



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

October 17, 2024

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, 2023 and 2022. 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, 2023 and 2022

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



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, 2023 and 2022, 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, 2023 and 2022, 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.

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 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.

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



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 3 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 18, 2024 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 18, 2024

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, 2023.

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.

Despite the continuation of forces creating a turbulent real estate market, the threat to Seattle's historic built environment continued to be intense. Throughout the year, Historic Seattle rose to the challenge and consistently worked to achieve our mission of saving meaningful places to foster lively communities. The organization continued to effectively advocate for the preservation of historic structures throughout 2023. Historic Seattle offered compelling programs that presented different perspectives and insights into the intersection of the cultural and built fabric of Seattle. The organization worked to maintain and invest in properties long held and recently placed within the portfolio. In addition, Historic Seattle continued to grow philanthropic support, expand our communications reach through social media and electronic channels, and diligently worked on updating our 5-year strategic plan.

ADVOCACY

Historic Seattle's advocacy skills and experience were tested throughout 2023. One highlight occurred early in the year and is a tangible example of the strategic, analytical, and leadership skills consistently delivered to the community.

Staff led an organized effort by the local preservation community to advocate for maintaining the integrity of the landmark designation process. Since 1973, the City of Seattle has designated approximately 450 landmarks that are subject to protection by the Landmarks Preservation Ordinance (LPO). In January 2023, a controversy grew over the landmarked Seattle-First National Bank Building (SFNB), located at 566 Denny Way in Seattle's Uptown neighborhood. Technically, the issue was specific to the property; however, Historic Seattle staff were not only concerned about protecting the SFNB building but the LPO in general.

The building was designated a Seattle landmark in 2006 and the exterior and site were included in the designation. The building was purchased by Walgreens in 2007 and soon after the purchase, the retail business worked with the Landmarks Preservation Board to reach a Controls and Incentives agreement in November 2021. Controls and Incentives were placed on the property to protect the landmark and allow for the owner to access incentives used to help maintain the property. The final step in the designation process is approval of the designation ordinance and adoption of the Controls and Incentives agreement by Seattle City Council.

HISTORIC SEATTLE PRESERVATION AND DEVELOPMENT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

In December 2022, the City Council's Neighborhoods, Education, Civil Rights, and Culture Committee met and questioned why the property was landmarked, questioned its significance, wondered what public benefit the landmark offered, and above all, cited the need for more housing in the neighborhood. This Committee made the recommendation to the full City Council that they reject the designating ordinance. They made this recommendation based upon an attempt to try to dictate the use of a privately owned site that was not for sale, and that had been successfully nominated and designated. In addition, the owner had agreed to the proposed controls and incentives.

Historic Seattle proactively engaged other preservation organizations and galvanized public support to urge Councilmembers to honor the LPO and designation process by passing the designating ordinance and adopting controls and incentives on the property. Historic Seattle was concerned that the removal of the agreed-upon controls and incentives would not only leave the historic property vulnerable to demolition, but it would set a bad precedent that could undermine the landmark designation process in general. The organization consistently voiced that preservation and housing are not mutually exclusive - it's both/and, not either/or. After three amendments to the original bill at the January 10 City Council meeting, a balanced solution was unanimously passed and enthusiastically supported by Historic Seattle and our preservation coalition.

This preservation victory helped to underscore that historic preservation is a public benefit in and of itself and should not be pitted against other public policies. Historic Seattle staff used this advocacy effort to also highlight that only .5% of parcels in Seattle are designated landmarks or in historic districts despite narratives offered by others that preservationists do nothing but obstruct development and are anti-density.

EDUCATION

Historic Seattle continued to offer a wide variety of education programs. The organization's offerings were delivered via different platforms and explored many topics.

On February 13, we conducted our annual HeartBomb event and proudly showed our affection for local movie theaters at The Grand Illusion Cinema in the University District. After displaying a variety of cinematically and preservation themed valentines, those in attendance settled in to view the quintessentially Seattle, grunge-focused, movie from 1992, *Singles*, directed by Cameron Crowe.

