SOUTHEAST EFFECTIVE DEVELOPMENT AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

DECEMBER 31, 2013

C O N T E N T S

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
SouthEast Effective Development and Subsidiaries
Seattle, Washington

We have audited the accompanying consolidated financial statements of SouthEast Effective Development and Subsidiaries (collectively, "SEED"), which comprise the consolidated statement of financial position as of December 31, 2013 and 2012, and the related consolidated statements of activities, changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibilities for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of Rainier Court Associates 2002-I, LLC and Rainier Court Associates 2003-IIA, LLC (collectively, "the Subsidiaries"), which reflect total assets of $41,509,512 and $42,764,336 as of December 31, 2013 and 2012, respectively, and total revenue of $4,162,829 and $4,051,572 for the years ended December 31, 2013 and 2012, respectively. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Subsidiaries, is based solely on the reports of the other auditors. The financial statements of the subsidiaries were not audited in accordance with *Government Auditing Standards*. We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, based on our audits and the reports of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of SEED as of December 31, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

Other Matter – Supplementary Information

Our audits were performed for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The accompanying 2013 schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States*, *Local Governments*, *and Non-Profit Organizations*, and is not a required part of the consolidated financial statements. The accompanying consolidating schedules for 2013 and 2012 on pages 29, 30, and 31 are also presented for the purpose of additional analysis and are also not a required part of the consolidated financial statements.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with the auditing standards generally accepted in the United States. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 26, 2014, on our consideration of SEED's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering SEED's internal control over financial reporting and compliance.

Peterson Sullivan LLP

June 26, 2014

SOUTHEAST EFFECTIVE DEVELOPMENT AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31, 2013 and 2012

ASSETS	2013	2012
Current Assets		
Cash and cash equivalents	$ 563,846	$ 1,306,221
Accounts receivable	215,334	435,564
Prepaid expenses and other current assets	25,939	62,292
Total current assets	805,119	1,804,077
Restricted cash	205,973	128,844
Restricted reserves	7,381,529	1,859,417
Project development costs	7,572,212	5,774,088
Investment in limited liability company	674,217	791,896
Tenant security deposits	311,087	313,021
Land, property, and equipment, net of accumulated depreciation	65,472,751	65,323,443
Financing fees, net of accumulated amortization	1,167,056	744,132
Total assets	$ 83,589,944	$ 76,738,918

LIABILITIES AND NET ASSETS	2013	2012
Current Liabilities		
Accounts payable	$ 787,149	$ 617,521
Grant repayments payable		174,133
Accrued expenses and other current liabilities	94,938	33,489
Accrued interest payable	9,585	9,725
Advances payable	309,786	309,785
Partnership management fee payable	148,353	139,631
Current portion of long-term debt	2,537,745	1,903,765
Total current liabilities	3,887,556	3,188,049
Project management fee payable	4,895,067	4,153,240
Tenant security deposits	311,087	313,021
Long-term debt, less current portion	58,892,275	52,551,143
Forgivable long-term debt	2,166,803	2,166,803
Accrued interest on long-term debt	3,087,339	2,992,097
Total liabilities	73,240,127	65,364,353
Net Assets		
Unrestricted net assets	8,194,319	8,468,851
Non-controlling interest in consolidated subsidiaries	2,155,498	2,905,714
Total net assets	10,349,817	11,374,565
Total liabilities and net assets	$ 83,589,944	$ 76,738,918

See Notes to Consolidated Financial Statements

SOUTHEAST EFFECTIVE DEVELOPMENT AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF ACTIVITIES

For the Years Ended December 31, 2013 and 2012

	2013	2012
Revenue		
Rental income and tenant charges	$ 6,380,353	$ 6,194,590
Arts program income	177,136	168,416
Management, oversight, and developer fees	257,682	221,184
Fees and grants from governmental agencies	466,382	424,966
Contributions	156,965	128,432
Interest income and other	108,770	256,695
Total revenue	7,547,288	7,394,283
Program expenses		
Asset/property management	7,781,195	7,689,486
Arts program	509,904	552,342
Real estate development	166,668	180,835
Total program services	8,457,767	8,422,663
Support services		
Management and general	601,642	497,601
Fundraising	7,633	5,502
Total support services	609,275	503,103
Total expenses	9,067,042	8,925,766
Change in net assets	(1,519,754)	(1,531,483)
Change in net assets attributable to noncontrolling interest	1,245,222	1,123,441
Change in net assets attributable to SEED	**$ (274,532)**	**$ (408,042)**

See Notes to Consolidated Financial Statements

SOUTHEAST EFFECTIVE DEVELOPMENT AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

For the Years Ended December 31, 2013 and 2012

	SEED	Noncontrolling Interest	Total
Net assets, December 31, 2011	$ 8,876,893	$ 4,029,155	$ 12,906,048
Change in net assets	(408,042)	(1,123,441)	(1,531,483)
Net assets, December 31, 2012	8,468,851	2,905,714	11,374,565
Capital contribution (from noncontrolling partner)		495,006	495,006
Change in net assets	(274,532)	(1,245,222)	(1,519,754)
Net assets, December 31, 2013	$ 8,194,319	$ 2,155,498	$ 10,349,817

See Notes to Consolidated Financial Statements

SOUTHEAST EFFECTIVE DEVELOPMENT AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2013 and 2012

	2013	2012
Cash Flows from Operating Activities		
Change in net assets	$ (1,519,754)	$ (1,531,483)
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation of property and equipment	2,082,011	2,074,268
Amortization of loan fees	64,353	58,388
Net distributions from investment in limited liability company	117,679	51,133
Change in operating assets and liabilities		
Accounts receivable	220,230	(134,855)
Prepaid expenses and other current assets	36,353	(6,817)
Accounts payable	169,628	288,024
Accrued expenses and other current liabilities	61,449	(74,035)
Grant repayment payable	(174,133)	
Partnership management fee payable	8,722	31,102
Accrued interest payable	95,103	355,161
Net cash flows from operating activities	1,161,641	1,110,886
Cash Flows from Investing Activities		
Payments for project development costs	(1,798,124)	(433,918)
Purchases of property and equipment	(1,489,492)	(91,838)
Net deposits to restricted cash	(77,129)	(26,018)
Net deposits to restricted reserves	(5,522,112)	(199,329)
Net cash flows from investing activities	(8,886,857)	(751,103)
Cash Flows from Financing Activities		
Proceeds from long-term debt	7,753,637	447,251
Payments on long-term debt	(778,525)	(621,782)
Proceeds from (repayments of) line of credit		(38,644)
Proceeds from capital contribution (from noncontrolling partner)	495,006	
Payments for financing costs	(487,277)	(52,634)
Net cash flows from financing activities	6,982,841	(265,809)
Net change in cash	**(742,375)**	**93,974**
Cash, beginning of year	1,306,221	1,212,247
Cash, end of year	$ 563,846	$ 1,306,221
Supplemental disclosure of cash flow information		
Cash paid during the year for interest, net of amounts capitalized	$ 2,048,833	$ 1,900,608

