

MUSEUM DEVELOPMENT AUTHORITY

ANNUAL REPORT

Year ended June 30, 2006

SUBMITTED BY:

Robert Cundall, Staff
Museum Development Authority
c/o Seattle Art Museum
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Seattle, WA 98101

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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 Edward 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 6/30/06:

Please see attached audit.

III. PROJECTS & ACTIVITIES PLANNED FOR FY07

In May 2003, the Museum Development Authority ("MDA") council members and SAM's Board of Trustees authorized and approved entering into a development agreement with Washington Mutual Bank (WAMU) to jointly develop a mixed-use facility of approximately 1,225,000 square feet, of which approximately 118,000 square feet will be owned by the MDA as an expansion to the existing downtown museum building and 236,000 square feet will be owned by SAM as future expansion space. A limited liability corporation with WAMU, SAM, and the MDA as members has been established to jointly develop the property and hold the property until the project is completed.

Coinciding with this transaction was the sale of certain properties that were jointly owned and operated by MDA and SAM to WAMU for \$27,700,000 in January 2004. This included the sale of the Heliparker Garage and the sale and transfer of land beneath the Museum Plaza Building. Concurrent with the sale and transfer of the properties, the City-guaranteed bonds supported by the related ground lease and operating agreements were defeased and the leases terminated.

In November 2005, the MDA issued approximately \$64 million in special obligation bonds backed by a guarantee from the City of Seattle. The proceeds of the bonds are being applied by the MDA to pay the costs of the remodel, expansion, and equipping of the MDA's existing downtown museum building, to fund a debt service reserve account, and to pay the cost of issuance. The expanded property will be leased by the MDA to the Museum. Lease payments

are set at an amount to fully fund all debt service requirements. The City of Seattle guarantee provides additional security to the MDA and to the bondholders in the event that lease payment requirements are not met. The delivery of the shell and core components of the expansion were delivered to the MDA and the museum in May, 2006. Occupancy by the museum of the initial expansion space occurred in May, 2007.

The Museum has also developed the 8.5 acre Olympic Sculpture Park ("Park"), which opened in January, 2007, and is used for the exhibition of sculptures that will be available to the general public. A small segment of the Park is owned by the MDA and leased to SAM. In total, the Park is expected to cost approximately \$65,000,000. As part of this project, the MDA has agreed to facilitate the environmental clean up of the Park site with funds available to the MDA through the Washington State Department of Ecology ("DOE"). Total cost of the environmental clean-up is not expected to exceed \$6,000,000, of which the DOE has committed funding for approximately 50%. Lease and leaseback arrangements between the MDA and SAM provide for the funding of the remaining 50% of the clean-up costs.

The completion of the expansion of the downtown museum and the Olympic Sculpture Park will meet the immediate needs and future growth of the Museum while providing exciting new museum space for the good of the community for future generations.

IV. BUDGET INFORMATION FOR FY08

See attached "Statement of Revenues, Expenses and Changes in Fund Net Assets"

V. CAPITAL BUDGET

No capital expenditures are anticipated during FY08 beyond those incurred associated with completion of the above-noted projects.

VI. COUNCIL RESOLUTION ADOPTING THE FY08 BUDGET

See attached.

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
Joann Francis Vice Chair	Mayor
C. Calvert Knudsen Secretary	SAM
Dorothy Mann, PhD	MDA
Henry W. McGee, Jr.	Mayor
K. Francesca Nisco	Mayor
Douglas Norberg	SAM
Douglass Raff Chair	MDA

J. Thurston Roach
Treasurer

MDA



XI. MDA RULES & REGULATIONS

No changes to previously filed rules & regulation.