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 affection for Key Arena, The Showbox, C&P Coffee, Bush Garden, and a mixture of love (and concern) for unreinforced masonry buildings.

For several years, Historic Seattle has focused on the achievements of the previous year's award-winning projects that are recognized during our annual Preservation Awards Benefit Celebration. This program series helps to showcase and recognize the exceptional people and projects that preserve and protect Seattle's built heritage. On March 29, Historic Seattle held the first event of this series. We toured the 2022 award-winning project at the University National Bank building at 4500 University Way NE. Staff followed up this event with three additional award series programs in April. The first celebrated the community-focused achievements of the Dr. James W. Washington, Jr. & Mrs. Janie Rogella Washington Foundation. The second highlighted the housing and preservation efforts exemplified in the award-winning Frye Hotel and Bremer Apartment projects.

HISTORIC SEATTLE PRESERVATION AND DEVELOPMENT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our third event was held at the adaptively re-used Queen Anne Exchange at 1529 4th Avenue West on Queen Anne. Our fourth and final program in April highlighted the Soul Pole at the Douglas Truth Branch of the Seattle Public Library on East Yesler Way.

In May, Historic Seattle pivoted from in-person programming to a virtually presented conversation with Ken Bernstein, author of *Preserving Los Angeles*. During the one-hour program, Ken shared how historic preservation has revived Los Angeles neighborhoods, created a Downtown renaissance, and guided the future of the city. Mr. Bernstein showcased Los Angeles as a model for other cities, demonstrating how preservation can revitalize neighborhoods and build community. During the second half of the program, the City of Seattle's Historic Preservation Officer, Sarah Sodt, was joined by Historic Seattle's Advocacy team of Eugenia Woo and Jeff Murdock in a panel discussion on the preservation opportunities and challenges faced in Seattle and Los Angeles.

From early June through September, we held a series of events celebrating small businesses and artists at the Good Arts Building in Pioneer Square. A studio open house was held with '57 Biscayne and all the artist tenants on the second and third floors of the building on June 1. On June 17, we held a sake tasting with our tenant, Sake Nomi, and a poetry workshop with our tenant, A Poem Emporium, on June 30. We finished the series with a private tour of the Pioneer Square neighborhood with our tenant, Beneath the Streets, on September 6.

In August, we switched our program focus from Pioneer Square to Capitol Hill. On two consecutive weekends, Michael Landberg guided attendees on a one-hour walking tour of the neighborhood and uncovered the rich history of Seattle's queer community. The tour focused on the landmarks, bars, and community centers that played a vital role in the fight for LGBTQ+ rights and equality.

On September 16, we turned our attention to the Belltown neighborhood where we partnered with the Friends of Historic Belltown and gave a tour as part of Belltown United's summer series of neighborhood walking tours. The 90-minute program introduced attendees to the neighborhood's fascinating history and architecture. We also took the opportunity to highlight the benefits and challenges of historic preservation in the neighborhood.

We closed our 2023, public education programs in October with a presentation on the life and residential work of one of Seattle's most original artist-architects, Robert Reichert. The program was presented by Historic Seattle's Preservation Advocacy Manager, Jeff Murdock.

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.

Throughout the year staff continued to oversee required maintenance activities and manage capital improvement projects at our properties. Additional focus and energy was paid to our recently acquired properties, the Garden House on Beacon Hill, and the Good Arts Building in Pioneer Square. Both properties offered staff unique challenges and required additional time and resources.

HISTORIC SEATTLE PRESERVATION AND DEVELOPMENT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Activity and community use of our public performance spaces at Washington Hall and the meeting rooms and Chapel performance space at the Good Shepherd Center continued to slowly recover from the lasting impact of the COVID-19 pandemic. 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. Throughout 2023, Historic Seattle staff used data provided by a cost estimator and worked with our architect, BuildingWork, and structural engineer, Swenson Say Faget, to adjust the project scope to the budget. In November, after a targeted communications plan was created, staff hosted a series of meetings about the project with tenants.

