

**MUSEUM DEVELOPMENT AUTHORITY OF SEATTLE
(A Component Unit of the City of Seattle, Washington)**

Financial Statements

For the Years Ended June 30, 2023 and 2022

Table of Contents

	Page
Independent Auditor's Report	1 - 3
Management's Discussion and Analysis	4 - 7
Financial Statements:	
Statements of Net Position	8
Statements of Revenues, Expenses and Changes in Net Position	9
Statements of Cash Flows	10
Notes to Financial Statements	11 - 15

Independent Auditor's Report

**To the Council Members
Museum Development Authority of Seattle
Seattle, Washington**

Opinion

We have audited the financial statements of Museum Development Authority of Seattle (the Authority), a component unit of the City of Seattle, which comprise the statements of net position as of June 30, 2023 and 2022, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the net position of the Authority as of June 30, 2023 and 2022, and the changes 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 (GAAS). 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 the Authority 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 the Authority's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.



T: 425-454-4919
T: 800-504-8747
F: 425-454-4620

10900 NE 4th St
Suite 1400
Bellevue WA
98004

clarknuber.com

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 GAAS 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.

In performing an audit in accordance with GAAS, 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 the Authority'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 the Authority'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.

Report on Management's Discussion and Analysis

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 7 be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits 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.

Clark Nuber P.S.

Certified Public Accountants
November 7, 2023

MUSEUM DEVELOPMENT AUTHORITY OF SEATTLE

Management's Discussion and Analysis For the Years Ended June 30, 2023 and 2022

Management's Discussion and Analysis (MD&A) presents a narrative overview and analysis of the financial activities of the Museum Development Authority of Seattle (the Authority) for the years ended June 30, 2023 and 2022. The MD&A is designed to assist readers of the financial statements in focusing on significant financial activities and issues and to identify any significant changes. As this information is presented in summary form, it should be read in conjunction with the financial statements as a whole.

The Authority

The Authority is a public authority organized under Washington State law and an ordinance of the City of Seattle (the City). The Authority was issued a charter by the Mayor of Seattle on September 13, 1985. The Authority is governed by a nine member council with three appointed by the Mayor, three appointed by the Seattle Art Museum (the Museum), and three appointed by the Authority Council. The purpose of the Authority is to undertake and assist in the development and operations of a public art museum in downtown Seattle.

Overview of the Financial Statements

As a government enterprise, the Authority follows all pronouncements of the Government Accounting Standards Board (GASB).

In order to ensure observance of limitations and restrictions placed on the use of resources available to the Authority by the City, the internal accounting records of the Authority are maintained in accordance with the principles of fund accounting. Under fund accounting, resources for various purposes are classified for accounting and reporting purposes into funds established according to their nature and purpose. Separate accounts are maintained for each fund; however, in the accompanying financial statements, these funds have been combined.

As a special-purpose government entity engaged only in business-type activities, the Authority's financial statements are presented as a proprietary fund. The financial statements therefore include Statements of Net Position; Statements of Revenues, Expenses, and Changes in Net Position; and Statements of Cash Flows. The financial statements measure, recognize, and report transactions and balances using proprietary fund accounting and financial reporting standards as provided in GASB pronouncements.

The Authority uses the flow of economic resources and measurement focus and accrual basis of accounting, in which revenues are recognized when earned and expenses are recorded when incurred. In addition, long-lived assets in excess of \$2,500 in value, such as buildings and equipment, are capitalized and depreciated over their estimated economic lives. Long-lived assets associated with capital projects are capitalized as construction in progress until placed in service, at which time depreciation commences.

The financial statements provide both long-term and short-term information about the Authority's overall financial status as well as the Authority's net position. Net position is the difference between the Authority's assets and liabilities and over time serves as a useful indicator of the Authority's financial position. The financial statements also include notes that provide additional information that is essential to a full understanding of the information provided.

MUSEUM DEVELOPMENT AUTHORITY OF SEATTLE

Management's Discussion and Analysis For the Years Ended June 30, 2023 and 2022

Capital Asset and Long-Term Debt Activity

In May 2003, the Council Members and the Museum Board of Trustees entered into a development agreement with a bank to jointly develop a mixed-use facility of approximately 1,225,000 square feet, of which approximately 335,000 square feet is owned by the Authority and the Museum to provide expansion space for the Museum's downtown facility.

