



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

December 31, 2020

Council
Pacific Hospital Preservation and Development Authority
Seattle, Washington

Contracted CPA Firm's Audit Report on Financial Statements

We have reviewed the audit report issued by a certified public accounting (CPA) firm on the financial statements of the Pacific Hospital Preservation and Development Authority for the fiscal years ended December 31, 2019 and 2018. The Authority contracted with the CPA firm for this audit and requested that we accept it in lieu of performing our own audit.

Based on this review, we have accepted this report in lieu of the audit required by RCW 43.09.260. The Office of the Washington State Auditor did not audit the accompanying financial statements and, accordingly, we do not express an opinion on those financial statements.

This report is being published on the Office of the Washington State Auditor website as a matter of public record.

Sincerely,

Pat McCarthy
State Auditor
Olympia, WA

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**PACIFIC HOSPITAL PRESERVATION
& DEVELOPMENT AUTHORITY**

Financial Statements

For the Years Ended December 31, 2019 and 2018

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Independent Auditor's Report

To the Governing Council
Pacific Hospital Preservation & Development Authority
Seattle, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Pacific Hospital Preservation & Development Authority (the Pacific Hospital PDA), as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which comprise the Pacific Hospital PDA's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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 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 audits 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 financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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



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

10900 NE 4th St
Suite 1400
Bellevue WA
98004

clarknuber.com

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Pacific Hospital PDA as of December 31, 2019 and 2018, and its change in net position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matter - Management's Discussion and Analysis

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 9, 2020, on our consideration of the Pacific Hospital PDA'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 compliance 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 the Pacific Hospital PDA's internal control over financial reporting and compliance.

Clark Nuber P.S.

Certified Public Accountants
June 9, 2020

PACIFIC HOSPITAL PRESERVATION & DEVELOPMENT AUTHORITY

Management's Discussion and Analysis For the Years Ended December 31, 2019 and 2018

Management's Discussion and Analysis (MD&A) presents a narrative overview and analysis of the financial activities of the Pacific Hospital Preservation & Development Authority (the Pacific Hospital PDA) for the years ended December 31, 2019 and 2018. The MD&A is designed to assist readers of 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 Pacific Hospital PDA is a public development authority established under Seattle Municipal Code 3.110 and a 501(c)(3) organization. Pursuant to Revenue Procedure 95-48, the Pacific Hospital PDA is not required to file a Form 990. The mission of the Pacific Hospital PDA is to champion effective health care for underserved populations in the Puget Sound area, with an emphasis on the Seattle-King County region.

In 1981, the City of Seattle chartered the Pacific Hospital PDA, placing in its trust the U.S. Public Health Service Hospital (now named the Pacific Tower) and its campus. Subsequently, the property was designated a historic Seattle landmark. The Pacific Hospital PDA currently leases out the property and the lease revenues are used to support programs focused on health equity in Seattle-King County. An additional focus area beginning in 2016 is development, including the addition of affordable housing, on the Pacific Tower property.

The Pacific Hospital PDA is overseen by a nine-member Governing Council. Four members are appointed by the Mayor of Seattle, one by the King County Executive, and four by the Pacific Hospital PDA's Governing Council. The Seattle City Council confirms all appointments.

The Pacific Hospital PDA envisions a community in which all people have access to high quality preventive, primary and specialty healthcare, as well as other health services, that respects each individual's values and circumstances. To that end, the Pacific Hospital PDA provides grants to the community focused on overcoming healthcare access and outcome disparities and disproportionalities throughout King County, particularly those influenced by racism, sexism, homophobia, transphobia, xenophobia, income inequality, and other sociodemographic factors. In order to sustain this mission, the Pacific Hospital PDA staff and Governing Council also focus on financial stewardship and management of their primary asset, the Pacific Tower and surrounding campus.

Overview of the Financial Statements

The Pacific Hospital PDA's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America as applied to special-purpose governments involved in business-type activities. The accompanying financial statements cover the years ended December 31, 2019 and 2018.

The balance sheets, statements of revenues, expenses and changes in net position, and statements of cash flows provide an indication of the Pacific Hospital PDA's financial health. The balance sheets include all of the Pacific Hospital PDA's assets and liabilities, using the accrual basis of accounting. The statements of revenues, expenses and changes in net position report all of the revenues and expenses during the time period indicated.