XII. INSURANCE

See attached policy

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

**INDEPENDENT AUDITOR'S REPORT
and
FINANCIAL STATEMENTS
with
SUPPLEMENTAL INFORMATION**

JUNE 30, 2006 AND 2005

CONTENTS

	PAGE
INDEPENDENT AUDITOR'S REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	2-5
FINANCIAL STATEMENTS	
Balance Sheet	6
Statement of Revenues, Expenses and Changes in Net Assets	7
Statement of Cash Flows	8
Notes to Financial Statements	9-14

INDEPENDENT AUDITOR'S REPORT

To the Council Members
Museum Development Authority of Seattle

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 and for the years ended June 30, 2006 and 2005, as listed in the table of contents. 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 audits 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Museum Development Authority of Seattle as of June 30, 2006 and 2005, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying management discussion and analysis on pages 2 through 5 is presented for the purpose of additional analysis and is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. The supplemental information is the responsibility of the Authority's management. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

Moss Adams LLP

Seattle, Washington
October 17, 2006

MUSEUM DEVELOPMENT AUTHORITY OF SEATTLE
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2006 AND 2005

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, 2006 and 2005. 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 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 (the 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. This offers the best representation of the Authority's operations and reporting entity.

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 engaged only in business-type activities, the financial statements are presented as a proprietary fund. The financial statements therefore include a Balance Sheet; 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.

**MUSEUM DEVELOPMENT AUTHORITY OF SEATTLE
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2006 AND 2005**

Overview of the Financial Statements (Continued)

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 \$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 GAAP requires management to make estimates and assumptions that affect the reported amounts reported 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.

The financial statements include notes that provide additional information that is essential to a full understanding of the information provided.

Capital Asset and Long-Term Debt Activity

On September 25, 1985, the Authority purchased various properties including the Museum site, the expansion site and the Heliparker Garage from the Museum. At that time, the Authority entered into a Ground Lease Agreement and Property Management Agreement (the Agreements) with the Museum. The Agreements provided for the lease of the land beneath the Arcade Plaza Building, operation of the Authority's public parking structures and mutual cooperation toward the development of a new downtown museum. This has been the historic operations of the Authority.

**MUSEUM DEVELOPMENT AUTHORITY OF SEATTLE
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2006 AND 2005**

Capital Asset and Long-Term Debt Activity (Continued)

The Museum is developing an 8.5 acre site along the Seattle waterfront to be called the Olympic Sculpture Park (the Park), which is expected to open in 2007 and used for the exhibition of sculptures that will be available to the general public. In total, the Park is expected to cost approximately \$80,000,000.

In May 2003, the Council Members and the Museum Board of Trustees authorized and approved entering into a development agreement with Washington Mutual Bank (WAMU) to jointly develop a mixed-use facility of approximately 1,225,000 square feet, of which approximately 335,000 square feet will be owned by the Authority and the Museum. This transaction included the sale of certain properties that were jointly owned and operated by the Authority and the Museum to WAMU for \$27,700,000. A limited liability corporation (LLC) with WAMU, the Museum and the Authority as members was established to jointly develop the property and hold the property until the expansion project is complete.

Construction in progress of \$42,216,172 and \$786,317 related to the Park and the expansion project is included in the balance sheet at June 30, 2006 and 2005 with additions including capitalized interest of \$41,429,855 in 2006. The completion of the Park and the expansion of the downtown museum will meet the immediate needs and future growth of the Museum while providing exciting new museum space for the good of the community for generations to come (see Note 2).

The Authority issued approximately \$60,720,000 million in special obligation bonds backed by guarantee from the City of Seattle in November 2005. The proceeds of the bonds are to be applied by the Authority to remodel, expand, and equip the Authority's existing downtown museum building, to fund a debt service reserve account, and to pay costs of issuance. The expanded property will be leased by the Authority to the Museum and to WAMU. Lease payments are to be set at an amount to fund all debt service requirements. The City of Seattle 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

In the fiscal year ended June 30, 2006, the total assets and liabilities increased significantly due to the issuance of special obligation bonds, and the continued construction of the Olympic Sculpture Park and the downtown museum expansion.

**MUSEUM DEVELOPMENT AUTHORITY OF SEATTLE
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2006 AND 2005**

Financial Analysis and Highlights (Continued)

A summary of financial information of the Authority for the years ended June 30, 2006, 2005, and 2004 is presented in the table below.