The Authority issued approximately \$60,720,000 in special obligation bonds backed by a guarantee from the City in November 2005. The proceeds of the bonds were applied by the Authority to remodel, expand, and equip the Authority's existing downtown museum, to fund a debt service reserve account, and to pay costs of issuance. The expanded property is leased by the Authority to the Museum and used for expanded exhibition space. Lease payments are to be set at an amount to fund all debt service requirements. The City guarantee provides additional security to the Authority and to the bondholders in the event that lease payment requirements are not met (Note 3).

In 2014, the Authority issued \$44.4 million in special obligation refunding bonds to advance refund \$49.6 million of outstanding 2005 Series bonds. The net proceeds were used to purchase US government securities, which were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 2005 Series bonds. As a result, the 2005 Series bonds are considered to be defeased and the liability for those bonds has been removed from the Statement of Net Position.

Financial Analysis and Highlights

The Authority's net position as of June 30, 2023, 2022, and 2021, is presented in the table below:

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Capital assets	\$ 58,576,141	\$ 61,137,524	\$ 63,944,355
Other assets	<u>30,649,833</u>	<u>33,086,621</u>	<u>35,590,408</u>
Total Assets	<u>\$ 89,225,974</u>	<u>\$ 94,224,145</u>	<u>\$ 99,534,763</u>
Total Deferred Outflow of Resources	<u>\$ 259,985</u>	<u>\$ 322,005</u>	<u>\$ 389,576</u>
Current liabilities	\$ 2,983,274	\$ 2,890,025	\$ 2,800,312
Noncurrent liabilities	<u>24,648,083</u>	<u>27,753,947</u>	<u>30,774,275</u>
Total Liabilities	<u>\$ 27,631,357</u>	<u>\$ 30,643,972</u>	<u>\$ 33,574,587</u>
Total Deferred Inflow of Resources	<u>\$ 21,561,602</u>	<u>\$ 24,242,262</u>	<u>\$ 26,922,921</u>
Unrestricted surplus	\$ 3,489,299	\$ 3,406,063	\$ 2,759,268
Restricted for debt service	5,280,658	5,088,272	5,527,907
Invested in capital assets, net of related debt	<u>31,523,043</u>	<u>31,165,581</u>	<u>31,139,656</u>
Total Net Position	<u>\$ 40,293,000</u>	<u>\$ 39,659,916</u>	<u>\$ 39,426,831</u>

MUSEUM DEVELOPMENT AUTHORITY OF SEATTLE

Management's Discussion and Analysis For the Years Ended June 30, 2023 and 2022

Financial Analysis and Highlights - Continued

The Authority reports a lease receivable asset and deferred inflow on the statement of net position associated with leases where the Authority is a lessor. The inflows from leasing activity are reported in the statements of revenue, expenses, and changes in net position in part as operating revenues and in part as nonoperating interest income.

Total assets decreased from 2022 to 2023 by \$4,998,171 and from 2021 to 2022 by \$5,310,618, due primarily to the depreciation of capital assets and amortization of its lease receivable. Total deferred outflow of resources decreased from 2022 to 2023 by \$62,020, and from 2021 to 2022 by \$67,571, primarily due to the amortization of the advance refunding of debt.

Total liabilities decreased from 2022 to 2023 and from 2021 to 2022 by \$3,012,613 and \$2,930,615, respectively, primarily due to principal payments of bonds payable and amortization of its bond premium. Total net position increased by \$633,084 from 2022 to 2023. Total net position increased by \$233,085 from 2021 to 2022. The amount restricted for debt service increased by \$192,386 from 2022 to 2023 and decreased by \$439,635 from 2021 to 2022, which can be attributed to timing of rental payments received that are deposited into restricted cash accounts. Investments in capital assets, net of related debt increased from 2022 to 2023 by \$357,462. Investments in capital assets, net of related debt decreased from 2021 to 2022 by \$25,925, primarily due to the depreciation of capital assets, principal payments of bonds payable, and amortization of bond issuance costs and bond premium.

