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MUSEUM DEVELOPMENT AUTHORITY

ANNUAL REPORT

Year ended June 30, 2011

SUBMITTED BY:

Nancy Zwieback, Staff
Museum Development Authority
c/o Seattle Art Museum
1300 First Avenue
Seattle, WA 98101

Phone: 654.3227
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I. SUMMARY

Date Chartered: September 13, 1985

Purpose/Scope of Activities: To undertake and assist with and otherwise facilitate the development and operation of public art museum facilities in conjunction with the Seattle Art Museum (“SAM” or “Museum”), including but not limited to a downtown art museum and a public sculpture park adjacent to Myrtle Edwards Park and the Seattle Waterfront.

Board (Appointing Source): 9 members, 3-year term

- 3 Members - Mayoral appointed
- 3 Members - Council elected
- 3 Members - SAM board appointed

Constituency: General Public

Geographic Boundaries: Citywide

II. FINANCIAL INFORMATION FOR FYE 6/30/11:

Please see attached audited statement.

III. PROJECTS & ACTIVITIES PLANNED FOR FY12

The MDA owns the downtown Seattle Art Museum (SAM) facility, which it leases to SAM. SAM’s lease payments in turn pay the debt service on the MDA’s City-guaranteed bonds issued to develop the downtown museum expansion space, which opened in 2007. The source of revenue for SAM’s rent payments to the MDA is rent that SAM receives from its lease of adjacent commercial office space to a third party tenant.

IV. BUDGET INFORMATION FOR FY12

See attached "Projected Operating Budget of Revenues and Expenses"

V. CAPITAL BUDGET

No capital expenditures are anticipated during FY12

VI. COUNCIL APPROVAL OF THE FY12 BUDGET

See attached minutes for the June 9, 2011 meeting.

VII. CORPORATE OFFICERS

See SECTION X

VIII. BONDED CORPORATE OFFICERS

N/A

IX. DEPOSITORIES

US Bank

X. PDA COUNCIL MEMBERS

NOTE: Please contact SAM directly for Member contact information

NAME	APPOINTED BY:
Robert Strong	SAM
Robert J. Flowers	Mayor
Margaret K. Walker	SAM
Dorothy Mann, PhD	MDA
Douglas Norberg	SAM
Henry W. McGee, Jr.	Mayor
J. Thurston Roach	MDA
Rosita Romero	Mayor
Douglass Raff	MDA

XI. MDA RULES & REGULATIONS

No changes to previously filed rules and regulations.

XI. INSURANCE

See attached policy

***MUSEUM DEVELOPMENT
AUTHORITY OF SEATTLE***

(A Component Unit of the City of Seattle, Washington)

Financial Statements and
Government Auditing Standards Report

For the Years Ended June 30, 2011 and 2010

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Independent Auditors' Report

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

Certified Public

Accountants
and Consultants

We have audited the accompanying financial statements of Museum Development Authority of Seattle, (the Authority), a component unit of the City of Seattle, Washington, as of June 30, 2011 and 2010, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Authority and do not purport to, and do not, present fairly the financial position of the City of Seattle, Washington, as of June 30, 2011 and 2010, and the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2011 and 2010, and changes in its net asset and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 2 through 4 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 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.

Clark Nuber PS

Certified Public Accountants
November 15, 2011

MUSEUM DEVELOPMENT AUTHORITY OF SEATTLE

Management's Discussion and Analysis

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, 2011 and 2010. 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 addition, it follows pronouncements of the Financial Accounting Standards Board (FASB) issued before December 1, 1989, except those that contradict GASB pronouncements.

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 a Statement of Net Assets; a Statement of Revenues, Expenses, and Changes in Net Assets; and a Statement 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 assets. Net assets are the difference between the Authority's assets and liabilities and over time serve as a useful indicator to 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.

The presentation of financial statements in conformity with generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts stated in the financial statements and accompanying notes. Actual results could differ from those estimates. Significant estimates contained in the financial statements include the estimated useful lives of the buildings.

MUSEUM DEVELOPMENT AUTHORITY OF SEATTLE

Management's Discussion and Analysis (Continued)

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 (see Note 3).