See Notes to Consolidated Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Organization and Significant Accounting Policies

Organization

SouthEast Effective Development is a nonprofit community development corporation that invests in the future of Southeast Seattle by facilitating social, economic, housing, and cultural programs within the community. Founded in 1975, SouthEast Effective Development works to strengthen and revitalize the neighborhoods and business districts of Southeast Seattle. SouthEast Effective Development's mission is to improve the quality of life in Southeast Seattle by creating partnerships and serving as a catalyst for community investments.

SouthEast Effective Development owns and operates the following affordable housing properties: Charlestown, Columbia Hotel, 3904 Martin Luther King Way, and Nuuanu Pali. The revenues and land, property, and equipment for these properties are included in SouthEast Effective Development's financial statements. SouthEast Effective Development also manages other properties for consolidated subsidiaries (see below), and the rental revenues and land, property, and equipment for such properties are included in the subsidiary's financial statements (and then consolidated).

Principles of Consolidation

These financial statements consolidate the statements of SouthEast Effective Development, Rainier Community Capital Corporation ("RC3"), SEED-Oregon Place Limited Partnership ("Oregon Place" or "the Partnership"), Rainier Court Associates 2002-I, LLC ("Rainier Court I"), Rainier Court Associates 2003-IIA, LLC ("Rainier Court II"), Rainier Court Associates 2003-III, LLC (“Rainier Court III”), Lilac Lodge Community Organization ("Lilac Lodge"), and Claremont @ Walden LLC ("Claremont") (collectively, "SEED" or "the Organization"). Inter-Organization balances and transactions have been eliminated in the consolidation.

RC3 is a Washington corporation and was incorporated on January 29, 1993, as a wholly-owned for-profit subsidiary corporation of SEED. RC3 is a part of SEED's Neighborhood Development Program. RC3's initial funding came from a loan from the City of Seattle ("the City"). SEED has pledged all of the shares' capital of RC3 stock (750 shares) as security for the City's loan. There are substantial penalties for not meeting the terms of the loan, which also place numerous restrictions on the use of the loan funds and the properties acquired.

Oregon Place was formed as a limited partnership under the laws of the State of Washington on September 1, 1999. SEED serves as the general partner with 0.01 percent ownership. The NEF Assignment Corporation is the limited partner with 99.99 percent ownership. The Partnership was organized for the purpose of developing and operating 39 units of low-income housing in Seattle, Washington, that were placed in service in 2001. Oregon Place is reported as a consolidated subsidiary of SEED due to the control SEED has over the Partnership as the partnership's general partner.

Rainier Court I was formed as a limited liability company under the laws of the State of Washington on May 3, 2002. SEED serves as the managing member with 0.009 percent ownership. Apollo Housing Capital Rainier I, LLC serves as the investor member with 99.99 percent ownership and Apollo Housing Manager II, Inc. serves as a special member with 0.001 percent ownership. Rainier Court I was organized for the purpose of developing and operating 208 units of residential housing in a building named Courtland Place at Rainier Court located in Seattle, Washington, that was placed in service in 2004. Rainier Court I is reported as a consolidated subsidiary of SEED due to the control SEED has over Rainier Court I as its managing member.

Rainier Court II was formed as a limited liability company under the laws of the State of Washington on December 27, 2002. SEED serves as the managing member with 0.009 percent ownership. Apollo Housing Capital Rainier II, LLC serves as the investor member with 99.99 percent ownership and Apollo Housing Manager II, Inc. serves as a special member with 0.001 percent ownership. Rainier Court II was organized for the purpose of developing and operating 178 units of residential housing in a building named The Dakota at Rainier Court located in Seattle, Washington, that was placed in service in 2005. Rainier Court II is reported as a consolidated subsidiary of SEED due to the control SEED has over Rainier Court II as its managing member.

Rainier Court III was formed as a limited liability company under the laws of the State of Washington on December 27, 2002. SEED serves as the managing member with 0.009 percent ownership. Union Bank N.A. serves as the investor member with 99.99 percent ownership and Union Bank N.A. also serves as a special member with 0.001 percent ownership. Rainier Court III was organized for the purpose of developing and operating 70 units of residential housing in a building located in Seattle, Washington, that is under construction and expected to be completed in mid-2014. Rainier Court III is reported as a consolidated subsidiary of SEED due to the control SEED has over Rainier Court III as its managing member.

Lilac Lodge was formed as nonprofit corporation under the laws of the State of Washington on August 18, 1994. Lilac Lodge was organized for the purpose of acquiring and operating 44 units of residential housing. Lilac Lodge was financed by a capital grant under Section 220(d)(3)(B) of the Low-Income Housing Preservation and Resident Homeownership Act of 1990 and is regulated by the U.S. Department of Housing and Urban Development as to rent charges and operating methods. SEED manages the property. Lilac Lodge is reported as a consolidated subsidiary of SEED because it is managed by SEED, and by SEED's ability to appoint six of the seven directors of Lilac Lodge's board of directors.

Claremont was formed as a limited liability company under the laws of the State of Washington on September 25, 2009, as a wholly-owned subsidiary of SEED. Claremont was organized for the purpose of acquiring and operating a mixed-use project containing approximately 68 units of low-income housing (the Claremont Apartments & Claremont Place). Claremont is reported as a consolidated subsidiary of SEED because it is wholly-owned by SEED.

Financial Statement Presentation

Accounting principles generally accepted in the United States require nonprofit entities to report information regarding their financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. SEED has no temporarily or permanently restricted net assets, so these classes of assets are not presented.

Noncontrolling interests presented in the consolidated financial statements represent the ownership interests of investors other than SEED in Oregon Place, Rainier Court I, Rainier Court II, and Rainier Court III.