	2006	2005	2004
Capital assets	\$ 82,836,300	\$ 42,563,933	\$ 43,682,155
Other assets	30,377,877	6,002,327	33,343,356
Total assets	<u>\$ 113,214,177</u>	<u>\$ 48,566,260</u>	<u>\$ 77,025,511</u>
Current liabilities	\$ 2,920,641	\$ 2,751,395	\$ 30,017,409
Noncurrent liabilities	64,148,866	679,000	683,667
Total liabilities	<u>\$ 67,069,507</u>	<u>\$ 3,430,395</u>	<u>\$ 30,701,076</u>
Unrestricted net assets	\$ 5,464,089	\$ 2,571,932	\$ 30,437,280
Invested in capital assets, net of debt	40,680,581	42,563,933	15,887,155
Total net assets	<u>\$ 46,144,670</u>	<u>\$ 45,135,865</u>	<u>\$ 46,324,435</u>
Change in net assets	<u>\$ 1,008,805</u>	<u>\$ (1,188,570)</u>	<u>\$ 6,759,129</u>
Operating revenue	\$ 1,664,320	\$ 4,667	\$ 1,147,200
Nonoperating revenue	565,757	8,463	7,276,627
Total revenues	<u>\$ 2,230,077</u>	<u>\$ 13,130</u>	<u>\$ 8,423,827</u>
Total expenses	<u>\$ 1,221,272</u>	<u>\$ 1,201,700</u>	<u>\$ 1,664,698</u>

As part of this Olympic Sculpture Park project, the Authority has agreed to facilitate the environmental clean up of the Park site with funds available to the Authority through the Washington State Department of Ecology (DOE). Total cost of the environmental clean up is not expected to exceed \$6,000,000, of which the DOE is expected to provide funding for approximately 50%. Additional grants, lease and leaseback arrangements between the Authority and the Museum provide for the funding of the remaining 50% of the clean up costs. At June 30, 2006, the Authority has paid \$2,941,635 to and received \$2,400,759 from the Seattle Art Museum under this arrangement. The remediation expenses and reimbursement from the DOE and other granting agencies of \$1,672,733 and \$811,624 are recorded in 2006 and 2005 and have been included in the Authority's statement of revenues, expenses and changes in net assets as grants and contributions as part of nonoperating revenues and expenses.

Questions and inquiries may be directed to the Deputy Director or Controller at 100 University Street, Seattle, WA 98101-2902, 206-654-3100.

MUSEUM DEVELOPMENT AUTHORITY OF SEATTLE
BALANCE SHEET
JUNE 30, 2006 AND 2005

	ASSETS	
	2006	2005
ASSETS		
Cash and cash equivalents	\$ 3,330,031	\$ 2,535,901
Grants receivable	225,313	126,088
Due from related party	5,501,319	-
Prepaid expense	2,400	2,400
Investment in LLC	-	3,337,938
Current assets	9,059,063	6,002,327
Restricted cash	20,181,202	-
Land	11,125,176	11,125,176
Buildings, net of accumulated depreciation of \$16,804,557 and \$15,647,069	29,494,952	30,652,440
Construction in progress	42,216,172	786,317
Bond issuance costs, net of amortization of \$46,206	1,137,612	-
	\$ 113,214,177	\$ 48,566,260
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accrued interest payable	\$ 765,994	\$ -
Due to related party	-	2,746,728
Current portion of deferred lease revenue	2,154,647	4,667
Current liabilities	2,920,641	2,751,395
Deferred lease revenue	674,333	679,000
Bonds payable	60,720,000	-
Unamortized bond premium	2,754,533	-
Total liabilities	67,069,507	3,430,395
 NET ASSETS		
Unrestricted	5,464,089	2,571,932
Invested in capital assets, net of related debt	40,680,581	42,563,933
Total net assets	46,144,670	45,135,865
	\$ 113,214,177	\$ 48,566,260

See accompanying notes.

MUSEUM DEVELOPMENT AUTHORITY OF SEATTLE
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2006 AND 2005

	2006	2005
OPERATING REVENUES		
Ground lease	\$ 4,667	\$ 4,667
Operating agreement	1,659,653	-
	1,664,320	4,667
OPERATING EXPENSES		
General and administrative	63,785	44,213
Depreciation	1,157,487	1,157,487
	1,221,272	1,201,700
Gain from operations	443,048	(1,197,033)
NONOPERATING REVENUES (EXPENSES)		
Grants and contributions	1,673,594	1,324,169
Other nonoperating income	500,082	7,437
Interest income	-	1,026
Leaseback expenses	(1,673,594)	(1,324,169)
Amortization of bond issuance costs	(46,206)	-
Amortization of bond premium	111,881	-
Nonoperating revenues	565,757	8,463
CHANGE IN NET ASSETS	1,008,805	(1,188,570)
NET ASSETS, beginning of year	45,135,865	46,324,435
NET ASSETS, end of year	\$ 46,144,670	\$ 45,135,865

See accompanying notes.