Financial Analysis and Highlights

The Authority's Net Assets as of June 30, 2011, 2010 and 2009, are presented in the table below:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Capital assets	\$ 92,012,663	\$ 94,819,494	\$ 97,626,325
Other assets	7,387,868	7,412,691	7,499,662
Total Assets	<u>99,400,531</u>	<u>102,232,185</u>	<u>105,125,987</u>
Current liabilities	2,982,513	2,788,946	2,747,359
Non-current liabilities	55,734,423	57,557,228	59,304,467
Total Liabilities	<u>58,716,936</u>	<u>60,346,174</u>	<u>62,051,826</u>
Unrestricted net assets (deficit)	(6,068,090)	(5,959,166)	(5,982,646)
Restricted for debt service	6,166,741	6,115,591	6,114,948
Invested in capital assets, net of related debt	40,584,944	41,729,586	42,941,859
Total Net Assets	<u>\$ 40,683,595</u>	<u>\$ 41,886,011</u>	<u>\$ 43,074,161</u>

Total assets decreased from 2010 to 2011 and 2009 to 2010 by \$2,831,656 and \$2,893,802, respectively, due to depreciation of capital assets and amortization of bond issuance costs.

Total liabilities decreased from 2010 to 2011 and 2009 to 2010 by \$1,629,238 and \$1,705,652, respectively, due to the principal payments of bonds payable and amortization of bond premium. Total net assets decreased of \$1,202,416 and \$1,188,150 from 2010 to 2011 and 2009 to 2010, respectively. The amount restricted for debt service increased by \$51,150 and \$643 from 2010 to 2011 and 2009 to 2010, respectively, which can be attributed to the rental income. Investments in capital assets, net of related debt decreased from 2010 to 2011 and 2009 to 2010 by \$1,144,642 and \$1,212,273, respectively, primarily due to the depreciation of capital assets, principal payments of bonds payable, and amortization of bond issuance costs and bond premium.

MUSEUM DEVELOPMENT AUTHORITY OF SEATTLE

Management's Discussion and Analysis (Continued)

The Authority's Change in Net Assets for the years ended June 30, 2011, 2010 and 2009, is presented in the table below:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Operating revenues	\$ 4,198,125	\$ 4,259,990	\$ 2,908,683
Operating expenses	(2,871,029)	(2,845,770)	(2,858,747)
Operating income	1,327,096	1,414,220	49,936
Non-operating revenues (expenses)	(2,529,512)	(2,602,370)	(2,577,005)
Change in Net Assets	(1,202,416)	(1,188,150)	(2,527,069)
Net Assets, beginning of year	41,886,011	43,074,161	45,601,230
Net Assets, End of Year	<u>\$ 40,683,595</u>	<u>\$ 41,886,011</u>	<u>\$ 43,074,161</u>

Operating revenues decreased by \$61,865 from 2010 to 2011 and increased by \$1,351,307 from 2009 to 2010 is attributed to rental income received from Seattle Art Museum. Operating expenses increased by \$25,259 from 2010 to 2011 and decreased by \$12,977 from 2009 to 2010 can be attributed to the use of professional services. Non-operating revenues (expenses) decreased by \$72,858 from 2010 to 2011 and increased by \$25,365 from 2009 to 2010 can be attributed to the change in interest income/expense and amortization of bond issuance costs and bond premium.

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 Operating Officer or Finance Director, 1300 First Avenue, Seattle, WA 98101-3100.

MUSEUM DEVELOPMENT AUTHORITY OF SEATTLE

**Statements of Net Assets
June 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
Assets		
Cash and cash equivalents	\$ 286,861	\$ 286,886
Interest receivable	52,785	52,784
Total Current Assets	339,646	339,670
Restricted cash	6,166,741	6,115,591
Land	14,463,114	14,463,114
Buildings, furniture, fixtures, and equipment, net	77,549,549	80,356,380
Bond issuance costs, net of accumulated amortization of \$452,974 (\$377,025 - 2010)	881,481	957,430
Total Assets	99,400,531	102,232,185
Liabilities		
Accrued interest payable	692,556	712,244
Due to related party	630,290	497,035
Current portion of deferred ground lease revenue	4,667	4,667
Current portion of bonds payable	1,655,000	1,575,000
Total Current Liabilities	2,982,513	2,788,946
Deferred ground lease revenue	650,998	655,665
Bonds payable	53,190,000	54,845,000
Unamortized bond premium	1,893,425	2,056,563
Total Liabilities	58,716,936	60,346,174
Net Assets		
Unrestricted (deficit)	(6,068,090)	(5,959,166)
Restricted for debt service	6,166,741	6,115,591
Invested in capital assets, net of related debt	40,584,944	41,729,586
Total Net Assets	\$ 40,683,595	\$ 41,886,011

See accompanying notes.

