receipts from donors	886,023	179,359
Cash Flows from Capital and Financing Activities		
Payments for capital assets purchases	(255,331)	(2,391,328)
Proceeds from sale of capital asset	1,842,500	-
Proceeds from issuance of note payable	1,000,000	1,800,000
Payments on notes payable	(2,867,623)	(342,902)
Interest and debt issuance costs paid	(342,084)	(304,604)
Net cash flows from capital and financing activities	(622,538)	(1,238,834)
Cash Flows from Investing Activities		
Withdrawals from restricted cash, net	26,659	34,604
Withdrawals from reserves, net	(3,703)	90,944
Purchase of equity method investment - Good Arts LLC	(510,997)	-
Interest received	41,163	89,801
Net cash flows from investing activities	(446,878)	215,349
Net change in cash and cash equivalents	453,171	(410,573)
Cash and Cash Equivalents, beginning of the year	1,218,418	1,628,991
Cash and Cash Equivalents, end of the year	<u>\$ 1,671,589</u>	<u>\$ 1,218,418</u>
Reconciliation of Change in Net Position to Net Cash Provided from Operating Activities		
Change in net position from operations	\$ 313,330	\$ (376,405)
Adjustments to reconcile change in net position from operations to net cash provided by operating activities:		
Depreciation	715,414	718,650
Bad debts	15,043	-
Change in operating assets and liabilities and deferred inflows:		
Accounts and contributions receivable	(25,844)	72,329
Leases receivable	734,201	-
Prepaid expenses, other assets, and inventory	36,513	24,158
Accounts payable and accrued expenses	(12,846)	(17,291)
Prepaid event fees and other	(5,284)	12,112
Deferred inflows of resources - leases	(1,133,963)	-
Net cash flows from operating activities	<u>\$ 636,564</u>	<u>\$ 433,553</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.

New Markets Tax Credits and Unwind

Washington Hall QALICB was formed in April 2015, in conjunction with the New Markets Tax Credit financing transaction that closed on June 17, 2015. Washington Hall QALICB was formed for the purpose of facilitating the NMTC transaction as a Qualified Active Low Income Community Business (QALICB). 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.

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) (a note receivable at December 31, 2021). 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 6). 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 executed a put option in 2022, which took place at the end of the seven-year period. Under the put option, U.S. Bancorp CDC sold its interest in the QEI for \$1,000 to the Foundation. Simultaneously, the Foundation cancelled its note receivable from the Investment Fund and loans payable from Washington Hall QALICB, resulting in a gain on unwind of \$2,658,600.

HISTORIC SEATTLE PRESERVATION AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

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.

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:

	2022	2021
Restoration projects	\$ 486,124	\$ 139,218
Other projects	31,009	5,670
Rent relief	-	3,526
	<u>\$ 517,133</u>	<u>\$ 148,414</u>

Unrestricted Net Position

All net position not reported in other categories.

HISTORIC SEATTLE PRESERVATION AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

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, 2022 and 2021 was \$65,618 and \$65,176, respectively.

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 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 2022 and 2021.

During the year ended December 31, 2022, Historic Seattle sold a perpetual easement with a land cost basis of \$1,069,520 for \$1,842,500, resulting in a gain on sale of easement of \$772,980.

Equity Method Investment – Good Arts LLC

Historic Seattle has an equity method investment in Good Arts LLC (Good Arts), a limited liability partnership located in Seattle, Washington. Historic Seattle's investment was purchased in 2022 for \$510,997 and represents a 50.15% ownership interest in Good Arts. Good Arts holds historic property and generates rental income from commercial tenants.

The carrying value of the investment as of December 31, 2022 was \$512,568. The carrying value was determined using the equity method of accounting, whereby the carrying value is adjusted to reflect the Historic Seattle's proportionate share of Good Arts' net income or loss. During the year ended December 31, 2022, Good Arts reported net income of \$3,132. There were no capital contributions or distributions to or from Good Arts during the year ended December 31, 2022.

HISTORIC SEATTLE PRESERVATION AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

The fair value of the investment is not readily determinable as there is no active market for the investment and Good Arts is not publicly traded. Historic Seattle has assessed the investment for impairment and determined that there is no impairment as of December 31, 2022. Historic Seattle will continue to monitor the investment for impairment in future periods.

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.

Recently Adopted Accounting Standards

GASB Statement No. 87, *Leases*, requires lessors to recognize leases on the statement of financial position and disclose key information about leasing arrangements. The new standard requires a lessor to recognize a lease receivable and deferred inflow of resources on the statements of net position for all leases with a term longer than 12 months. This new standard increases transparency and comparability among governmental agencies.