Restrictions on Distributions from Affiliate to Parent Organization

Oregon Place, Rainier Court I, Rainier Court II, and Rainier Court III described above are subject to partnership and operating agreements that provide for certain restrictions on the distribution of net cash flows to SEED, other owners, and lenders.

Cash and Cash Equivalents

For the consolidated statements of cash flows, SEED considers all unrestricted investment instruments with original maturities of three months or less to be cash and cash equivalents. At times, SEED has deposits with financial institutions that exceed federal deposit insurance limits. Management anticipates no material effect to SEED's financial position as a result of cash held in financial institutions in excess of federal deposit insurance.

Accounts Receivable

Trade accounts receivable are stated at the amount management expects to collect from outstanding balances. Management regularly reviews receivables and establishes an allowance for potentially uncollectible amounts. Management believes accounts receivable balances to be fully collectible and, therefore, no allowance for bad debts was recorded at December 31, 2013 or 2012.

Restricted Cash and Reserves

Certain loan covenants require SEED to maintain reserves in escrow. Such reserves are held in the form of cash and money market funds.

Fair Value of Financial Instruments

SEED’s only significant financial instruments are notes payable. It is not practicable to value the notes payable as they are generally from government entities and have varying restrictions/requirements.

Land, Property, and Equipment

Land, building and improvements, and equipment are recorded at cost or, if donated, at the approximate fair value at the date of donation. Improvements are capitalized while expenditures for maintenance and repairs are charged to expense as incurred. Depreciation is calculated by the straight-line method over the estimated useful lives as follows:

Building and improvements	20 to 40 years
Land improvements	10 to 15 years
Furniture and equipment	5 to 10 years

SEED reviews its investment in real estate and other long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the asset to the future net undiscounted cash flow expected to be generated by the asset including any estimated proceeds from the eventual disposition of the asset. If the asset is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the asset exceeds its fair value. No impairment losses were recognized in 2013 or 2012.

Property and equipment consisted of the following at December 31, 2013 and 2012:

	2013	2012
Land	$ 12,632,619	$ 10,545,373
Land improvements	1,449,551	1,422,724
Buildings, improvements, and equipment	69,108,446	68,995,487
	83,190,616	80,963,584
Less: accumulated depreciation	(17,717,865)	(15,640,141)
	$ 65,472,751	$ 65,323,443

Substantially all of the real property SEED owns is subject to conditions set forth in various grant awards or loan documents concerning the future use or sale of the properties.

Project Development Costs

Acquisition, development, and construction costs associated with projects being developed for sale or rental are capitalized, including interest and taxes. Upon completion of the project, project development costs are placed into service and transferred to land, property, and equipment. Incidental revenue is recognized as a reduction of capitalized project costs, and related costs are recognized as an increase in capitalized project costs.

Rainier Court III: SEED is developing the Rainier Court III project which, when completed, will be an affordable senior housing development consisting of 70 rental housing units. Total estimated cost of the project is $13.7 million. Total project costs capitalized at December 31, 2013, were $3,523,453 and have been reported as part of Rainier Court III. At December 31, 2012, project development costs were $1,458,571 and were recorded as part of Southeast Effective Development, and were transferred to Rainier Court III upon financing being received by Rainier Court III in 2013. Project development costs transferred to Rainier Court III in 2013 include land, architectural design, and other development costs. During 2013, Rainier Court III obtained financing as described in Note 6 of $9.2 million in order to complete the project.

As of December 31, 2013, outstanding construction commitments on this project were $6,862,654.

Rainier Court IV: SEED is developing the Rainier Court IV project which, when completed, will be a mixed-use development consisting of approximately 105 rental housing units. Total estimated cost of the project is estimated to be $24 million. Total project development costs capitalized at December 31, 2013 and 2012, were $4,048,759 and $4,007,051, respectively, and are included as SEED assets until an LLC is organized at which time all assets and liabilities will be transferred to the LLC (once construction begins). The Rainier Court IV project will be funded through obtaining capital contributions from limited partners, grants and contracts from public agencies, and debt financing.

Environmental remediation costs for the Rainier Court IV property are estimated at $1 to $2 million although largely depend on the final construction plans, and the actual amount is highly uncertain as no formal environmental study has taken place, and therefore has not accrued the obligation. Substantially all of the Rainier Court IV property is subject to conditions set forth in various grant award and loan documents concerning the future use or sale of the property. As of December 31, 2013, there were no construction commitments on this project.

Rental Income and Tenant Charges

Rental income is recognized for commercial and apartment rentals in the appropriate rental period over the term of the lease. There were approximately 10 commercial and 600 residential tenants at December 31, 2013. Tenant charges are recognized when they are earned ratably over lease terms.

Financing Fees

Financing fees are amortized over the life of the loan using the straight-line method. Financing fees are presented net of accumulated amortization of $571,841 and $503,203, at December 31, 2013 and 2012, respectively. Amortization expense over each of the next five years is expected to be $65,000.

Restricted and Unrestricted Revenue and Support

Donor-restricted contributions are reported as increases in temporarily restricted net assets. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions.

Income Taxes

SEED is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. Income from commercial leasing activities not directly related to SEED's tax-exempt purpose is subject to taxation as unrelated business income. No taxes were paid on unrelated business income during fiscal years 2013 or 2012, due to related losses on those activities. Management has determined the deferred tax benefit related to net operating loss carryforwards to be inconsequential and, therefore, has not recorded an estimate for the benefit in SEED's consolidated financial statements. RC3 is a taxable entity that had no tax liability for 2013 and 2012. Oregon Place, Rainier Court I, Rainier Court II, and Rainier Court III have no provision or benefit for income taxes included in these financial statements since taxable income or loss passes through to, and is reportable by, each partner or member individually. Lilac Lodge is also exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code. Claremont is wholly-owned by SEED and reports its income and expenses for federal tax reporting purposes as a part of SEED.

SEED reports a liability, if any, for unrecognized tax benefits resulting from uncertain income tax positions taken or expected to be taken in an income tax return. Estimated interest and penalties, if any, are recorded as a component of interest expense and other expense, respectively. No liability has been recorded for uncertain tax positions, or related interest or penalties, as of December 31, 2013 and 2012. The tax years 2010 through 2013 remain open to examination by federal authorities.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Use of Estimates

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

Subsequent Events

SEED has evaluated subsequent events through the date these financial statements were available to be issued, which was the same date as the independent auditors' report.