MUSEUM DEVELOPMENT AUTHORITY OF SEATTLE

**Statements of Revenues, Expenses, and Changes in Net Assets
For the Years Ended June 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
Operating Revenues:		
Ground lease	\$ 4,667	\$ 4,668
Operating agreement	<u>4,193,458</u>	<u>4,255,322</u>
Total Operating Revenues	4,198,125	4,259,990
Operating Expenses:		
General and administrative	64,198	38,939
Depreciation	<u>2,806,831</u>	<u>2,806,831</u>
Total Operating Expenses	2,871,029	2,845,770
Operating Income	1,327,096	1,414,220
Non-Operating Revenues (Expenses):		
Interest income	212,585	213,484
Interest expense	(2,829,287)	(2,905,413)
Amortization of bond issuance costs	(75,949)	(78,013)
Amortization of bond premium	<u>163,139</u>	<u>167,572</u>
Total Non-Operating Revenues (Expenses)	(2,529,512)	(2,602,370)
Change in Net Assets	(1,202,416)	(1,188,150)
Net Assets, beginning of year	<u>41,886,011</u>	<u>43,074,161</u>
Net Assets, End of Year	<u>\$ 40,683,595</u>	<u>\$ 41,886,011</u>

See accompanying notes.

MUSEUM DEVELOPMENT AUTHORITY OF SEATTLE

Statements of Cash Flows
For the Years Ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash Flows from Operating Activities:		
Cash received from leases	\$ 4,193,458	\$ 4,255,323
Cash paid for goods and services	(64,198)	(29,339)
Net Cash Provided by Operating Activities	4,129,260	4,225,984
Cash Flows from Capital and Related Financing Activities:		
Interest paid on debt	(2,848,974)	(2,924,225)
Proceeds from (repayments to) Museum on advance	133,255	(9,600)
Repayments on bond principal	(1,575,000)	(1,505,000)
Net Cash Used in Capital and Related Financing Activities	(4,290,719)	(4,438,825)
Cash Flows from Investing Activities:		
Interest and dividends	212,584	213,484
Net change in restricted cash	(51,150)	(643)
Net Cash Provided by Investing Activities	161,434	212,841
Net Change in Cash and Cash Equivalents	(25)	
Cash and cash equivalents, beginning of year	286,886	286,886
Cash and Cash Equivalents, End of Year	\$ 286,861	\$ 286,886
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating income	\$ 1,327,096	\$ 1,414,220
Adjustments to reconcile to net cash from operating activities-		
Depreciation	2,806,831	2,806,831
Change in assets and liabilities:		
Prepaid expense		9,600
Deferred lease revenue	(4,667)	(4,667)
Net Cash Provided by Operating Activities	\$ 4,129,260	\$ 4,225,984

See accompanying notes.

MUSEUM DEVELOPMENT AUTHORITY OF SEATTLE

Notes to Financial Statements

For the Years Ended June 30, 2011 and 2010

Note 1 - Operations and Summary of Significant Accounting Policies

Operations and Reporting Entity - The purpose of the 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 (see 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). In addition, it follows Statements and Interpretations of the Financial Accounting Standards Board (FASB), Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures issued before December 1, 1989, except those that contradict GASB pronouncements. The Authority has elected not to adopt pronouncements of the FASB issued after December 1, 1989. The basis of accounting is the accrual method.

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 Non-Operating Activity - Operating activities represent revenues and expenses solely related to the property lease and operating agreement. Non-operating activities are the revenues and expenses related to investments and debt.

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. Significant estimates included in the financial statements relate to the assumptions used in the estimated lives of capital assets and capitalization of interest.