The Authority's Change in Net Position for the years ended June 30, 2023, 2022 and 2021, is presented in the table below:

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Operating revenues	\$ 2,722,958	\$ 2,848,230	\$ 2,712,163
Operating expenses	<u>(2,603,679)</u>	<u>(2,974,404)</u>	<u>(2,838,334)</u>
Operating Income (Loss)	119,279	(126,174)	(126,171)
Nonoperating revenues (expenses)	<u>513,805</u>	<u>359,259</u>	<u>390,768</u>
Change in Net Position	633,084	233,085	264,597
Net position, beginning of year	<u>39,659,916</u>	<u>39,426,831</u>	<u>39,162,234</u>
Net Position, End of Year	<u>\$ 40,293,000</u>	<u>\$ 39,659,916</u>	<u>\$ 39,426,831</u>

Operating revenues decreased by \$125,272 from 2022 to 2023. Operating revenues increased by \$136,067 from 2021 to 2022, due to changes in rental income received from the Museum. Operating expenses decreased by \$370,724 from 2022 to 2023 and increased by \$136,070 from 2021 to 2022, primarily due to a one-time Local Improvement District tax imposed by the City of Seattle. Nonoperating revenues (expenses) increased by \$154,546 and decreased by \$31,509 from 2022 to 2023 and 2021 to 2022, respectively, which can be attributed to the change in interest income/expense and amortization of bond issuance costs and bond premium.

MUSEUM DEVELOPMENT AUTHORITY OF SEATTLE

Management's Discussion and Analysis For the Years Ended June 30, 2023 and 2022

Requests for Information

This report is designed to provide an overview of the Authority's finances for all those with interest in the Authority's finance. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Museum Development Authority of Seattle, Chief Financial Officer, 1300 First Avenue, Seattle, WA 98101-3100.

MUSEUM DEVELOPMENT AUTHORITY OF SEATTLE

Statements of Net Position
June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Assets:		
Current portion of lease receivable	\$ 2,756,330	\$ 2,629,174
Total Current Assets	2,756,330	2,629,174
Restricted cash	5,280,658	5,088,272
Land	14,463,114	14,463,114
Buildings, furniture, fixtures and equipment, net	44,113,027	46,674,410
Lease receivable	22,612,845	25,369,175
Total Assets	<u>\$ 89,225,974</u>	<u>\$ 94,224,145</u>
Deferred Outflow of Resources:		
Advance refunding of debt	\$ 259,985	\$ 322,005
Total Deferred Outflow of Resources	<u>\$ 259,985</u>	<u>\$ 322,005</u>
Liabilities:		
Accrued interest payable	\$ 318,274	\$ 350,025
Current portion of bonds payable	2,665,000	2,540,000
Total Current Liabilities	2,983,274	2,890,025
Bonds payable, net of current portion	22,800,000	25,465,000
Unamortized bond premium	1,848,083	2,288,947
Total Liabilities	<u>\$ 27,631,357</u>	<u>\$ 30,643,972</u>
Deferred Inflow of Resources:		
Deferred lease revenue	\$ 21,561,602	\$ 24,242,262
Total Deferred Inflow of Resources	<u>\$ 21,561,602</u>	<u>\$ 24,242,262</u>
Net Position:		
Unrestricted surplus	\$ 3,489,299	\$ 3,406,063
Restricted for debt service	5,280,658	5,088,272
Invested in capital assets, net of related debt	31,523,043	31,165,581
Total Net Position	<u>\$ 40,293,000</u>	<u>\$ 39,659,916</u>

See accompanying notes.