At the Garden House, after completing a thorough community engagement, project visioning, and programming process, Historic Seattle entered into a lease with Work and Play Lounge, a co-working, small business. In addition to completing the programming and leasing of the property, Historic Seattle staff worked with our consultant, Rolluda Architects, to complete initial, Phase 1 repairs to the building including replacement of deteriorated porch flooring on the west elevation and upgrades to the electrical system. Our architects also worked with staff and our building tenant to develop a Phase 2 scope of work that will be paid for by a \$1M grant from the Washington State Historical Society's Heritage Capital Program. This \$1M grant will pay for ADA upgrades, the restoration of the exterior envelope, roof replacement, interior finish restoration, and site upgrades.

Throughout 2023, Historic Seattle staff became operationally acquainted with our most recent purchase, the Good Arts Building located at 110 Cherry Street in Pioneer Square. As a majority shareholder in Good Arts LLC and property manager of the building, Historic Seattle staff continued to be responsible for leasing, property management, maintenance, tenant relations, capital project management, accounts receivable and payable.

COMMUNITY AFFAIRS

On April 6, Historic Seattle welcomed constituents and supporters to the Dearborn House for the Spring Meeting. Attendees enjoyed refreshments, conversation, and updates from staff on recent initiatives and organizational efforts. In addition, a panel discussion was held with two Historic Seattle Council members on the state of historic preservation in Seattle.

Our Fall Meeting was held on November 14 in the Chapel at the Good Shepherd Center. The event was highlighted by Larry Kreisman's reflection on Historic Seattle's 50-year history of saving meaningful places to foster lively communities.

In addition to offering a very comprehensive list of education programs throughout the year, we also took the time to celebrate the work of others at Historic Seattle's 15th Annual Preservation Celebration. The second-floor ballroom of Washington Hall hosted nearly 200 people on September 28 for a sit-down dinner and remarks by emcee, Felix Banel. All in attendance also enjoyed a screening of a film celebrating Historic Seattle's 50th anniversary. During the event, Historic Seattle highlighted the well-deserved preservation victories of others in 2023. The Preservation Award winners were Byrd Barr Place (Outstanding Stewardship), The Attic Alehouse (Preserving Neighborhood Character), SIFF (Community Investment), Historic Wallingford (Community Advocacy), Dr. Dorothy Cordova and Clay Eals (Beth Chave Award for Preservation Champion), and The Labour Temple (Best Preservation Project).

HISTORIC SEATTLE PRESERVATION AND DEVELOPMENT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Throughout the year, as a supplement to our programming, our constituents received preservation-specific news, updates, and information in both print and electronic formats. Through monthly e-news, written newsletters, updates to our website, and timely posts to our social media platforms, we continued to highlight that historic preservation is not just about saving buildings. We consistently highlighted the efforts, endeavors, and offerings of other organizations including our tenants, partners, and peer organizations.

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 2023, 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, Preserve Montana, Friends of Historic Belltown, Belltown United, and the National Park Service.

INTERNAL IMPROVEMENTS

Throughout 2023, Historic Seattle Staff and Council diligently worked to improve organizational effectiveness and efficiency. Highlights include the following:

Charter Changes

Historic Seattle staff implemented the changes to the PDA Charter approved in 2022. One noteworthy effort was made to recruit new Council members to fill the newly created governance seats. The increase from 12 to 18 seats allowed for more participation, outreach, and demographic and professional diversity on the Council.

Strategic Plan Development and Key Performance Indicators

The conclusion of Historic Seattle's 5-year strategic plan occurred at the end of 2023. Beginning early in Q4, staff and Council began a discovery phase in anticipation of a new strategic plan to be written in Q1 2024. The discovery phase included peer organization interviews, one-on-one interviews with constituents, an internal survey sent to staff and Council members, and two focus groups. Early findings from this phase of work indicated that a complete overhaul of the strategic plan was not necessary. Slight revision of goals with a focus on implementation and actualization of tactics was highlighted.