MUSEUM DEVELOPMENT AUTHORITY OF SEATTLE
STATEMENT OF CASH FLOWS
YEARS ENDED JUNE 30, 2006 AND 2005

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from granting agency on Museum's behalf	\$ 1,574,366	\$ 1,142,814
Cash received from leases	2,136,039	-
Cash paid for goods and services	(63,782)	(46,017)
Net cash from operating activities	3,646,623	1,096,797
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from advance from Museum	-	1,610,877
Interest paid on debt	(1,148,991)	(871,847)
Payments for cost of issuance	(1,183,818)	-
Repayments to Museum on advance	(8,248,049)	(1,012,427)
Proceeds from issuance of bonds payable	63,586,414	-
Payments on bonds payable	-	(27,795,000)
Payments for capital additions	(37,356,972)	(39,265)
Net cash from financing activities	15,648,584	(28,107,662)
 CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of investments	-	28,666,857
Receipts from development rights	500,082	-
Interest and dividends	1,180,043	1,026
Net cash from investing activities	1,680,125	28,667,883
CHANGE IN CASH AND CASH EQUIVALENTS	20,975,332	1,657,018
 CASH AND CASH EQUIVALENTS		
Beginning of year	2,535,901	878,883
End of year	\$ 23,511,233	\$ 2,535,901
 RECONCILIATION OF OPERATING INCOME TO NET CASH USED FROM OPERATING ACTIVITIES		
Gain (loss) from operations	\$ 443,048	\$ (1,197,033)
Adjustments to reconcile to net cash from operating activities		
Depreciation and amortization	1,157,487	1,157,487
Change in assets and liabilities		
Grants receivable	(99,225)	-
Deferred lease revenue	2,145,313	333,959
Accrued liabilities	-	802,384
Net cash used by operating activities	\$ 3,646,623	\$ 1,096,797

See accompanying notes.

MUSEUM DEVELOPMENT AUTHORITY OF SEATTLE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

Note 1 - Operations and Summary of Significant Accounting Policies

Operations and Reporting Entity - The Museum Development Authority of Seattle (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. Additionally, the City of Seattle provides a guarantee on debt issued by the Authority. Accordingly, the Authority is a component unit of the City of Seattle, Washington. The purpose of the Authority is to undertake and assist in the development and operations of a public art museum (the Museum) in downtown Seattle. The financial statements include only the activities of the Authority as no component units of the Authority have been identified. Accordingly, 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 governments. 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 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, debt, sale of property, and grants and contributions and leaseback expenses related to the environmental cleanup.

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 reported 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.

MUSEUM DEVELOPMENT AUTHORITY OF SEATTLE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

Note 1 - Operations and Summary of Significant Accounting Policies (Continued)

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 qualified public depository as required by Statute. At June 30, 2006 and 2005, operating cash balances of \$3,330,031 and \$2,535,901 were 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, 2006 of \$20,181,202 are held in money market funds collateralized by securities held by the financial institution.

Receivables - Receivables primarily consist of amounts due from Washington State Department of Ecology (DOE). All account balances are due in less than one year. Based on historical collections, no allowance for uncollectible accounts is recorded.

Investment in LLC - Investment in LLC represents the Authority's investment in a limited liability corporation that was established to jointly develop real property and hold the real property until the completion of the Museum Expansion project (See Note 5). The investment is reported at the lower of cost or fair value. At June 30, 2006 and 2005, the amount reported on the balance sheet represents capital contributions made by the Authority to the LLC.

Land and Buildings - Land and buildings are stated at cost. Depreciation of the buildings is provided using the straight-line method over an estimated useful life of 20 to 40 years.