MUSEUM DEVELOPMENT AUTHORITY OF SEATTLE

**Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended June 30, 2023 and 2022**

	<u>2023</u>	<u>2022</u>
Operating Revenues:		
Building lease	\$ 2,718,291	\$ 2,841,683
Ground lease	4,667	4,667
Miscellaneous		1,880
Total Operating Revenues	2,722,958	2,848,230
Operating Expenses:		
General and administrative	42,296	167,573
Depreciation	2,561,383	2,806,831
Total Operating Expenses	2,603,679	2,974,404
Operating Income (Loss)	119,279	(126,174)
Nonoperating Revenues (Expenses):		
Interest from leasing activity	1,310,576	1,435,811
Investment return	192,885	1,692
Interest expense	(1,430,520)	(1,558,572)
Amortization of bond premium	440,864	480,328
Total Nonoperating Revenues (Expenses)	513,805	359,259
Change in Net Position	633,084	233,085
Net position, beginning of year	39,659,916	39,426,831
Net Position, End of Year	<u>\$ 40,293,000</u>	<u>\$ 39,659,916</u>

See accompanying notes.

MUSEUM DEVELOPMENT AUTHORITY OF SEATTLE

**Statements of Cash Flows
For the Years Ended June 30, 2023 and 2022**

	<u>2023</u>	<u>2022</u>
Cash Flows From Operating Activities:		
Cash received from leases	\$ 2,671,472	\$ 2,231,723
Cash paid for goods and services	<u>(42,296)</u>	<u>(167,573)</u>
Net Cash Provided by Operating Activities	2,629,176	2,064,150
Cash Flows From Capital and Related Financing Activities:		
Payments for bond interest	(1,400,251)	(1,521,288)
Repayments of bond principal	<u>(2,540,000)</u>	<u>(2,420,000)</u>
Net Cash Used in Capital and Related Financing Activities	(3,940,251)	(3,941,288)
Cash Flows From Investing Activities:		
Interest and dividends	192,885	1,692
Interest from leases	1,310,576	1,435,811
Net change in restricted cash	<u>(192,386)</u>	<u>439,635</u>
Net Cash Provided by Investing Activities	1,311,075	1,877,138
Net Change in Cash and Cash Equivalents		
Cash and cash equivalents, beginning of year	<u> </u>	<u> </u>
Cash and Cash Equivalents, End of Year	\$ -	\$ -
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating income (loss)	\$ 119,279	\$ (126,174)
Adjustments to reconcile to net cash from operating activities-		
Depreciation	2,561,383	2,806,831
Change in assets and liabilities:		
Lease revenue receivable	2,629,174	2,064,152
Deferred inflow	<u>(2,680,660)</u>	<u>(2,680,659)</u>
Net Cash Provided by Operating Activities	\$ 2,629,176	\$ 2,064,150

See accompanying notes.

MUSEUM DEVELOPMENT AUTHORITY OF SEATTLE

Notes to Financial Statements For the Years Ended June 30, 2023 and 2022

Note 1 - Operations and Summary of Significant Accounting Policies

Operations and Reporting Entity - The purpose of Museum Development Authority of Seattle (the Authority) is to undertake and assist in the development and operations of a public art museum in downtown Seattle, the Seattle Art Museum (the Museum). The Authority is a public authority organized under Washington State law and an ordinance of the City of Seattle (the City). The Authority was issued a charter by the Mayor of Seattle on September 13, 1985. The Authority is governed by a nine-member council with three appointed by the Mayor, three appointed by the Museum, and three appointed by the Authority Council. The City provides a guarantee on debt issued by the Authority (Note 3) and thus, the Authority is a component unit of the City. The financial statements include only the activities of the Authority as no component units of the Authority have been identified. The activities of the Museum are not included in the Authority's financial statements.

Basis of Presentation - Financial statement presentation follows accounting principles defined for special-purpose government entities. The Authority is a government enterprise and follows all pronouncements of the Governmental Accounting Standards Board (GASB). The financials have been prepared using the economic resources measurement focus and the accrual basis of accounting.

Under the flow of economic resources measurement focus and accrual basis of accounting, revenues are recognized when earned and expenses are recorded when incurred. In addition, long-lived assets such as buildings and equipment are capitalized and depreciated over their estimated economic lives.

Operating and Nonoperating Activity - Operating activities represent revenues and expenses solely related to the property lease and operating agreement. Nonoperating activities are the revenues and expenses related to investments and debt and interest income on leasing activities.