Throughout 2023, staff continued to review the goals and specific tactics outlined within the strategic plan. Key performance indicators (KPI) were used to gauge annual progress and effectiveness. Staff tracked and measured activities throughout 2023 and measured impacts vs. goals established for the year in Q4 2022. These indicators helped to establish goals through the conclusion of the strategic plan in December 2023.

Diversity, Equity, Inclusion, and Accessibility (DEIA)

Historic Seattle staff and Council took deliberate individual steps to understand ways our explicit and implicit bias stifled our organization's ability to be diverse, equitable, inclusive, and accessible. Throughout 2023, 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.

HISTORIC SEATTLE PRESERVATION AND DEVELOPMENT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

In 2023, we continued to implement policies, initiatives, and practices to address historic inequities in Historic Seattle's business practices and areas of focus. Implementation included Council adoption of changes to the Historic Seattle PDA Employee Handbook, implementation of an engagement plan leading to a lease agreement at the Garden House, and a DEIA-focused workshop in support of our strategic planning work.

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.

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 11 through 13.

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

	2023	2022	2021
Current Assets	\$ 2,728,644	\$ 2,734,311	\$ 2,339,072
Noncurrent Assets	13,286,113	13,705,986	19,899,755
Capital Assets, net	17,748,694	18,139,565	19,386,377
Total assets	33,763,451	34,579,862	41,625,204
Current Liabilities	672,847	886,609	1,330,668
Long-Term Liabilities	6,347,315	6,714,503	16,501,676
Total liabilities	7,020,162	7,601,112	17,832,344
Deferred Inflows of Resources	12,376,976	13,179,282	14,313,245
Net Position			
Invested in capital assets, net of related debt	11,892,625	11,979,621	2,488,139
Restricted	442,238	517,133	148,414
Unrestricted	2,031,450	1,302,714	6,843,062
Total net position	\$ 14,366,313	\$ 13,799,468	\$ 9,479,615

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 5 for a more complete discussion.

The difference between total assets and total liabilities, net position, is one indicator of financial health. Net position increased/decreased by \$566,845 in 2023 and increased by \$4,319,853 in 2022. The significant decrease from 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 in 2022.

HISTORIC SEATTLE PRESERVATION AND DEVELOPMENT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

The results of operations for Historic Seattle are presented below:

	2023	2022	2021
Operating Revenues	\$ 3,700,464	\$ 3,773,426	\$ 2,763,206
Operating Expenses	(3,503,510)	(3,460,096)	(3,139,611)
Change in net position from operations	196,954	313,330	(376,405)
Nonoperating Revenues and Expenses, net	369,891	574,943	(47,174)
Gain on sale of easement	-	772,980	-
Gain on tax credit unwind	-	2,658,600	-
Change in net position	\$ 566,845	\$ 4,319,853	\$ (423,579)

Operating revenues are generated principally from rental income, consulting fees, as well as event income and individual donations. 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, 2023 and 2022, amounts to \$17,748,694 and \$18,139,565, 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 3.

Historic Seattle's real estate activity is financed, in part, by long-term debt secured by real estate. Historic Seattle had \$6,243,907 and \$6,606,664 of outstanding debt at December 31, 2023 and 2022, respectively. Additional information on Historic Seattle's debt can be found in Note 5.

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 98101.