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. The Authority's operating deposits are required to be deposited in a qualified public depository as required by statute. As of June 30, 2011 and 2010, the Authority maintained an operating cash balance of \$286,861 and \$286,886 deposited with a financial institution entirely covered by Federal Depository Insurance Corporation (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission. The restricted cash balances held for the special obligation bonds at June 30, 2011 and 2010, of \$6,166,741 and \$6,115,591, respectively, are held in money market funds collateralized by securities held by the financial institution.

MUSEUM DEVELOPMENT AUTHORITY OF SEATTLE

**Notes to Financial Statements
For the Years Ended June 30, 2011 and 2010**

Note 1 - Continued

Receivables - All account balances are due in less than one year. Based on historical collections, no allowance for uncollectible accounts is recorded.

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.

Bond Issuance Costs and Bond Premium - Bond issuance costs and bond premium represent deferred charges and an addition to the bond liability, respectively. Amortization of such amounts is provided using the bonds outstanding method.

Deferred Lease Revenue - Deferred lease revenue on the statements of net assets represents payments received in advance from the Museum for the Olympic Sculpture Park ground lease and the Museum Expansion operating agreement.

Net Assets - Net assets are classified in the following three components: 1) Invested in capital assets, net of related debt - This component of net assets 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 assets component as the unspent proceeds. 2) Restricted - This component of net assets consists of restrictions placed on net asset use by external creditors (such as through debt covenants), grantors or contributors. 3) Unrestricted net assets - This component of net assets consists of net assets that do 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 assets 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.

Rebateable Arbitrage - No arbitrage rebate is owed to the United States Treasury for the years ended June 30, 2011 and 2010.

MUSEUM DEVELOPMENT AUTHORITY OF SEATTLE

**Notes to Financial Statements
For the Years Ended June 30, 2011 and 2010**

Note 2 - Capital Assets

The following is a summary of changes in capital assets:

	<i>Balance at June 30, 2009</i>	<i>Additions/ (Reclassifications)</i>	<i>Balance at June 30, 2010</i>	<i>Additions/ (Reclassifications)</i>	<i>Balance at June 30, 2011</i>
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	74,038,135		74,038,135		74,038,135
Building improvements	29,821,424		29,821,424		29,821,424
Furniture, fixtures and equipment	3,155,750		3,155,750		3,155,750
	107,015,309		107,015,309		107,015,309
Less accumulated depreciation	(23,852,098)	(2,806,831)	(26,658,929)	(2,806,831)	(29,465,760)
Total Capital Assets Being Depreciated	83,163,211	(2,806,831)	80,356,380	(2,806,831)	77,549,549
Net Capital Assets	\$ 97,626,325	\$ (2,806,831)	\$ 94,819,494	\$ (2,806,831)	\$ 92,012,663

Note 3 - Bonds Payable

Special Obligation Bonds - In November 2005, the Authority issued \$60,720,000 in special obligation bonds backed by a guarantee from the City. In the event of the Authority's default on payment, the City receives all rental revenue owed to the Authority. The bond funds were used to remodel, expand, and equip the Authority's existing downtown museum building. The expanded property is leased by the Authority to the Museum and lease payments will be used to fund all debt service requirements. The bonds will be repaid over a period of 25 years in annual installments ranging from \$1,575,000 to \$4,210,000, plus interest payable semi-annually at stated interest rates ranging from 5% to 5.125%. As part of the bond agreement, the Authority has agreed to certain covenants requiring minimum net asset balances. At June 30, 2011 and 2010, the Authority was in compliance with these bond covenants.