Note 2. Project Management Agreements

SEED has a project management agreement with PNCC North Coast Associates, LLC ("PNCC"). Under the terms of the agreement, PNCC will be paid 75 percent of the project management fee earned by SEED in exchange for supervising the development and financing of the project owned by Rainier Court I (SEED earns certain project management fees as part of the development of the project). As of December 31, 2013 and 2012, the fee payable to PNCC totaled $3,475,189 and $3,460,950, respectively.

SEED also has a similar project management agreement with PNCC for supervising the development and financing of the project owned by Rainier Court II. As of December 31, 2013 and 2012, the project management fee payable to PNCC totaled $851,939 and $692,290, respectively.

SEED also has a similar project management agreement with PNCC for supervising the development and financing of the project owned by Rainier Court III. As of December 31, 2013, the project management fee payable to PNCC totaled $567,939. There were no amounts due to PNCC for the Rainier Court III project at December 31, 2012.

Repayment of the project management fees payable is not required until collection of the project management fees earned (the timing of which is uncertain), and therefore, the entire obligation has been classified as noncurrent.

Note 3. Restricted Cash

At December 31, 2013 and 2012, cash was restricted for the following purposes:

	2013	2012
Rainier Court II Indenture of Trust	$ 119,857	$ 110,456
Lilac Lodge Residual Receipts Reserve	85,997	18,269
Other	119	119
	$ 205,973	$ 128,844

Note 4. Restricted Reserves

SEED is required to set aside amounts in separate interest bearing replacement and operating reserve accounts for the replacement of property and other project expenditures. Debt services reserves are required to be separately maintained for loans obtained from certain federal grants to Claremont. SEED is also required to make deposits into tax and insurance reserve accounts for the Oregon Place, Rainier Court I, Rainier Court II, and Rainier Court III properties. These funds were placed in segregated accounts at December 31, 2013 and 2012, as follows:

	2013	2012
Project development reserves - Rainier Court III	$ 5,147,549	$ -
Replacement reserves	988,816	898,427
Operating reserves	849,266	618,961
Debt service reserves	315,820	315,221
Tax and insurance reserves	80,078	26,808
	$ 7,381,529	$ 1,859,417

Note 5. Investment in Limited Liability Company

As of December 31, 2013 and 2012, SEED held an investment in the Lake Washington Apartments, LLC ("LWA") of $674,217 and $791,896, respectively. In 2013 and 2012, SEED received net distributions of $117,679 and $51,133, from its investment in LWA. SEED owns a 50 percent interest in LWA, and acts as the managing member. LWA owns a 0.01 percent interest in Lake Washington Limited Partnership ("LWLP"), which owns and manages a 366-unit apartment complex. SEED accounts for its interest in LWA using the equity method.

As the managing member of LWA, SEED earned a partnership management fee of $74,016 and $71,172, in 2013 and 2012, respectively.

Note 6. Long-term Debt

The following is a list of long-term debt classified by the property associated with the debt:

	2013	2012
Charlestown		
Note payable to Washington State Department of Community Trade and Economic Development, interest at 1% compounded quarterly, quarterly principal and interest payments at $1,389 until January 2014, increasing to $2,777 until maturity, October 2044.	$ 334,641	$ 336,524
Note payable to City of Seattle, interest at 1%, principal and accrued interest due at maturity, August 2053.	515,000	515,000
Note payable to Washington Community Reinvestment Association, interest at 4.75%, monthly payments of $2,087 (including interest) until maturity, March 2015.	334,326	343,554
Columbia Hotel		
Note payable to City of Seattle, interest at 1% until 2018, interest will be forgiven beginning in year 2019 at 5% per year over the next 20 years, payment is deferred until maturity, August 2038, but SEED can request up to seven 5-year extensions if in compliance with loan terms, principal and accrued interest will be forgiven on extended maturity date of August 2073, provided SEED complies with all loan terms.	472,795	472,795
Note payable to Washington State Department of Community Trade and Economic Development, interest at 1%, annual payments of $5,919 (including interest) until maturity, December 2048. The 2013 annual payment was made subsequent to year end.	182,828	182,828
Note payable to the Washington Community Reinvestment Association, interest at 7.25%, monthly payments of $2,899 (including interest) until maturity, March 2028.	308,559	320,505
Joint Office Building		
Note payable to Washington State Housing Finance Commission, interest at 6.51%, monthly payments of $1,949 (including interest) until maturity, May 2019. SEED has recorded its undivided one-half interest in the note as a liability (it has also recorded its undivided one-half interest in the related property); the total balance at December 31, 2013 and 2012, was $441,740 and $461,078, respectively.	220,870	230,539

	2013	2012
3904 M.L. King Apartments		
Note payable to City of Seattle, interest at 1% until 2019, interest will be forgiven beginning in year 2020 at 5% per year, provided SEED is in compliance with all terms and conditions of the loan agreement, payment is deferred until maturity, September 2026.	$ 294,660	$ 294,660
Note payable to the Washington Community Reinvestment Association, interest at 6.75%, monthly payments of $3,876 (including interest) until maturity, April 2025.	367,735	388,652
Nuuanu Pali Apartments		
Note payable to City of Seattle, interest at 1% until 2022, interest will be forgiven beginning in year 2023 at 5% per year, provided SEED is in compliance with all terms and conditions of the loan agreement, payment is deferred until maturity, January 2042, but SEED can request up to seven 5-year extensions if in compliance with loan terms, principal and accrued interest will be forgiven on extended maturity date of January 2077, provided SEED complies with all loan terms.	644,475	644,475
Note payable to Washington State Department of Commerce, interest at 1%, quarterly principal and interest payments of $1,775 until December 2013, increasing to $3,550 from March 2014 to maturity at June 2054.	517,906	519,816
Note payable to the Washington Community Reinvestment Association, interest at 6.50%, monthly payments of $4,582 (including interest) until maturity, February 2032.	585,430	601,785
Claremont Project		
Note payable to the City of Seattle, interest floating at 90 days LIBOR plus 20 basis points (resulting in 0.42% at December 31, 2013), requiring annual principal payments ranging from $49,000 to $94,000, and a balloon payment of $1,015,000 due July 2029.	2,058,000	2,105,000
Note payable to the City of Seattle with no interest charged until maturity, October 2014. If principal is not paid at maturity, interest of 12% per annum is charged thereafter.	149,533	149,533
Note payable to the City of Seattle, interest at 1%, accrued interest and principal due at maturity, October 2059.	4,553,000	4,553,000