Cash and Cash Equivalents - For purposes of reporting cash flows, cash includes cash on hand and on deposit with financial institutions and financial instruments with original maturities of ninety days or less. Cash equivalents include investments in money market funds and are stated at cost, which approximates market value. The Authority's operating deposits are required to be deposited in a qualified public depository as required by statute. As of June 30, 2023 and 2022, the Authority maintained an operating cash balance of \$0. The restricted cash balances held for the bonds payable at June 30, 2023 and 2022, of \$5,280,658 and \$5,088,272, respectively, are held in money market funds collateralized by securities held by the financial institution.

Credit Risk - Credit risk is the risk that an issuer of the counterparty to an investment will not fulfill its obligation. The Authority invests in U.S. Treasury Securities.

Interest Rate Risk - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Authority invests in U.S. Treasury securities, generally with one year original maturity dates, to help manage its exposure to fair value losses arising from increasing interest rates.

Land, Buildings and Building Improvements - Land, buildings and building improvements are stated at cost. Depreciation of the buildings and building improvements are provided using the straight-line method over an estimated useful life of 40 years.

Furniture, Fixtures and Equipment - Furniture, fixtures and equipment are stated at cost. Depreciation is provided using the straight-line method over an estimated useful life up to 15 years.

MUSEUM DEVELOPMENT AUTHORITY OF SEATTLE

Notes to Financial Statements For the Years Ended June 30, 2023 and 2022

Note 1 - Continued

Bond Premium - Bond premium represent deferred charges and an addition to the bond liability. Amortization of such amounts are provided using the bonds outstanding method.

Deferred Outflow of Resources - Deferred outflow of resources is the consumption of net position that is applicable to a future reporting period. A deferred outflow of resources involves no consumption of resources that results in either a net decrease in assets or a net increase in liabilities. Deferred outflows of resources presented in this manner on the accompanying financial statements are related to the advanced refunding of bonds.

Deferred Inflow of Resources - Deferred inflow of resources is the acquisition of net position that is applicable to a future reporting period and so will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources presented in this manner on the accompanying financial statements represent deferred lease revenue. See Note 4 for additional information on the Authority's lease revenue.

Net Position - Net position is classified into the following three components: 1) Invested in capital assets, net of related debt - This component of net position consists of capital assets, net of accumulated depreciation and amortization and reduced by the outstanding balances of any bonds, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net position component as the unspent proceeds. 2) Restricted for debt service - This component of net position consists of restrictions placed on net position use by external creditors (such as through debt covenants), grantors or contributors. 3) Unrestricted surplus - This component consists of the net position that does not meet the definition of "restricted" or "invested in capital assets, net of related debt." The Authority applies unrestricted and restricted resources to purposes for which both unrestricted and restricted net position are available based on management's discretion.

Income Taxes - The Authority is a special-purpose organization of the State of Washington and accordingly is generally exempt from federal income taxes under the provisions of Section 115 of the Internal Revenue Code.

Use of Estimates - The presentation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. Actual results could differ from those estimates.

Subsequent Events - The Authority evaluated its June 30, 2023 financial statements for subsequent events through November 7, 2023, the date the financial statements were available to be issued.

MUSEUM DEVELOPMENT AUTHORITY OF SEATTLE

**Notes to Financial Statements
For the Years Ended June 30, 2023 and 2022**

Note 2 - Capital Assets

The following is a summary of changes in capital assets:

	Balance at June 30, 2021	Additions/ (Reclassifications)	Balance at June 30, 2022	Additions/ (Reclassifications)	Balance at June 30, 2023
Capital Assets Not Being Depreciated:					
Land	\$ 14,463,114	\$ -	\$ 14,463,114	\$ -	\$ 14,463,114
Total Capital Assets Not Being Depreciated	14,463,114		14,463,114		14,463,114
Capital Assets Being Depreciated:					
Building	74,038,136		74,038,136		74,038,136
Building improvements	29,821,424		29,821,424		29,821,424
Furniture, fixtures and equipment	3,155,750		3,155,750		3,155,750
	107,015,310		107,015,310		107,015,310
Less accumulated depreciation	(57,534,069)	(2,806,831)	(60,340,900)	(2,561,383)	(62,902,283)
Total Capital Assets Being Depreciated	49,481,241	(2,806,831)	46,674,410	(2,561,383)	44,113,027
Net Capital Assets	\$ 63,944,355	\$ (2,806,831)	\$ 61,137,524	\$ (2,561,383)	\$ 58,576,141