Construction in Progress - Construction in progress reflects the construction activity related to the Museum Expansion Projects, which are incomplete. When the construction is complete, the assets will be placed in service. At that time, depreciation will commence over the estimated useful life of the property, which will range from 30 to 40 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 balance sheet represents payments received in advance from the Museum for the Olympic Sculpture Park ground lease and the Museum Expansion operating agreement.

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.

MUSEUM DEVELOPMENT AUTHORITY OF SEATTLE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

Note 1 - Operations and Summary of Significant Accounting Policies (Continued)

Rebateable Arbitrage - No arbitrage rebate is owed to the United States Treasury for the years ended June 30, 2006 or 2005.

Reclassifications - Certain reclassifications have been made to the 2005 amounts to conform to the 2006 presentation. These reclassifications had no effect on the change in net assets.

Note 2 - Capital Assets

The following is a summary of changes in capital assets:

	Balance at June 30, 2004	Additions	Balance at June 30, 2005	Additions	Balance at June 30, 2006
Building	\$ 46,299,509	\$ -	\$ 46,299,509	\$ -	\$ 46,299,509
Construction in progress	747,052	39,265	786,317	41,429,855	42,216,172
Land	11,125,176	-	11,125,176	-	11,125,176
	<u>58,171,737</u>	<u>39,265</u>	<u>58,211,002</u>	<u>41,429,855</u>	<u>99,640,857</u>
Less accumulated depreciation	<u>(14,489,582)</u>	<u>(1,157,487)</u>	<u>(15,647,069)</u>	<u>(1,157,488)</u>	<u>(16,804,557)</u>
	<u>\$ 43,682,155</u>	<u>\$ (1,118,222)</u>	<u>\$ 42,563,933</u>	<u>\$ 40,272,367</u>	<u>\$ 82,836,300</u>

There were no disposals in 2006 or 2005. Additions for the year ended June 30, 2006 included payments of \$22,803,804 for the Authority's share of the LLC's construction loan and non-cash amounts of \$3,337,938 for the delivery of the Authority's units from the LLC (see Note 5). Capitalized interest net of income earned on temporary investments from bond proceeds included in construction in progress amounted to \$734,942 and \$0 at June 30, 2006 and 2005.

Note 3 - Bonds Payable

Special Obligation Bonds - In November 2005, the Authority issued \$60,720,000 in special obligation bonds backed by guarantee from the City of Seattle. The bond funds will be used to remodel, expand, and equip the Authority's existing downtown museum building. The expanded property will be 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 \$1,365,000 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, 2006, the Authority is in compliance with the bond covenants.

MUSEUM DEVELOPMENT AUTHORITY OF SEATTLE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

Note 3 - Bonds Payable (Continued)

The following is a summary of changes in bonds payable.

	Balance at June 30, 2004	Repayments	Balance at June 30, 2005	Issuances	Balance at June 30, 2006
Tax-exempt bonds	<u>\$ 27,795,000</u>	<u>\$(27,795,000)</u>	<u>\$ -</u>	<u>\$60,720,000</u>	<u>\$ 60,720,000</u>

Maturities of the bonds are as follows:

<u>Years Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ -	\$ 1,531,988	\$ 1,531,988
2008	1,365,000	3,063,975	4,428,975
2009	1,430,000	2,995,725	4,425,725
2010	1,505,000	2,924,225	4,429,225
2011	1,575,000	2,848,975	4,423,975
2012 - 2016	9,150,000	12,980,875	22,130,875
2017 - 2021	11,680,000	10,452,375	22,132,375
2022 - 2026	14,915,000	7,224,625	22,139,625
2027 - 2031	19,100,000	3,034,000	22,134,000
	<u>\$ 60,720,000</u>	<u>\$ 47,056,763</u>	<u>\$ 107,776,763</u>

Note 4 - Related Party Transactions

The Authority owns the downtown building utilized by the Museum for the exhibition, storage and office space. The Museum building was designed and built to meet unique museum requirements and the Museum does not include the estimated fair rental value of the premises owned by the Authority since it is not readily susceptible to objective measurement or valuation, due to the unique requirements.

As indicated in Notes 5 and 6, the Authority is 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 balance sheet at June 30, 2006 and 2005 as due to related party or due from related party as appropriate.