	2013	2012
Claremont Project (continued)		
Note payable to Rainier Valley Community Development Fund, interest at 4.5% through December 2016, then increases to 5.5%. Monthly principal and interest payments of $5,280 through January 2017, where payments are adjusted to $5,139. All interest and principal outstanding due at maturity in December 2021.	$ 908,808	$ 930,745
Note payable to a bank, interest is fixed at 4.63%. Monthly principal and interest payments of $20,206 due through maturity. Remaining principal is due at maturity in November 2021.	4,084,688	4,137,003
Note payable to King County Department of Community and Human Services, no interest charged until maturity, December 2060. Interest at 12% per annum is charged thereafter if principal is not paid by maturity.	750,000	750,000
Note payable to Washington State Department of Commerce – Housing Trust Fund, interest at 1%, with monthly interest only payments due beginning March 2016. Beginning March 2026, interest rate decreases to 0%, and quarterly principal payments of $31,536 are payable until maturity, February 2051, when all principal outstanding is due.	3,000,000	3,000,000
Note payable to Washington State Housing Finance Commission, interest at 1% from October 2009 to June 2030 and no interest from July 2030 to maturity, June 2050.	949,640	949,640
Operating Term Loan		
Term loan with a bank, interest at 4.13%, monthly principal and interest payments of $9,392, paid in full February 2014. Unsecured.	128,108	220,844
Oregon Place		
Note payable to bank, interest at 6.375%, monthly payments of $8,110 (including interest) through maturity, August 2030.	997,565	1,030,158
Note payable to City of Seattle, interest at 1% until 2019, interest will be forgiven beginning in year 2020 at 5% per year, and provided SEED is in compliance with all terms and conditions of loan agreement, payment is deferred until August 2039.	1,654,983	1,654,983
Note payable to Washington State Department of Commerce, interest at 1% compounded annually, annual payments of $20,768 through December 2053, secured by real estate.	745,334	748,246

	2013	2012
Rainier Court I		
Note payable to U.S. Bank, interest at 6.497%, monthly payments of $84,860 (including interest) through maturity, December 2024.	$ 12,142,346	$ 12,363,901
Note payable to State of Washington, interest at 3%, monthly payments of $1,445 (including interest) until maturity date of October 2018.	77,304	92,083
Rainier Court II		
Note payable to Federal National Mortgage Association ("FNMA"), variable interest rate; evidencing the mortgage originated by GMAC Commercial Mortgage on behalf of FNMA, which was acquired and funded using proceeds from the sale of variable rate demand multifamily housing revenue bonds, Series 2003A (tax exempt) and variable rate demand multifamily housing revenue bonds, Series 2003B (taxable), whose proceeds were loaned to the Rainier Court II for the acquisition and construction of the project. Monthly principal payments ranging between $15,334 and $110,548 with a balloon payment of $1,503,106 payable on maturity, December 2022.	15,970,000	16,185,000
Note payable to King County, no interest, principal due at maturity, November 2035.	414,095	414,095
Rainier Court III		
Note payable to the Washington State Housing Finance Commission, with fixed interest rates adjusting annually and ranging from 1.3% to 4.6%; for the acquisition and construction of the project. Interest payments due January 1 and July 1 each year, beginning January 1, 2014. Annual principal payments due beginning July 2016 ranging between $40,000 and $430,000 with a balloon payment of $5,535,000 payable on maturity, July 1, 2031. Secured by assignment of rents and a deed of trust.	7,200,000	
Note payable to City of Seattle, no interest, forgivable at original maturity, February 2004, provided certain terms and conditions were met as of the original maturity (but the terms of conditions were not met). The loan is expected to be forgiven when the City of Seattle approves certificate of occupancy and Rainier Court III is fully leased to tenants. As these dates are indeterminable, the loan is not included in the current portion of long-term debt.	900,000	900,000

	2013	2012
Rainier Court III (continued)		
Note payable to City of Seattle, interest at 1%. Advances available upon submission of draw request up to $2 million. No principal or interest payments due until September 2032; when annual installments of $20,000 are due, continuing until maturity of September 2064, when all amounts outstanding are due.	$ 459,801	$ -
Note payable to EPA, interest at 0.5%, interest only quarterly payments until maturity of July 2015, when all outstanding principal is due in full. Secured by deed of trust.	106,454	12,621
Rainier Court IV		
Note payable to City of Seattle, no interest, principal was due at maturity, March 2005; SEED is in the process of requesting an extension of the debt maturity and management believes it is likely the extension will be granted. This note payable is included in the current portion of long-term debt.	450,000	450,000
Note payable to City of Seattle, interest at 3%, principal and accrued interest due at maturity of June 2013. SEED is currently in negotiations to extend the maturity of this note and has not been placed in default. This note payable is included in the current portion of long-term debt.	1,048,726	1,048,726
Note payable to Impact Capital with interest at 3%, monthly principal and interest payments of $724 and due until maturity in June 2018, when all amounts outstanding are due. The note is unsecured.	69,213	75,000
Total debt	63,596,823	56,621,711
Less: forgivable long-term debt	(2,166,803)	(2,166,803)
Total debt requiring repayment	61,430,020	54,454,908
Less: current portion of long-term debt	(2,537,745)	(1,903,765)
Non-current portion of long-term debt	$ 58,892,275	$ 52,551,143

Future principal maturities of long-term debt are as follows:

2014	$	2,537,746
2015		1,140,005
2016		1,283,477
2017		972,241
2018		955,643
Thereafter		56,707,711
		63,596,823
Forgivable long-term debt		(2,166,803)
	$	61,430,020

Substantially all loans are secured by deeds of trust on the related buildings. Interest expense on long-term debt was $2,144,075 and $2,249,006 for the years ended December 31, 2013 and 2012, respectively. Interest has not been imputed on any of the above notes payable that carry below-market rate interest as they are payable to governmental entities and carry legal restrictions. The restrictions require SEED to use the property for low-income housing, as defined by the notes' regulatory agreements.

Rainier Court II

In addition to its note payable to FNMA as described above, Rainier Court II entered into an interest rate swap agreement fixing the interest rate in two positions: a notional amount of tax-exempt bonds (Series A bonds) in the initial amount of $12,750,000 at 4.75%, and a notional amount of taxable bonds (Series B bonds) in the initial amount of $4,250,000 at 5.75%. During the construction period, an interest reserve from bond proceeds pays for the variable rate interest on the bonds. The interest rate swap agreement expires December 15, 2022. See Note 8.