Note 3 - Bonds Payable

In 2014, the Authority issued \$44.4 million in special obligation refunding bonds (the 2014 Bonds) to advance refund outstanding 2005 special obligation bonds (the 2005 Bonds). The net proceeds of the 2014 Bonds were used to purchase U.S. government securities that were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 2005 Bonds. As a result, the 2005 Series bonds are considered to be defeased and the liability for those bonds has been removed from the financial statements of the Authority. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the 2014 Bonds of \$1 million. The difference, reported in the accompanying financial statements as a deferred outflow of resources, is being charged to operations through the year 2031 using the effective-interest method.

The 2014 Bonds carry interest at 5% with interest paid twice a year. The 2014 Bonds mature at various dates through 2031. As part of the bond agreement, the Authority has agreed to certain covenants requiring minimum debt service coverage ratios for the Authority and a minimum net asset balance for the Museum. At June 30, 2023 and 2022, the Authority was in compliance with the debt service coverage requirement. Security for the 2014 Bonds includes a pledge of the Authority's right to receive rental payments from leasing the Authority's property, a guarantee agreement by the City, and a pledge of certain funds.

MUSEUM DEVELOPMENT AUTHORITY OF SEATTLE

Notes to Financial Statements For the Years Ended June 30, 2023 and 2022

Note 3 - Continued

The following is a summary of changes in bonds payable:

	<u>Balance at June 30, 2021</u>	<u>Redemptions</u>	<u>Balance at June 30, 2022</u>	<u>Redemptions</u>	<u>Balance at June 30, 2023</u>
2014 Bonds	\$ 30,425,000	\$ (2,420,000)	\$ 28,005,000	\$ (2,540,000)	\$ 25,465,000

Maturities of bonds are as follows:

For the Year Ending June 30,	<u>Principal</u>	<u>Interest</u>
2024	\$ 2,665,000	\$ 1,273,250
2025	2,800,000	1,140,000
2026	2,940,000	1,000,000
2027	3,090,000	853,000
2028	3,240,000	698,500
2029 - 2031	<u>10,730,000</u>	<u>1,090,250</u>
	<u>\$ 25,465,000</u>	<u>\$ 6,055,000</u>

Note 4 - Lease Agreements With the Museum

The Museum is leasing condominium units owned by the Authority in the new addition adjacent to the Museum's downtown Seattle facility. The lease expires in December 2103. Lease payments are due for the first 25 years of the lease agreement until 2031, and based rental payments are set equal to the principal and interest payments required for the bonds as disclosed in Note 3. Lease payments received for base rentals for the years ended June 30, 2023 and 2022 were \$3,939,750 and \$3,941,000, respectively. In addition to the minimum lease payments, the Museum is also obligated to bear the operating expenses of the Authority and comply with certain public benefit provisions. Lease payments received for variable rents for the years ended June 30, 2023 and 2022 were \$42,299 and \$165,691, respectively.

Future minimum payments under the lease term approximate the following:

For the Year Ending June 30,	<u>Principal</u>	<u>Interest</u>
2024	\$ 2,756,330	\$ 1,182,358
2025	2,898,696	1,041,304
2026	3,044,384	896,366
2027	3,197,788	744,087
2028	3,353,429	585,821
2029 - 2031	<u>10,118,548</u>	<u>716,327</u>
	<u>\$ 25,369,175</u>	<u>\$ 5,166,263</u>

MUSEUM DEVELOPMENT AUTHORITY OF SEATTLE

**Notes to Financial Statements
For the Years Ended June 30, 2023 and 2022**

Note 4 - Continued

The Museum is leasing land from the Authority for use of the Olympic Sculpture Park. Total lease payments of \$700,000 for this land were recorded as deferred inflows on the statements of net position and amortized over the life of the lease. The initial lease period expires in January 2152. The advanced lease payments are being amortized on a straight-line basis over the 150-year life of the lease. For the years ended June 30, 2023 and 2022, amortization of the unearned ground lease revenue was \$4,667.