HISTORIC SEATTLE PRESERVATION AND DEVELOPMENT AUTHORITY

STATEMENTS OF NET POSITION

December 31, 2023 and 2022

ASSETS	2023	2022
Current Assets		
Cash and cash equivalents	\$ 1,321,254	\$ 1,671,589
Security deposits	68,101	65,618
Accounts receivable	406,912	185,968
Contributions receivable	82,425	64,020
Current portion of leases receivable	827,088	725,792
Prepaid expenses and other assets	22,864	21,324
Total current assets	2,728,644	2,734,311
Reserves	336,000	340,166
Leases Receivable, net of discount and current portion	12,366,660	12,853,252
Equity Method Investment - Good Arts LLC	583,453	512,568
Capital Assets, net of depreciation	17,748,694	18,139,565
Total assets	<u>\$ 33,763,451</u>	<u>\$ 34,579,862</u>
LIABILITIES AND NET POSITION		
Current Liabilities		
Accounts payable	\$ 74,911	\$ 314,279
Accrued expenses	92,147	88,017
Security deposits	68,101	65,618
Prepaid event fees and other	64,278	61,446
Current portion of notes payable	373,410	357,249
Total current liabilities	672,847	886,609
Deferred Interest	476,818	465,088
Notes Payable, net of current portion	5,870,497	6,249,415
Total liabilities	7,020,162	7,601,112
Deferred Inflow of Resources		
Deferred inflow of resources - leases	12,376,976	13,179,282
Net Position		
Invested in capital assets, net of related debt	11,892,625	11,979,621
Restricted	442,238	517,133
Unrestricted	2,031,450	1,302,714
Total net position	14,366,313	13,799,468
Total liabilities, deferred inflows and net position	<u>\$ 33,763,451</u>	<u>\$ 34,579,862</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, 2023 and 2022

	2023	2022
Operating Revenues		
Lease revenue	\$ 2,749,750	\$ 2,579,719
Interest income - leases	540,243	556,380
Consulting fees	95,339	47,543
Event and program income	57,532	76,184
Operating grants	241,091	473,886
Other revenue	16,509	39,714
Total operating revenues	3,700,464	3,773,426
Operating Expenses		
Salaries, benefits, and taxes	1,379,502	1,271,696
Depreciation	722,509	715,414
Maintenance and utilities	711,756	688,099
Office expense and other	182,767	269,521
Property and asset management fees	139,029	215,561
Insurance and taxes	160,503	151,765
Professional fees	87,363	90,158
Event expense	79,706	39,004
Bad debts	39,132	15,043
Conference and training	1,243	3,835
Total operating expenses	3,503,510	3,460,096
Change in net position from operations	196,954	313,330
Nonoperating Revenues (Expenses)		
Grants	532,595	886,023
Interest income	13,546	41,163
Gain on equity method investment	38,532	1,571
Gain on sale of easement	-	772,980
Gain on tax credit unwind	-	2,658,600
Interest expense and debt issuance costs	(214,782)	(353,814)
Net nonoperating revenues (expenses)	369,891	4,006,523
Change in net position	566,845	4,319,853
Net Position, beginning of year	13,799,468	9,479,615
Net Position, end of year	\$ 14,366,313	\$ 13,799,468

See accompanying notes to financial statements.

HISTORIC SEATTLE PRESERVATION AND DEVELOPMENT AUTHORITY

STATEMENTS OF CASH FLOWS For the Years Ended December 31, 2023 and 2022

	2023	2022
Cash Flows from Operating Activities		
Receipts from tenants	\$ 2,654,871	\$ 2,725,770
Receipts from donors	222,686	518,802
Receipts from members and customers	169,380	113,007
Payments to suppliers	(1,642,407)	(1,458,106)
Payments to employees	(1,375,372)	(1,262,909)
Net cash flows from operating activities	29,158	636,564
Cash Flows from Noncapital Financing Activity		
Receipts from donors	532,595	886,023
Cash Flows from Capital and Financing Activities		
Payments for capital assets purchases	(331,638)	(255,331)
Proceeds from sale of capital asset	-	1,842,500
Proceeds from issuance of note payable	-	1,000,000
Payments on notes payable	(362,757)	(2,867,623)
Interest and debt issuance costs paid	(203,052)	(342,084)
Net cash flows from capital and financing activities	(897,447)	(622,538)
Cash Flows from Investing Activities		
Withdrawals from restricted cash, net	-	26,659
Withdrawals from reserves, net	4,166	(3,703)
Purchase of/contributions to equity method investment - Good Arts LL	(32,353)	(510,997)
Interest received	13,546	41,163
Net cash flows from investing activities	(14,641)	(446,878)
Net change in cash and cash equivalents	(350,335)	453,171
Cash and Cash Equivalents, beginning of the year	1,671,589	1,218,418
Cash and Cash Equivalents, end of the year	<u>\$ 1,321,254</u>	<u>\$ 1,671,589</u>
Reconciliation of Change in Net Position to Net Cash Provided from Operating Activities		
Change in net position from operations	\$ 196,954	\$ 313,330
Adjustments to reconcile change in net position from operations to net cash provided by operating activities:		
Depreciation	722,509	715,414
Bad debts	39,132	15,043
Change in operating assets and liabilities and deferred inflows:		
Accounts and contributions receivable	(278,481)	(25,844)
Leases receivable	791,406	734,201
Prepaid expenses, other assets, and inventory	(4,023)	36,513
Accounts payable and accrued expenses	(232,755)	(12,846)
Prepaid event fees and other	2,832	(5,284)
Deferred inflows of resources - leases	(1,208,416)	(1,133,963)
Net cash flows from operating activities	<u>\$ 29,158</u>	<u>\$ 636,564</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 (NMTC) 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). 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:

	2023	2022
Restoration projects	\$ 269,572	\$ 486,124
Other projects	172,666	31,009
	<u>\$ 442,238</u>	<u>\$ 517,133</u>

Unrestricted Net Position

All net positions 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, 2023 and 2022 was \$90,971 and \$65,618, 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 2023 and 2022.

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, 2023 and 2022, was \$583,453 and \$512,568, respectively. 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 years ended December 31, 2023, and 2022, Good Arts reported net income of \$76,834 and \$3,132, respectively. There were capital contributions of \$32,354 to Good Arts during the year ended December 31, 2023. There were no capital distributions from Good Arts during the years ended December 31, 2023 and 2022, and no capital contributions to 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, 2023 and 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.

Revenue Recognition - Leases

Historic Seattle (the lessor) has operating leases with residential and commercial tenants. 30% of total operating revenues were earned from two tenants during the years ended December 31, 2023 and 2022.

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.

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 Seattle 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.

HISTORIC SEATTLE PRESERVATION AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Other Revenues and Receivables

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

Event and program income are recognized when the event occurs or the service is performed.

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

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, 2023 and 2022, no such adjustments were made.

Conditional promises to give – that is, those with a measurable performance or barrier and a right of return – are not recognized until the conditions on which they depend have been met. Historic Seattle had approximately \$2.4 million in conditional grants awarded, of which it was notified prior to December 31, 2023, not yet recognized as revenue. The awards are conditional upon Historic Seattle performing certain measurables related to specific projects conducted by Historic Seattle.

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, 2023 and 2022. 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, 2023 and 2022 was \$336,000 and \$340,166, respectively.

HISTORIC SEATTLE PRESERVATION AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Note 3 – Capital Assets

Capital asset activity consisted of the following for 2023 and 2022:

	December 31, 2022	Additions	Retirements and Transfers	December 31, 2023
Buildings	\$ 27,592,814	\$ 238,338	\$ -	\$ 27,831,152
Furniture and equipment	203,425	-	(12,544)	190,881
Accumulated depreciation	(13,435,690)	(722,510)	-	(14,158,200)
	14,360,549	(484,172)	(12,544)	13,863,833
Nondepreciable assets				
Land	3,449,813	-	-	3,449,813
Historical artifacts and preservation easement	66,946	-	114,780	181,726
Construction in progress	262,257	93,301	(102,236)	253,322
Capital assets, net	<u>\$ 18,139,565</u>	<u>\$ (390,871)</u>	<u>\$ -</u>	<u>\$ 17,748,694</u>

	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>

Note 4 – 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.