Note 7. Concentration of Risk

SEED receives a substantial amount of its support from local, state, and federal governments. Amounts received are subject to audit and adjustments by the grantor agency. Any disallowed cost, including amounts already collected, may constitute a liability for SEED. The amounts, if any, of expenditures that may be disallowed by the grantor are recorded at the time that such amounts can be reasonably determined, normally upon notification by the government agency. During the years ended December 31, 2013 and 2012, no adjustments were made.

Note 8. Fair Value of Interest Rate Swap Agreement

As noted in Note 6, Rainier Court II had an interest rate swap agreement. SEED did not estimate the fair value of this agreement and did not record the fair value (and change in fair value) in the consolidated financial statements because the swap was an integral part of the financing of the transaction (in essence, there was a significant initial investment by SEED, this results in the swap not being subject to fair value accounting).

Note 9. Lease Agreements

SEED's subsidiary, Rainier Court I, has leased the Dakota at Rainier Court ("the Project") to the Senior Housing Assistance Group ("SHAG") until June 12, 2024. Rental income under the lease agreement is equal to a minimum of 94% of rents received by the lessee from the operation of the Project, and the sublease of the residential housing units and the commercial and retail space in the Project (less costs for salaries and related payroll taxes for specific on-site management personnel, as defined in the lease agreement). For the years ended December 31, 2013 and 2012, rental income from the agreement totaled $1,563,648 and $1,517,807, respectively. Salaries and related payroll taxes for specific on-site management personnel totaled $100,987 and $91,758, for years ended December 31, 2013 and 2012, respectively.

SEED also leases property to residential and commercial tenants. Residential tenants lease space over terms of one year, and can be terminated by either party with 30 days notice (and therefore future payments under these leases have been excluded from the schedule below). Commercial leases are noncancellable and vary in length from three to ten years. Some commercial leases contain provisions for renewal options and/or negotiable rent payments in future years.

Future minimum lease payments receivable under commercial noncancellable operating leases (excluding the SHAG agreement) for the next five years (there is none in 2017 or 2018) ending December 31 are as follows:

2014	$	96,448
2015		64,934
2016		2,996
	$	164,378

Decreases in future minimum lease payments result from the scheduled expiration of original tenant leases, which are expected to be renewed or replaced in the normal course of business.

Note 10. Pension Plan

SEED maintains a tax-deferred annuity plan qualified under Section 403(b) of the Internal Revenue Code, which covers all employees with at least one year of service. Employees may make elective contributions to the plan up to the maximum amount allowed by the Internal Revenue Code. No contributions were made to the plan by SEED for the years ended December 31, 2013 or 2012.

SUPPLEMENTARY REPORTS AND SCHEDULES IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS AND OMB CIRCULAR A-133

petersonsullivan LLP

Certified Public Accountants
& Advisors

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
SouthEast Effective Development and Subsidiaries
Seattle, Washington

We have audited, in accordance with the auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of SouthEast Effective Development and Subsidiaries ("SEED"), which comprise the statement of financial position as of December 31, 2013, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated June 26, 2014. Other auditors audited the financial statements of two subsidiaries as described in our report on SEED's consolidated financial statements. The financial statements of the two subsidiaries as described in our report on SEED's consolidated financial statements were not audited in accordance with *Government Auditing Standards* and accordingly this report does not include the results of the other auditors' reporting on internal control over financial reporting instances of reportable noncompliance associated with the two subsidiaries as described in our report on SEED's consolidated financial statements.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered SEED's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of SEED's internal control. Accordingly, we do not express an opinion on the effectiveness of SEED's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether SEED's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of SEED's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering SEED's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Peterson Sullivan LLP

June 26, 2014

petersonsullivan LLP

Certified Public Accountants
& Advisors

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To the Board of Directors
SouthEast Effective Development and Subsidiaries
Seattle, Washington

We have audited SouthEast Effective Development and Subsidiaries' ("SEED") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of SEED's major federal programs for the year ended December 31, 2013. SEED's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

SEED's consolidated financial statements include the operations of a certain U.S. Department of Housing and Urban Development (HUD) project that received $2,252,282 in federal awards which is not included in the accompanying schedule of expenditures of federal awards or the schedule of findings and questioned costs for the year ended December 31, 2013. Pursuant to HUD regulations, the operations of that HUD project were audited as a separate organizational unit. Our audit, described below, did not include the operations of that HUD project because that project was audited and reported separately as permitted by OMB Circular A-133, Section §__.500a.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of SEED's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about SEED's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of SEED's compliance.

601 Union Street
Suite 2300
Seattle, WA 98101

(206) 382-7777 MAIN
(206) 382-7700 FAX

pscpa.com

Opinion on Each Major Federal Program

In our opinion, SEED complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013.

Report on Internal Control Over Compliance

Management of SEED is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered SEED's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of SEED's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Peterson Sullivan LLP

June 26, 2014

SOUTHEAST EFFECTIVE DEVELOPMENT AND SUBSIDIARIES

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2013

Federal Grantor/Pass-through Grantor	CFDA Number	Pass-Through Grantor Number	Federal Expenditures	
U.S. Department of Housing and Urban Development				
CDBG - Entitlement Grants Cluster				
Community Development Block Grants /				
Entitlement Grants - Loans Passed through City of Seattle				
Office of Economic Development	14.218	8002/01	$ 450,000	
Office of Economic Development	14.218	N/A	149,533	
Office of Housing	14.218	DL34153B	121,360	
Office of Housing	14.218	DL34152B	146,171	
Office of Housing	14.218	DL38160B	178,980	
Office of Housing	14.218	DL064344	1,048,726	
Office of Housing	14.218	DL34152C	27,129	
Office of Housing	14.218	DL50184B	544,475	
Office of Housing	14.218	DL38154C	157,252	
Total Community Development Block Grants Cluster			2,823,626	
Economic Development Initiative Grant - Special Project, Neighborhood Initiative and Miscellaneous Grants - Loans Passed through City of Seattle	14.251	21180/21181	900,000	*
HOME Investment Partnerships Program - Loans				
Passed through City of Seattle / Office of Housing	14.239	DL38154K	64,066	
Passed through City of Seattle / Office of Housing	14.239	N/A	1,859,107	
			1,923,173	*
Community Development Block Grants Section 108 Loan Guarantees - Loans Passed through City of Seattle	14.248	N/A	2,058,000	*
Community Challenge Planning Grants Passed through City of Seattle	14.704	N/A	15,000	
Section 4 Capacity Building for Community Development and Affordable Housing Passed through City of Seattle	14.252	12SG2087	23,735	
Total U.S. Department of Housing and Urban Development			7,743,534	
Environmental Protection Agency				
ARRA - Brownfields Assessment and Cleanup Cooperative Agreements - Loans Passed through Washington State Department of Commerce	66.818	S-12-74203-0003	106,454	
National Endowment for the Arts				
Promotion of the Arts Partnership Agreements Passed through WA State Arts Commission	45.025	2013139	5,000	
Promotion of the Arts Grants to Organizations and Individuals Passed through WA Department of Commerce	45.024	13-7800-7094	9,819	
Total National Endowment for the Arts			14,819	
Total expenditures of federal awards			$ 7,864,807	