MUSEUM DEVELOPMENT AUTHORITY OF SEATTLE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

Note 5 - Museum Expansion Project

In May 2003, the Authority Council Members and the Museum Board authorized and approved entering into a development agreement with Washington Mutual Bank (WAMU) to jointly develop a mixed-use facility of approximately 1,225,000 square feet, of which approximately 335,000 square feet will be owned by the Authority and the Museum. WAMU is considered a related party given a relationship between board members of WAMU and the Museum. This transaction includes the sale of certain properties that were jointly owned and operated by the Authority and the Museum to WAMU, payment of bonds with the sales proceeds and investment of additional proceeds in a limited liability corporation (LLC) with WAMU, the Museum and the Authority as members, to jointly develop property and hold the property until the expansion project is complete. In May 2006, substantial completion of the shell core construction costs was completed and each LLC member received its respective units. In 2007, the LLC will be dissolved.

The new facility is intended to provide the space for the Museum's long-term expansion needs. In total, the new facility is expected to cost the Museum in excess of \$140,000,000. The Museum leases space in the new facility from the Authority under an operating agreement. Payments under the operating agreement are set equal to the principal and interest payments required for the bonds as disclosed in Note 3.

Note 6 - Olympic Sculpture Park

The Museum is developing an 8.5 acre site along the Seattle waterfront to be called the Olympic Sculpture Park (the Park), which is expected to open in 2007 and used for the exhibition of sculptures that will be available to the general public. In total, the Park is expected to cost approximately \$80,000,000.

Beginning in 2002, 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 balance sheet and will be 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. The Authority's contribution for the donation has not been recorded by the Museum, as the leased land is not readily susceptible to objective measurement or valuation given the unique required use of the land.

MUSEUM DEVELOPMENT AUTHORITY OF SEATTLE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

Note 6 - Olympic Sculpture Park (Continued)

As part of this Olympic Sculpture Park project, the Authority has agreed to facilitate the environmental clean up of the Park site with funds available to the Authority through the Washington State Department of Ecology (DOE). Total cost of the environmental clean up is not expected to exceed \$6,000,000, of which the DOE is expected to provide funding for approximately 50%. Additional grant funding and lease and leaseback arrangements between the Authority and the Museum provide for the funding of the remaining 50% of the clean up costs. At June 30, 2006 the Authority has paid \$2,941,635 to and received \$2,400,759 from the Seattle Art Museum under this arrangement. The remediation expenses and reimbursement from the DOE and other granting agencies of \$1,672,733 and \$811,624 are recorded in 2006 and 2005 and have been included in the Authority's statement of revenues, expenses and changes in net assets as grants and contributions as part of nonoperating revenues and expenses.

MUSEUM DEVELOPMENT AUTHORITY OF SEATTLE
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

	Budget 2008	(Preliminary) Actual 2007	Actual 2006	Actual 2004
OPERATING REVENUES				
Ground lease	\$ 4,667	\$ 4,667	\$ 4,667	\$ 986,783
Lease revenue	4,428,433	3,405,225	1,659,653	-
	<u>4,433,100</u>	<u>3,409,892</u>	<u>1,664,320</u>	<u>1,147,200</u>
OPERATING EXPENSES				
General and administrative	69,500	148,064	63,785	13,302
Depreciation and amortization	2,760,592	1,157,487	1,157,487	1,630,719
	<u>2,830,092</u>	<u>1,305,551</u>	<u>1,221,272</u>	<u>1,644,021</u>
Operating income / (loss)	<u>1,603,008</u>	<u>2,104,341</u>	<u>443,048</u>	<u>(496,821)</u>
NONOPERATING REVENUES (EXPENSES)				
Grants and Contributions	-	184,485	1,673,594	
Other nonoperating income	-	-	500,082	
Interest income	289,073	108,621	-	111,946
Interest expense	(3,063,975)	(510,662)	-	
Leaseback Expenses	-	(184,485)	(1,673,594)	
Amortization of Bond Cost of Issuance	(81,849)	(90,980)	(46,206)	
Amortization of Bond Premium	175,812	182,796	111,881	
Nonoperating revenues (expenses)	<u>(2,680,939)</u>	<u>(310,225)</u>	<u>565,757</u>	<u>111,946</u>
CHANGE IN FUND NET ASSETS	<u>(1,077,931)</u>	<u>1,794,116</u>	<u>1,008,805</u>	<u>(2,128,570)</u>
FUND NET ASSETS, beginning of year	47,938,786	46,144,670	45,135,865	39,565,306
FUND NET ASSETS, end of year	<u>\$ 46,860,855</u>	<u>\$ 47,938,786</u>	<u>\$ 46,144,670</u>	<u>\$ 37,436,736</u>