MUSEUM DEVELOPMENT AUTHORITY OF SEATTLE

**Notes to Financial Statements
For the Years Ended June 30, 2011 and 2010**

Note 3 - Continued

The following is a summary of changes in bonds payable:

	<i>Balance at June 30, 2009</i>	<i>Redemptions</i>	<i>Balance at June 30, 2010</i>	<i>Redemptions</i>	<i>Balance at June 30, 2011</i>
Special obligation bonds	\$ 57,925,000	\$ (1,505,000)	\$ 56,420,000	\$ (1,575,000)	\$ 54,845,000

Maturities of bonds are as follows for years ending June 30:

	<i>Principal</i>	<i>Interest</i>
2012	\$ 1,655,000	\$ 2,750,000
2013	1,740,000	2,666,000
2014	1,825,000	2,578,000
2015	1,915,000	2,485,000
2016	2,015,000	2,388,000
2017 - 2021	11,680,000	10,306,000
2022 - 2026	14,915,000	7,037,000
2027 - 2031	19,100,000	2,789,000
	<u>\$ 54,845,000</u>	<u>\$ 32,999,000</u>

Note 4 - Related Party Transactions

The Authority has been involved in two capital projects with the Museum and as a result maintains balances to and from the Museum. These amounts have been included in the statement of net assets at June 30, 2011 and 2010 as due to related party or due from related party, as appropriate.

The Museum is also leasing 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 received for the years ended June 30, 2011 and 2010 approximated \$4,193,500 and \$4,255,300, respectively. Lease payments are due for the first 25 years of the lease agreement until 2031, and are set equal to the principal and interest payments required for the bonds as disclosed in Note 3. In addition to the minimum lease payments, the Museum is also obligated to bear the operating expenses of the MDA and comply with certain public benefit provisions.

MUSEUM DEVELOPMENT AUTHORITY OF SEATTLE

Notes to Financial Statements
For the Years Ended June 30, 2011 and 2010

Note 4 - Continued

Future minimum payments under the lease term approximate the following for the years ending June 30:

2012	\$ 4,426,000
2013	4,427,000
2014	4,424,000
2015	4,425,000
2016	4,428,000
Thereafter	<u>65,300,000</u>
	<u>\$ 87,430,000</u>

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 ground lease revenue on the statement of net assets 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, 2011 and 2010, amortization of the deferred ground lease revenue was \$655,665 and \$660,332, respectively.

MUSEUM DEVELOPMENT AUTHORITY OF SEATTLE
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2012 AND 2011

	<i>Budget</i> 2012	<i>Projected</i> <i>Actual</i> 2011
OPERATING REVENUES		
Ground lease	\$ 4,668	\$ 4,668
Lease Revenue	4,258,747	4,212,799
	4,263,415	4,217,467
OPERATING EXPENSES		
General and administrative	44,100	63,435
Depreciation and amortization	2,806,831	2,806,831
	2,850,931	2,870,266
Operating income	1,412,484	1,347,201
NONOPERATING REVENUES (EXPENSES)		
Interest income	211,141	212,579
Interest expense	(2,749,538)	(2,829,287)
Amortization of bond issuance costs	(73,787)	(75,949)
Amortization of bond premium	158,494	163,139
Nonoperating revenues (expenses)	(2,453,690)	(2,529,518)
CHANGE IN FUND NET ASSETS	(1,041,206)	(1,182,317)
FUND NET ASSETS, beginning of year	40,703,694	41,886,011
FUND NET ASSETS, end of year	\$ 39,662,488	\$ 40,703,694

MUSEUM DEVELOPMENT AUTHORITY OF SEATTLE

1300 First Avenue
Seattle, WA 98101

Meeting Minutes: MDA Council Meeting
Thursday, June 9, 2011 8:30AM
Maloney Boardroom
Seattle Art Museum, DT

Attendees:

Doug Raff	David Bruning- SAM Staff
Bob Strong	Bob Cundall – SAM Staff
Maggie Walker	Nancy Zwieback- SAM Staff
Rosita Romero	
Thurston Roach	

The meeting was called to order at 8:35 a.m. Doug Raff presided. David Bruning took the minutes. There was no public comment.

Minutes from the December 9, 2010 meeting were approved.

Bob Cundall provided an update on the Seattle Art Museum (SAM) office space available for lease. Nordstrom has exercised its option on Floors 5 and 6 ahead of the timeframe in the original lease agreement. They have accelerated their possession of floor 5. The museum has been meeting its rent obligations to the MDA prior to lease revenues commencing.

Bob Cundall provided an update on discussions with the City of Seattle on the Guarantee Agreement. Three items are being discussed: a waiver on the coverage ratio, a requested \$28m debt capacity and the release of funds being held in lockbox.