* Major program

See Note to Schedule of Expenditures of Federal Awards

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards ("the Schedule") includes the federal grant activity of the SouthEast Effective Development and Subsidiaries under programs of the federal government for the year ended December 31, 2013. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the SouthEast Effective Development and Subsidiaries, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the SouthEast Effective Development and Subsidiaries.

Excluded from the Schedule is the following HUD project that, pursuant to HUD regulations, have been previously audited as a separate organizational unit as permitted by OMB Circular A-133, Section §__.500a.

Project which is a subsidiary of SouthEast Effective Development:

Lilac Lodge Community Organization, HUD Identification Number 127-35026

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, wherein certain types of expenditures are not allowed or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

SOUTHEAST EFFECTIVE DEVELOPMENT AND SUBSIDIARIES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2013

Section I - Summary of Audit Results

Financial Statements:

Type of auditors' report issued:	Unmodified

Internal Control Over Financial Reporting:

Material weaknesses identified:	None
Significant deficiencies identified not considered to be material weaknesses:	None reported
Noncompliance material to financial statements noted:	None

Federal Awards:

Material weaknesses identified:	None
Significant deficiencies identified not considered to be material weaknesses:	None reported
Type of auditors' report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported:	None

Identification of major programs:

CFDA Number	Name of Federal Program
14.239	Home Investment Partnerships Program - Loans
14.248	Community Development Block Grants Section 108 Loan Guarantees - Loans
14.251	Economic Development Initiative Grant - Special Project, Neighborhood Initiative and Miscellaneous Grants - Loans

Dollar threshold used to distinguish between Type A and B programs: $ 300,000

Auditee qualified as low-risk auditee: No

The auditee is not qualified as a low-risk auditee as the 2012 data collection form was not filed timely.

Section II - Financial Statement Findings:
No matters were reported

Section III - Federal Award Findings and Questioned Costs:
No matters were reported

SOUTHEAST EFFECTIVE DEVELOPMENT AND SUBSIDIARIES

CONSOLIDATING STATEMENTS OF FINANCIAL POSITION

December 31, 2013 and 2012

	2013								2012						
ASSETS	SEED, RC3, & Claremont	Oregon Place	Rainier Court I	Rainier Court II	Rainier Court III	Lilac Lodge	Eliminations	Total	SEED, RC3, & Claremont	Oregon Place	Rainier Court I	Rainier Court II	Lilac Lodge	Eliminations	Total
Current Assets															
Cash and cash equivalents	$ 344,322	$ 23,256	$ 42,416	$ 76,896	$ -	$ 76,956	$ -	$ 563,846	$ 866,357	$ 1,079	$ 39,226	$ 306,970	$ 92,589	$ -	$ 1,306,221
Accounts receivable	1,474,274	7,645	19,342	18,096	128	10,246	(1,314,397)	215,334	1,380,837	5,013	24,546	17,958	5,736	(998,526)	435,564
Prepaid expenses and other current assets	17,741	1,710	10	4,660		1,818		25,939	18,899	1,406	17,171	23,590	1,226		62,292
Total current assets	1,836,337	32,611	61,768	99,652	128	89,020	(1,314,397)	805,119	2,266,093	7,498	80,943	348,518	99,551	(998,526)	1,804,077
Developer fee receivable	5,401,937						(5,401,937)		4,644,685					(4,644,685)	
Restricted cash			119	119,857		85,997		205,973			119	110,456	18,269		128,844
Restricted reserves	1,155,874	253,208	290,127	276,929	5,147,549	257,842		7,381,529	1,002,356	256,019	236,112	107,203	257,727		1,859,417
Advances receivable, related parties	309,786						(309,786)		309,786					(309,786)	
Notes receivable, related parties	692,914						(692,914)		207,063					(207,063)	
Project development costs	4,048,759				3,523,453			7,572,212	5,774,088						5,774,088
Investment in LLC	1,802,232						(1,128,015)	674,217	946,289					(154,393)	791,896
Tenant security deposits	114,544	19,865	77,328	92,632		6,718		311,087	124,218	22,562	72,055	87,806	6,380		313,021
Land, property, and equipment, net	19,714,159	2,771,054	18,904,088	20,992,033	1,778,780	1,312,637		65,472,751	20,001,604	2,879,222	19,421,279	21,647,411	1,373,927		65,323,443
Financing fees, net	34,279	46,236	130,364	464,615	491,562			1,167,056	42,849	48,849	154,091	498,343			744,132
Total assets	$ 35,110,821	$ 3,122,974	$ 19,463,794	$ 22,045,718	$ 10,941,472	$ 1,752,214	$ (8,847,049)	$ 83,589,944	$ 35,319,031	$ 3,214,150	$ 19,964,599	$ 22,799,737	$ 1,755,854	$ (6,314,453)	$ 76,738,918

SOUTHEAST EFFECTIVE DEVELOPMENT AND SUBSIDIARIES

CONSOLIDATING STATEMENTS OF FINANCIAL POSITION

(Continued)