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, 2023 was \$29,530,505 and \$16,553,526, 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
2024	\$ 827,089	\$ 532,338	\$ 1,359,427
2025	718,835	477,524	1,196,359
2026	176,304	461,947	638,251
2027	202,752	454,873	657,625
2028	140,967	448,038	589,005
2029-2033	1,048,813	2,133,527	3,182,340
2034-2038	1,655,312	1,866,832	3,522,144
2039-2043	2,639,540	1,443,580	4,083,120
2044-2048	3,939,775	793,673	4,733,448
2049-2053	1,844,361	71,951	1,916,312
	<u>\$ 13,193,748</u>	<u>\$ 8,684,283</u>	<u>\$ 21,878,031</u>

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

	2023	2022
Leases receivable (current assets)	\$ 827,088	\$ 725,792
Leases receivable, net of discount and current portion	<u>12,366,660</u>	<u>12,853,252</u>
	<u>\$ 13,193,748</u>	<u>\$ 13,579,044</u>

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HISTORIC SEATTLE PRESERVATION AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Note 5 – Notes Payable

Notes payable are as follows at December 31:

	2023	2022
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 6.59% at December 31, 2023; interest rate on final payment based on Five Year Treasury Constant Maturity; matures November 15, 2027; collateralized by the Egan House.	\$ 128,485	\$ 131,841
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.	2,550,960	2,855,487
Note payable, Beneficial State Bank, issued August 30, 2022, bears interest at 4.25%; monthly payments of \$4,954 through maturity of August 2032.	977,259	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.	122,568	126,465
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

HISTORIC SEATTLE PRESERVATION AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Note 5 – Notes Payable, continued

	2023	2022
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.	311,727	319,333
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.	92,000	96,000
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 6.84% at December 31, 2023; with monthly principal and interest payments through maturity of April 2026; collateralized by the Dearborn House.	57,678	80,224
Total	6,243,907	6,606,664
Less: current portion	(373,410)	(357,249)
	<u>\$ 5,870,497</u>	<u>\$ 6,249,415</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, 2023 and 2022.

HISTORIC SEATTLE PRESERVATION AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Note 5 – Notes Payable, continued

Following are the changes in notes payable for the year ended December 31, 2023:

Note Payable	December 31, 2022	Additions	Reductions	December 31, 2023	Current Portion
Cadillac Hotel					
Beneficial State Bank	\$ 2,855,487	\$ -	\$ (304,527)	\$ 2,550,960	\$ 313,440
Egan House					
Beneficial Bank	131,841	-	(3,356)	128,485	3,233
Good Shepherd Center					
Beneficial State Bank	994,084	-	(16,825)	977,259	17,687
City of Seattle	475,299	-	-	475,299	-
Washington State	126,465	-	(3,897)	122,568	4,095
Belboy Apartments					
City of Seattle	415,087	-	-	415,087	-
Victorian Row Apartments					
City of Seattle	672,841	-	-	672,841	-
Beneficial Bank	319,333	-	(7,606)	311,727	7,139
William B. Phillips/Heg					
House Apartments					
City of Seattle	440,003	-	-	440,003	-
Washington State	96,000	-	(4,000)	92,000	4,000
Dearborn House					
Beneficial State Bank	80,224	-	(22,546)	57,678	23,816
	<u>\$ 6,606,664</u>	<u>\$ -</u>	<u>\$ (362,757)</u>	<u>\$ 6,243,907</u>	<u>\$ 373,410</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, 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
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

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

	Principal	Interest
2024	\$ 373,410	\$ 176,158
2025	388,876	164,839
2026	389,026	147,635
2027	507,668	134,969
2028	399,500	120,245
2029-2033	3,344,920	696,109
2034-2038	104,510	69,954
2039-2043	604,348	149,977
2044-2047	131,649	12,747
	<u>\$ 6,243,907</u>	<u>\$ 1,672,633</u>

Note 6 – 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 \$1,676,518 at December 31, 2023. 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, 2023 the uninsured and uncollateralized cash balances totaled \$1,293,204.

Note 7 – 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.