MUSEUM DEVELOPMENT AUTHORITY OF SEATTLE

1300 First Avenue
Seattle, WA 98101

Meeting Minutes: MDA Council Meeting
Wednesday, September 12, 2007 8:30AM
Maloney Boardroom
Seattle Art Museum, DT

Attendees:

Doug Raff
Joann Francis
Dorothy Mann
Henry McGee
Doug Norberg
Robert Strong

Bob Cundall – SAM Staff
Linda Wilson – SAM Staff
Nancy Zwieback – SAM Staff

Gerry Johnson – K&L Gates

The meeting was called to order at 8:30 a.m. Doug Raff, Chair, presided. Nancy Zwieback took the minutes. There was no public comment. The Council reviewed and approved the minutes from the March 14, 2007 and July 11, 2007 meetings.

Bob Cundall presented a status report on the Briese Soleil remediation for the Expansion project, and the closing of the capital projects accounting.

Gerry Johnson discussed the amendments related to the Reimbursement Agreement with the City of Seattle addressing the insurance requirements of the City. Both the MDA Council and the City have approved the amendments. The Council confirmed a motion for Doug Raff to sign the Amended and Restated Reimbursement Agreement.

As part of the dissolution process for 1301 Second Avenue LLC, any warranties and claims related to the Expansion project will be assigned to Washington Mutual, the Seattle Art Museum (SAM) and the MDA as LLC members. The Council confirmed a motion for Doug Raff to sign the assignment agreement.

Gerry Johnson presented an overview of the lease and sublease arrangement between the MDA and SAM for the Olympic Sculpture Park to obtain public funds for the remediation work. Now that the remediation is completed and all grant funds have been received, the Council adopted Resolution _____ to terminate the ground lease and sublease.

Gerry Johnson also provided an update on the accountability audit conducted by the State Auditor's Office (SAO) for the year ending June 30, 2006. In discussions with the SAO, the SAO has decided to expand the scope of the audit to include a two year period ending June 30, 2007. This expanded timeframe will enable accounting staff to review and reallocate any MDA bond proceeds within the allowed look-back period.

Nancy Zwieback reviewed the preliminary FY07 financial statements for the MDA as well as its FY08 budget. The Council approved the FY08 budget. Bob Cundall also presented a draft of the MDA's annual report that will be filed with the City of Seattle.

Dorothy Mann's term on the MDA Council ended July 2007 but she has agreed to serve another term. The Council re-appointed her to an additional term. The Mayor's Office is working on finding a replacement for Francesca Nisco whose term also ended in July 2007.

The meeting adjourned at 9:30 a.m.

Douglass A. Raff
Chair

ACORD™ CERTIFICATE OF LIABILITY INSURANCE

DATE (MM/DD/YYYY)
07/01/2007

PRODUCER (425)454-3386 FAX (425)451-3716
Arthur J. Gallagher Risk Management Services, Inc.
P.O. Box 367
Seattle, WA 98009-0367

THIS CERTIFICATE IS ISSUED AS A MATTER OF INFORMATION ONLY AND CONFERS NO RIGHTS UPON THE CERTIFICATE HOLDER. THIS CERTIFICATE DOES NOT AMEND, EXTEND OR ALTER THE COVERAGE AFFORDED BY THE POLICIES BELOW.