December 31, 2013 and 2012

	2013								2012						
LIABILITIES AND NET ASSETS	SEED, RC3, & Claremont	Oregon Place	Rainier Court I	Rainier Court II	Rainier Court III	Lilac Lodge	Eliminations	Total	SEED, RC3, & Claremont	Oregon Place	Rainier Court I	Rainier Court II	Lilac Lodge	Eliminations	Total
Current Liabilities															
Accounts payable	$ 97,075	$ 81,127	$ 38,096	$ 86,926	$ 557,765	$ 23,594	$ (97,434)	$ 787,149	$ 420,066	$ 20,148	$ 72,119	$ 83,132	$ 22,056	$ -	$ 617,521
Grant repayment payable									174,133						174,133
Accrued expenses and other current liabilities	86,489	4,149		4,054		246		94,938	23,381	308		6,989	2,811		33,489
Accrued interest payable			4,269	5,316				9,585			3,607	6,118			9,725
Advances payable	309,786		112,863	196,923			(309,786)	309,786	309,785		112,862	196,923		(309,785)	309,785
Partnership management fee payable		105,535	141,435	6,918			(105,535)	148,353		94,462	119,482	20,150		(94,463)	139,631
Current portion of long-term debt	1,998,265	48,097	251,614	239,769				2,537,745	1,409,808	35,505	236,334	222,118			1,903,765
Total current liabilities	2,491,615	238,908	548,277	539,906	557,765	23,840	(512,755)	3,887,556	2,337,173	150,423	544,404	535,430	24,867	(404,248)	3,188,049
Project management fee payable	4,895,067							4,895,067	4,153,240						4,153,240
Tenant security deposits	114,544	19,865	77,328	92,632		6,718		311,087	124,218	22,562	72,055	87,806	6,380		313,021
Long-term debt, less current portion	19,770,327	3,349,785	11,968,036	16,144,326	7,659,801			58,892,275	20,556,634	3,397,882	12,219,650	16,376,977			52,551,143
Forgivable long-term debt	2,166,803							2,166,803	2,166,803						2,166,803
Loans payable to related parties				200,000	483,409		(683,409)					200,000		(200,000)	
Accrued interest on long-term debt	931,255	234,671	65,784	3,474,166	121,094		(1,739,631)	3,087,339	795,255	222,291	67,019	3,473,128		(1,565,596)	2,992,097
Accrued interest on deferred developer loan fee			1,112,768				(1,112,768)				904,062			(904,062)	
Deferred developer loan fee		146,539	1,940,351	2,557,795	757,251		(5,401,936)			146,539	1,940,351	2,557,795		(4,644,685)	
	30,369,611	3,989,768	15,712,544	23,008,825	9,579,320	30,558	(9,450,499)	73,240,127	30,133,323	3,939,697	15,747,541	23,231,136	31,247	(7,718,591)	65,364,353
Net Assets															
Unrestricted net assets	4,741,210					1,721,656	1,731,453	8,194,319	5,185,708				1,724,607	1,558,536	8,468,851
Owners' equity		(866,794)	3,751,250	(963,107)	1,362,152		(3,283,501)			(725,547)	4,217,058	(431,399)		(3,060,112)	
Non-controlling interest in consolidated subsidiaries							2,155,498	2,155,498						2,905,714	2,905,714
Total net assets	4,741,210	(866,794)	3,751,250	(963,107)	1,362,152	1,721,656	603,450	10,349,817	5,185,708	(725,547)	4,217,058	(431,399)	1,724,607	1,404,138	11,374,565
Total liabilities and net assets	$ 35,110,821	$ 3,122,974	$ 19,463,794	$ 22,045,718	$ 10,941,472	$ 1,752,214	$ (8,847,049)	$ 83,589,944	$ 35,319,031	$ 3,214,150	$ 19,964,599	$ 22,799,737	$ 1,755,854	$ (6,314,453)	$ 76,738,918

SOUTHEAST EFFECTIVE DEVELOPMENT AND SUBSIDIARIES

CONSOLIDATING STATEMENTS OF ACTIVITIES

For the Years Ended December 31, 2013 and 2012

	2013								2012						
	SEED, RC3, & Claremont	Oregon Place	Rainier Court I	Rainier Court II	Rainier Court III	Lilac Lodge	Eliminations	Total	SEED, RC3, & Claremont	Oregon Place	Rainier Court I	Rainier Court II	Lilac Lodge	Eliminations	Total
Support and revenue															
Rental income and tenant charges	$ 1,471,838	$ 369,346	$ 1,846,127	$ 2,312,036	$ -	$ 381,006	$ -	$ 6,380,353	$ 1,385,785	$ 366,489	$ 1,791,640	$ 2,254,176	$ 396,500	$ -	$ 6,194,590
Arts program income	177,136							177,136	168,416						168,416
Management, oversight, and developer fees	294,490						(36,808)	257,682	285,487					(64,303)	221,184
Fees and grants from governmental agencies	466,382							466,382	424,966						424,966
Contributions	156,965							156,965	128,432						128,432
Interest income and other	117,266	17,618	2,151	2,515		4,417	(35,197)	108,770	496,777	9,170	3,453	2,303	2,371	(257,379)	256,695
Total support and revenue	2,684,077	386,964	1,848,278	2,314,551		385,423	(72,005)	7,547,288	2,889,863	375,659	1,795,093	2,256,479	398,871	(321,682)	7,394,283
Expenses															
Program services															
Asset/property management	1,842,728	528,211	2,314,086	2,846,259	106,574	388,374	(245,037)	7,781,195	2,069,623	499,244	2,267,175	2,784,355	390,771	(321,682)	7,689,486
Arts program	509,904							509,904	552,342						552,342
Real estate development	166,668							166,668	180,835						180,835
	2,519,300	528,211	2,314,086	2,846,259	106,574	388,374	(245,037)	8,457,767	2,802,800	499,244	2,267,175	2,784,355	390,771	(321,682)	8,422,663
Support services															
Management and general	601,642							601,642	497,601						497,601
Fundraising	7,633							7,633	5,502						5,502
	609,275							609,275	503,103						503,103
Total expenses	3,128,575	528,211	2,314,086	2,846,259	106,574	388,374	(245,037)	9,067,042	3,305,903	499,244	2,267,175	2,784,355	390,771	(321,682)	8,925,766
Change in net assets	(444,498)	(141,247)	(465,808)	(531,708)	(106,574)	(2,951)	173,032	(1,519,754)	(416,040)	(123,585)	(472,082)	(527,876)	8,100		(1,531,483)
Change in net assets attributable to noncontrolling interest		141,233	465,766	531,660	106,563			1,245,222		123,573	472,040	527,828			1,123,441
Change in net assets attributable to SEED	**$ (444,498)**	**$ (14)**	**$ (42)**	**$ (48)**	**$ (11)**	**$ (2,951)**	**$ 173,032**	**$ (274,532)**	**$ (416,040)**	**$ (12)**	**$ (42)**	**$ (48)**	**$ 8,100**	**$ -**	**$ (408,042)**