HISTORIC SEATTLE PRESERVATION AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Note 8– Condensed Combining Information

The following is the condensed statement of net position at December 31, 2023:

	Historic Seattle	Foundation	Cadillac Rehabilitation LLC	Washington Hall QALICB	Eliminations	Total December 31, 2023
Assets						
Current assets	\$ 1,038,284	\$ 647,905	\$ 992,675	\$ 49,780	\$ -	\$ 2,728,644
Noncurrent assets	12,674,106	-	567,419	44,588	-	13,286,113
Noncurrent assets, inter-entity	2,655,974	-	-	-	(2,655,974)	-
Capital assets, net	5,350,041	6,400	5,119,844	8,036,676	(764,267)	17,748,694
Total assets	\$ 21,718,405	\$ 654,305	\$ 6,679,938	\$ 8,131,044	\$ (3,420,241)	\$ 33,763,451
Liabilities and Net Position						
Current liabilities	\$ 343,569	\$ 2,985	\$ 316,527	\$ 9,766	\$ -	\$ 672,847
Long-term liabilities	4,109,795	-	2,237,520	-	-	6,347,315
Long-term liabilities, inter-entity	-	-	1,284,572	-	(1,284,572)	-
Total liabilities	4,453,364	2,985	3,838,619	9,766	(1,284,572)	7,020,162
Deferred inflow of resources - leases	11,117,689	-	1,259,287	-	-	12,376,976
Net position						
Invested in capital assets, net of related debt	1,180,276	6,400	1,905,006	8,036,676	764,267	11,892,625
Restricted	-	442,238	-	-	-	442,238
Unrestricted	4,967,076	202,682	(322,974)	84,602	(2,899,936)	2,031,450
Total net position	6,147,352	651,320	1,582,032	8,121,278	(2,135,669)	14,366,313
Total liabilities, deferred inflows and net position	\$ 21,718,405	\$ 654,305	\$ 6,679,938	\$ 8,131,044	\$ (3,420,241)	\$ 33,763,451

The following is the condensed statement of revenues, expenses, and changes in fund net position for the year ended December 31, 2023:

	Historic Seattle	Foundation	Cadillac Rehabilitation LLC	Washington Hall QALICB	Eliminations	Total December 31, 2023
Operating Revenues (Expenses)						
Lease revenue	\$ 1,826,289	\$ -	\$ 727,729	\$ 195,732	\$ -	\$ 2,749,750
Interest income - leases	475,146	-	65,097	-	-	540,243
Consulting fees	95,339	-	-	-	-	95,339
Inter-entity management fees	59,253	-	-	-	(59,253)	-
Event and program income	-	57,532	-	-	-	57,532
Operating grants	19,809	221,282	-	-	-	241,091
Other revenues (losses)	(3,397)	19,906	-	-	-	16,509
Depreciation	(299,164)	-	(236,441)	(210,481)	23,577	(722,509)
Other operating expenses	(2,338,373)	(150,050)	(194,666)	(157,165)	59,253	(2,781,001)
Net operating gain (loss)	(165,098)	148,670	361,719	(171,914)	23,577	196,954
Nonoperating Revenues (Expenses)						
Grants	97,475	435,120	-	-	-	532,595
Interest income	5,436	6,700	937	473	-	13,546
Gain on equity method investment	38,532	-	-	-	-	38,532
Inter-entity grant revenue and other	1,115,688	-	-	-	(1,115,688)	-
Inter-entity grants expense and other	-	(841,268)	(176,226)	(65,000)	1,082,494	-
Interest expense and debt issuance costs	(93,561)	-	(154,415)	-	33,194	(214,782)
Net nonoperating revenues (expense)	1,163,570	(399,448)	(329,704)	(64,527)	-	369,891
Change in net position	998,472	(250,778)	32,015	(236,441)	23,577	566,845
Net position, beginning of year	5,148,880	902,098	1,550,017	8,357,719	(2,159,246)	13,799,468
Net position, end of year	\$ 6,147,352	\$ 651,320	\$ 1,582,032	\$ 8,121,278	\$ (2,135,669)	\$ 14,366,313

HISTORIC SEATTLE PRESERVATION AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

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

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 program income	219	75,965	-	-	-	76,184
Operating grants	79,497	394,389	-	-	-	473,886
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	\$ 5,148,880	\$ 902,098	\$ 1,550,017	\$ 8,357,719	\$ (2,159,246)	\$ 13,799,468

**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, 2023, 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 18, 2024.

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 18, 2024