The most prominent change required by the standard is the recognition of lease receivables and deferred inflow of resources by lessors for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

On January 1, 2022, Historic Seattle adopted the lease accounting standard and has elected to apply the provisions of this standard to the beginning of the period of adoption using a retrospective method of application to all leases existing on January 1, 2022. The adoption of this standard did not result in an adjustment to beginning net assets, however, resulted in the recognition of leases receivable and deferred inflows of resources – leases of \$14,313,245 at December 31, 2021.

Revenue Recognition - Leases

Historic Seattle (the lessor) has operating leases with residential and commercial tenants. 30% and 40% of total operating revenues were earned from two tenants during the years ended December 31, 2022 and 2021, respectively.

Historic Seattle determines if an arrangement is a lease at inception. Operating leases are included in leases receivable and deferred inflows of resources in the statements of net position.

HISTORIC SEATTLE PRESERVATION AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Leases receivable represent Historic Seattle's right to future lease payments from the lessee for the lease term, and deferred inflows of resources – leases, represent Historic Seattle's obligation to provide leased space arising from the lease. Leases receivable and deferred inflows of resources – leases, are recognized at the lease commencement date based on the present value of lease payments over the lease term. Lease terms may include options to extend or terminate the lease when it is reasonably certain that the lessee will exercise that option. Lease revenue from operating lease payments is recognized on a straight-line basis over the lease term.

Historic Seattle has elected to recognize payments for short-term leases with terms of 12 months or less as revenue as received, and these leases are not included as leases receivable or deferred inflows of resources - leases on the statements of net position. The individual lease contracts do not provide information about the discount rate implicit in the lease. Therefore, Historic has elected to use a risk-free discount rate determined using a period comparable with that of the lease term for computing the present value of lease liabilities.

The Organization has elected not to separate non-lease components from lease components and instead accounts for each separate lease component and the non-lease component as a single lease component.

Other Revenues and Receivables

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, 2022 and 2021. Accordingly, no allowance for doubtful accounts has been recorded.

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, 2022 and 2021 was \$340,166 and \$336,463, respectively.

HISTORIC SEATTLE PRESERVATION AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Note 3 – Restricted Cash

In accordance with the New Markets Tax Credit financing, Washington Hall QALICB was required to maintain fee and expense restricted cash accounts during the seven-year New Markets Tax Credit compliance period. As disclosed in Note 1, the New Markets Tax Credit period matured in 2022, and all remaining restricted balances were released from restriction.

Note 4 – Capital Assets

Capital asset activity consisted of the following for 2022 and 2021:

	December 31, 2021	Additions	Retirements and Transfers	December 31, 2022
Buildings	\$ 27,141,993	\$ 450,821	\$ -	\$ 27,592,814
Furniture and equipment	203,425	-	-	203,425
Accumulated depreciation	(12,720,276)	(715,414)	-	(13,435,690)
	14,625,142	(264,593)	-	14,360,549
Nondepreciable assets				
Land	4,519,333	-	(1,069,520)	3,449,813
Historical artifacts and preservation easement	66,946	-	-	66,946
Construction in progress	174,956	118,844	(31,543)	262,257
Capital assets, net	<u>\$ 19,386,377</u>	<u>\$ (145,749)</u>	<u>\$ (1,101,063)</u>	<u>\$ 18,139,565</u>
	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>

HISTORIC SEATTLE PRESERVATION AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Note 5 – Operating 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.

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, 2022 was \$29,301,249 and \$17,002,291, respectively.

Minimum rentals to be received from noncancelable operating leases from all leased properties (with weighted average imputed interest of 4.0%) are as follows for the years ending December 31:

	Principal	Interest	Total
2023	\$ 725,792	\$ 535,108	\$ 1,260,900
2024	752,077	521,675	1,273,752
2025	638,556	469,554	1,108,110
2026	90,498	456,858	547,356
2027	111,150	452,862	564,012
2028-2032	915,730	2,172,578	3,088,308
2033-2037	1,520,577	1,930,107	3,450,684
2038-2042	2,419,828	1,544,372	3,964,200
2043-2047	3,650,620	944,960	4,595,580
2048-2050	2,754,216	165,560	2,919,776
	<u>\$ 13,579,044</u>	<u>\$ 9,193,634</u>	<u>\$ 22,772,678</u>

HISTORIC SEATTLE PRESERVATION AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Leases receivable are presented in the statements of net position as follows at December 31:

	2022	2021
Leases receivable (current assets)	\$ 725,792	\$ 758,012
Leases receivable, net of discount and current portion	12,853,252	13,555,233
	<u>\$ 13,579,044</u>	<u>\$ 14,313,245</u>

Note 6 – Notes Payable

Notes payable are as follows at December 31:

	2022	2021
Egan House		
Note payable to Beneficial Bank; monthly payment of principal and interest of \$852 with interest rate of Five Year Treasury Constant Maturity plus 2.75%, which was 4.50% at December 31, 2022; interest rate on final payment based on Five Year Treasury Constant Maturity; matures November 15, 2027; collateralized by the Egan House	\$ 131,841	\$ 135,242
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	2,855,487	3,146,755
Good Shepherd Center		
Note payable to Key Bank. Paid in full in 2022	-	740,021
Note payable, Beneficial State Bank, issued August 30, 2022, bears interest at 4.25%; monthly payments of \$4,954 through maturity of August 2032.	994,084	-
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 6 – Notes Payable, continued

	2022	2021
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 4.50% at December 31, 2022; 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	319,333	324,994
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
Washington Hall		
Note payable (Loan A), Seattle Subsidiary Investment Fund IX, LLC, cancelled in 2022 upon Historic Seattle's purchase the lender's interest in the loan (see Note 10)	-	5,981,400
Note payable (Loan B), Seattle Subsidiary Investment Fund IX, LLC, cancelled in 2022 upon Historic Seattle's purchase the lender's interest in the loan (see Note 10)	-	2,658,600

HISTORIC SEATTLE PRESERVATION AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Note 6 – Notes Payable, continued

	2022	2021
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, 2022; with monthly principal and interest payments through maturity of April 2026; collateralized by the Dearborn House	\$ 80,224	\$ 101,580
Garden House		
Revolving line of credit with Beneficial State Bank with a maximum amount of \$2,000,000, paid in full in 2022.	-	1,800,000
Total	6,606,664	17,114,287
Less: current portion	(357,249)	(1,065,969)
	<u>\$ 6,249,415</u>	<u>\$ 16,048,318</u>

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 in compliance with its financial covenants during the year ended December 31, 2022.

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HISTORIC SEATTLE PRESERVATION AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Following are the changes in notes payable for the year ended December 31, 2022:

Note Payable	December 31, 2021	Additions	Reductions	December 31, 2022	Current Portion
Cadillac Hotel					
Beneficial State Bank	\$ 3,146,755	\$ -	\$ (291,268)	\$ 2,855,487	\$ 299,789
Egan House					
Beneficial Bank	135,242	-	(3,401)	131,841	3,011
Good Shepherd Center					
Key Bank	740,021	-	(740,021)	-	-
Beneficial State Bank	-	1,000,000	(5,916)	994,084	16,942
City of Seattle	475,299	-	-	475,299	-
Washington State	126,465	-	-	126,465	4,055
Belboy Apartments					
City of Seattle	415,087	-	-	415,087	-
Victorian Row Apartments					
City of Seattle	672,841	-	-	672,841	-
Beneficial Bank	324,994	-	(5,661)	319,333	6,943
William B. Phillips/Heg					
House Apartments					
City of Seattle	440,003	-	-	440,003	-
Washington State	96,000	-	-	96,000	4,000
Washington Hall					
Seattle Subsidiary Investment					
Fund IX, LLC	5,981,400	-	(5,981,400)	-	-
Seattle Subsidiary Investment					
Fund IX, LLC	2,658,600	-	(2,658,600)	-	-
Dearborn House					
Beneficial State Bank	101,580	-	(21,356)	80,224	22,509
Garden House					
Revolving Line of Credit	1,800,000	-	(1,800,000)	-	-
	<u>\$ 17,114,287</u>	<u>\$ 1,000,000</u>	<u>\$ (11,507,623)</u>	<u>\$ 6,606,664</u>	<u>\$ 357,249</u>

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HISTORIC SEATTLE PRESERVATION AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

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>

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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
2023	\$ 357,249	\$ 191,614
2024	373,410	176,158
2025	388,876	164,839
2026	389,063	147,635
2027	508,013	134,969
2028-2032	3,730,479	793,047
2033-2037	100,447	74,018
2038-2042	598,814	150,758
2043-2047	160,313	19,479
	<u>\$ 6,606,664</u>	<u>\$ 1,852,517</u>

Note 7 – 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, 2022. 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, 2022 the uninsured and uncollateralized cash balances totaled \$1,705,457.

Note 8 – 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 9 – 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, 2022 and 2021, no such adjustments were made.

HISTORIC SEATTLE PRESERVATION AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Note 10 – Condensed Combining Information

The following is the condensed combining information for the blended component units of Historic Seattle for the years ended December 31, 2022 and 2021.