INSURED Seattle Art Museum
1300 First Avenue
Seattle, WA 98101

INSURERS AFFORDING COVERAGE	NAIC #
INSURER A: National Surety Corporation	21881
INSURER B:	
INSURER C:	
INSURER D:	
INSURER E:	

COVERAGES

THE POLICIES OF INSURANCE LISTED BELOW HAVE BEEN ISSUED TO THE INSURED NAMED ABOVE FOR THE POLICY PERIOD INDICATED. NOTWITHSTANDING ANY REQUIREMENT, TERM OR CONDITION OF ANY CONTRACT OR OTHER DOCUMENT WITH RESPECT TO WHICH THIS CERTIFICATE MAY BE ISSUED OR MAY PERTAIN, THE INSURANCE AFFORDED BY THE POLICIES DESCRIBED HEREIN IS SUBJECT TO ALL THE TERMS, EXCLUSIONS AND CONDITIONS OF SUCH POLICIES. AGGREGATE LIMITS SHOWN MAY HAVE BEEN REDUCED BY PAID CLAIMS.

INSR ADD'L LTR	INSRG	TYPE OF INSURANCE	POLICY NUMBER	POLICY EFFECTIVE DATE (MM/DD/YY)	POLICY EXPIRATION DATE (MM/DD/YY)	LIMITS
A	X	GENERAL LIABILITY <input checked="" type="checkbox"/> COMMERCIAL GENERAL LIABILITY <input type="checkbox"/> CLAIMS MADE <input checked="" type="checkbox"/> OCCUR GEN'L AGGREGATE LIMIT APPLIES PER: <input type="checkbox"/> POLICY <input type="checkbox"/> PRO-JECT <input type="checkbox"/> LOC	MXX80875312	07/01/2007	07/01/2008	EACH OCCURRENCE \$ 1,000,000 DAMAGE TO RENTED PREMISES (Ea occurrence) \$ 100,000 MED EXP (Any one person) \$ 5,000 PERSONAL & ADV INJURY \$ 1,000,000 GENERAL AGGREGATE \$ 2,000,000 PRODUCTS - COMP/OP AGG \$ 2,000,000
		AUTOMOBILE LIABILITY <input type="checkbox"/> ANY AUTO <input type="checkbox"/> ALL OWNED AUTOS <input type="checkbox"/> SCHEDULED AUTOS <input type="checkbox"/> HIRED AUTOS <input type="checkbox"/> NON-OWNED AUTOS				COMBINED SINGLE LIMIT (Ea accident) \$ BODILY INJURY (Per person) \$ BODILY INJURY (Per accident) \$ PROPERTY DAMAGE (Per accident) \$
		GARAGE LIABILITY <input type="checkbox"/> ANY AUTO				AUTO ONLY - EA ACCIDENT \$ OTHER THAN AUTO ONLY: EA ACC \$ AGG \$
		EXCESS/UMBRELLA LIABILITY <input type="checkbox"/> OCCUR <input type="checkbox"/> CLAIMS MADE DEDUCTIBLE \$ RETENTION \$				EACH OCCURRENCE \$ AGGREGATE \$ \$ \$ \$
		WORKERS COMPENSATION AND EMPLOYERS' LIABILITY ANY PROPRIETOR/PARTNER/EXECUTIVE OFFICER/MEMBER EXCLUDED? If yes, describe under SPECIAL PROVISIONS below				<input type="checkbox"/> WC STATUTORY LIMITS <input type="checkbox"/> OTHER E.L. EACH ACCIDENT \$ E.L. DISEASE - EA EMPLOYEE \$ E.L. DISEASE - POLICY LIMIT \$
		OTHER				

DESCRIPTION OF OPERATIONS / LOCATIONS / VEHICLES / EXCLUSIONS ADDED BY ENDORSEMENT / SPECIAL PROVISIONS
 Certificate holder is included as Additional Named Insured as respects operation of the insured.

CERTIFICATE HOLDER

Museum Development Authority
P.O. Box 2700
Seattle, WA 98122-9700

CANCELLATION

SHOULD ANY OF THE ABOVE DESCRIBED POLICIES BE CANCELLED BEFORE THE EXPIRATION DATE THEREOF, THE ISSUING INSURER WILL ENDEAVOR TO MAIL 30 DAYS WRITTEN NOTICE TO THE CERTIFICATE HOLDER NAMED TO THE LEFT, BUT FAILURE TO MAIL SUCH NOTICE SHALL IMPOSE NO OBLIGATION OR LIABILITY OF ANY KIND UPON THE INSURER, ITS AGENTS OR REPRESENTATIVES.

AUTHORIZED REPRESENTATIVE

Judy Graf/KIM

Judith L. Hays