Nancy Zwieback provided an update on the IRS MDA bond audit. IRS examined records to ensure compliance. K&L Gates was retained for the audit. Audit has been closed and there is no change of status of Bonds.

Nancy Zwieback provided an update on the State Accountability Office audit. Audit covered periods of FY08 through FY10. Audit had no findings. SAO requested that audited statements be uploaded to their website.

Doug Raff updated the council on the change in legal representation from K&L Gates to the Pacifica Law Group. Change was approved.

David Bruning presented YTD financials through May 31, 2011. The YTD Expenditures were approved by the Council.

Nancy Zwieback presented the FY12 budget for review. Budget was approved.

The FY12 council meeting schedule was reviewed and approved.

The meeting adjourned at 9:00 a.m.

Douglass A. Raff
Chair

ACORD CERTIFICATE OF PROPERTY INSURANCE

DATE (MM/DD/YY)
07/01/10

PRODUCER
1-425-454-3386
Arthur J. Gallagher Risk Management Services, Inc.

P.O. Box 367

Bellevue, WA 98009-0367
Fax: 425-451-3716

INSURED
Seattle Art Museum

1300 First Avenue

Seattle, WA 98101

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A	<input checked="" type="checkbox"/> PROPERTY CAUSES OF LOSS <input type="checkbox"/> BASIC <input type="checkbox"/> BROAD <input checked="" type="checkbox"/> SPECIAL <input checked="" type="checkbox"/> EARTHQUAKE <input type="checkbox"/> FLOOD	TT542	07/01/10	07/01/11	BUILDING PERSONAL PROPERTY BUSINESS INCOME EXTRA EXPENSE BLANKET BUILDING BLANKET PERS PROP <input checked="" type="checkbox"/> BLANKET BLDG & PP <input checked="" type="checkbox"/> Earthquake <input checked="" type="checkbox"/> Loss of Rents	\$ \$ \$ \$ \$ \$ \$ 185,813,212 \$ 75,000,000 \$ 20,000,000
	<input type="checkbox"/> INLAND MARINE TYPE OF POLICY CAUSES OF LOSS <input type="checkbox"/> NAMED PERILS <input type="checkbox"/> OTHER					\$ \$ \$ \$ \$
	<input type="checkbox"/> CRIME TYPE OF POLICY					\$ \$ \$
	<input type="checkbox"/> BOILER & MACHINERY					\$ \$
	<input type="checkbox"/> OTHER					\$ \$ \$

LOCATION OF PREMISES/DESCRIPTION OF PROPERTY

SPECIAL CONDITIONS/OTHER COVERAGES

Certificate Holder is included as Named Insured as respects operations of the Insured.

CERTIFICATE HOLDER

Museum Development Authority of Seattle

P O Box 2700

Seattle, WA 98122-9700

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AUTHORIZED REPRESENTATIVE

Judith L. May

ACORD 24-(1/95) sundarbel

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MUSEUM DEVELOPMENT AUTHORITY (MDA) COUNCIL

9 members: All subject to City Council confirmation, 3-year terms

- 3 (one each year) Appointed by Mayor
- 3 (one each year) Appointed by Seattle Art Museum Board of Trustees
- 3 (one each year) Appointed by MDA Council (may not be members of SAM Board of Trustees)

<u>Councilmember</u>	<u>Term Ends</u>	<u>Representing</u>
Rosita Romero	July 12, 2013	Mayor
Margaret K. Walker	July 12, 2013	Seattle Art Museum
Dorothy H. Mann	July 12, 2013	MDA Council
Henry McGee	July 12, 2012	Mayor
Robert Strong	July 12, 2012	Seattle Art Museum
Douglass A. Raff	July 12, 2012	MDA Council
Robert J. Flowers	July 12, 2011	Mayor
Douglas Norberg	July 12, 2011	Seattle Art Museum
J. Thurston Roach	July 12, 2011	MDA Council

<u>Men</u>	<u>Women</u>	<u>Vacant</u>	<u>Minority</u>	(1) <u>Asian</u>	(2) <u>Black</u>	(3) <u>Hisp</u>	(4) <u>Nat.Amer</u>	(5) <u>Other</u>
6	3	0	4	0	3	1	0	0