The following is the condensed statement of net position at December 31, 2022:

	Historic Seattle	Foundation	Cadillac Rehabilitation LLC	Washington Hall QALICB	Eliminations	Total December 31, 2022
Assets						
Current assets	\$ 724,583	\$ 899,188	\$ 1,020,066	\$ 90,474	\$ -	\$ 2,734,311
Noncurrent assets	12,368,675	-	1,298,020	39,291	-	13,705,986
Noncurrent assets, inter-entity	2,622,781	-	-	-	(2,622,781)	-
Capital assets, net	5,338,914	6,400	5,334,937	8,247,157	(787,843)	18,139,565
Total assets	\$ 21,054,953	\$ 905,588	\$ 7,653,023	\$ 8,376,922	\$ (3,410,624)	\$ 34,579,862
Liabilities and Net Position						
Current liabilities	\$ 546,865	\$ 3,490	\$ 317,051	\$ 19,203	\$ -	\$ 886,609
Long-term liabilities	4,158,805	-	2,555,698	-	-	6,714,503
Long-term liabilities, inter-entity	-	-	1,251,378	-	(1,251,378)	-
Total liabilities	4,705,670	3,490	4,124,127	19,203	(1,251,378)	7,601,112
Deferred inflow of resources - leases	11,200,403	-	1,978,879	-	-	13,179,282
Net position						
Invested in capital assets, net of related debt	1,122,649	6,400	1,815,572	8,247,157	787,843	11,979,621
Restricted	-	517,133	-	-	-	517,133
Unrestricted	4,026,231	378,565	(265,555)	110,562	(2,947,089)	1,302,714
Total net position	5,148,880	902,098	1,550,017	8,357,719	(2,159,246)	13,799,468
Total liabilities, deferred inflows and net position	\$ 21,054,953	\$ 905,588	\$ 7,653,023	\$ 8,376,922	\$ (3,410,624)	\$ 34,579,862

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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, 2022:

	Historic Seattle	Foundation	Cadillac Rehabilitation LLC	Washington Hall QALICB	Eliminations	Total December 31, 2022
Operating Revenues (Expenses)						
Lease revenue	\$ 1,737,812	\$ -	\$ 718,279	\$ 123,628	\$ -	\$ 2,579,719
Interest income - leases	463,398	-	92,982	-	-	556,380
Consulting fees	47,543	-	-	-	-	47,543
Inter-entity management fees	58,465	-	-	-	(58,465)	-
Event and membership dues	219	25,531	-	-	-	25,750
Operating grants	79,497	444,823	-	-	-	524,320
Other revenues	39,079	635	-	-	-	39,714
Depreciation	(290,845)	-	(236,095)	(212,050)	23,576	(715,414)
Other operating expenses	(2,294,561)	(116,883)	(167,622)	(224,081)	58,465	(2,744,682)
Net operating gain (loss)	(159,393)	354,106	407,544	(312,503)	23,576	313,330
Nonoperating Revenues (Expenses)						
Grants	372,504	513,519	-	-	-	886,023
Interest income	1,696	38,779	541	147	-	41,163
Gain on equity method investment	1,571	-	-	-	-	1,571
Inter-entity grant revenue and other	545,991	2,238,127	-	118,602	(2,902,720)	-
Inter-entity grants expense and other	(2,243,127)	(564,601)	(55,000)	-	2,862,728	-
Gain on sale of easement	772,980	-	-	-	-	772,980
Gain (loss) on tax credit unwind	-	(5,981,400)	-	8,640,000	-	2,658,600
Interest expense and debt issuance costs	(178,535)	-	(174,471)	(40,800)	39,992	(353,814)
Net nonoperating revenues (expense)	(726,920)	(3,755,576)	(228,930)	8,717,949	-	4,006,523
Change in net position	(886,313)	(3,401,470)	178,614	8,405,446	23,576	4,319,853
Net position, beginning of year	6,035,193	4,303,568	1,371,403	(47,727)	(2,182,822)	9,479,615
Net position, end of year	<u>\$ 5,148,880</u>	<u>\$ 902,098</u>	<u>\$ 1,550,017</u>	<u>\$ 8,357,719</u>	<u>\$ (2,159,246)</u>	<u>\$ 13,799,468</u>

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HISTORIC SEATTLE PRESERVATION AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

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	\$ 504,977	\$ 555,261	\$ 1,187,871	\$ 90,963	\$ -	\$ 2,339,072
Noncurrent assets	11,909,695	5,981,400	1,953,207	55,453	-	19,899,755
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	\$ 23,726,712	\$ 6,593,811	\$ 8,703,624	\$ 8,605,623	\$ (6,004,566)	\$ 41,625,204
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
Deferred inflow of resources - leases	11,614,773	-	2,698,472	-	-	14,313,245
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, deferred inflows and net position	\$ 23,726,712	\$ 6,593,811	\$ 8,703,624	\$ 8,605,623	\$ (6,004,566)	\$ 41,625,204

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)	-
Event and 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	\$ 6,035,193	\$ 4,303,568	\$ 1,371,403	\$ (47,727)	\$ (2,182,822)	\$ 9,479,615

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

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



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, 2022, and the related notes to the financial statements, which collectively comprise Historic Seattle's basic financial statements and have issued our report thereon dated April 20, 2023.

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
Andrew Van Ness, 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
April 20, 2023