PACIFIC HOSPITAL PRESERVATION & DEVELOPMENT AUTHORITY

Management's Discussion and Analysis For the Years Ended December 31, 2019 and 2018

Overview of the Financial Statements - Continued

Lease payments comprise the primary revenue source for the Pacific Hospital PDA. The Pacific Hospital PDA uses lease monies to fund health care services and programs for underserved populations in of King County. In 2019, the Pacific Hospital PDA had two lease agreements in place:

- In 2013, the Pacific Hospital PDA entered into a lease with the Washington State Department of Commerce for most of the space in the former Pacific Medical Center hospital building known as the Pacific Tower. The thirty-year lease took effect January 1, 2014.
- The Pacific Hospital PDA has a lease agreement, through November 2021, with PacMed Clinics (doing business as Pacific Medical Centers (PMC)) for the campus' "Quarters" buildings, the east parking structure, and the ground floor and basement of the Pacific Tower (where PMC's medical clinic is located).

All leases are triple net leases and, under the terms of these leases, the lessees reimburse the Pacific Hospital PDA for their share of taxes and costs related to operations of the Pacific Tower building. Both the revenues and expenses for these costs are reflected in these financial statements.

Financial Analysis and Highlights

Summaries of financial information of the Pacific Hospital PDA as of and for the years ended December 31, 2019, 2018, and 2017 are presented in the tables below.

Table A-1 Statements of Net Assets

	As of December 31,		
	2019	2018	2017
Current assets	\$ 6,654,486	\$ 4,847,755	\$ 4,758,632
Capital assets, net	5,580,763	6,344,011	7,087,047
Noncurrent assets	9,245,069	9,072,788	10,710,036
Total Assets	\$ 21,480,318	\$ 20,264,554	\$ 22,555,715
Current liabilities	\$ 371,824	\$ 234,590	\$ 456,321
Promissory note	3,000,000	3,000,000	4,700,000
Other noncurrent liabilities	1,525,000		
Total Liabilities	\$ 4,896,824	\$ 3,234,590	\$ 5,156,321
Invested in capital assets, net of related debt	\$ 6,645,250	\$ 7,408,498	\$ 8,058,123
Unrestricted	9,938,244	9,621,466	9,341,271
Total Net Position	\$ 16,583,494	\$ 17,029,964	\$ 17,399,394

PACIFIC HOSPITAL PRESERVATION & DEVELOPMENT AUTHORITY

Management's Discussion and Analysis For the Years Ended December 31, 2019 and 2018

Financial Analysis and Highlights - Continued

As of December 31, 2019, there is \$56,823 in tenant and other receivables under current assets. This is primarily comprised of receivables from tenants for operating costs for the fourth quarter of 2019 and funds due from grantees that had unexpended funds at the end of their grant contracts. The other current assets consist of \$1,894,985 in cash and cash equivalents, a \$1,525,000 deposit on property sale (see below), \$3,075,050 in short-term investments, and \$102,629 in prepaid expenses. Noncurrent assets represent \$5,180,582 of reserve funds held in a short-term investment account and \$4,064,487 in capitalized North Lot pre-development costs.

The capitalized pre-development costs are related to a development project started in 2016. In May 2016, the Pacific Hospital PDA was informed by WRC.Com Development LLC that they planned to sell the lease rights to the Pacific Tower campus's North Lot. As owner of the property, the Pacific Hospital PDA was given right of first offer to purchase the lease. Pacific Hospital PDA contracted with King County to secure a loan in the amount of \$4.7 million to purchase the lease and to use some funds to secure the services of a pre-development consultant to assist the Pacific Hospital PDA in determining optimal uses of the land.

As part of this County covenant, the Pacific Hospital PDA agreed (1) to work with International Community Health Services and Kin On to site their senior day program on the Lot and (2) to build a minimum of 100 units of affordable housing on the site (or 50% of affordable units in excess of 200 total units). With the exception of fees related to the loan in 2016, and costs related to the lease and contract negotiations with potential partners in 2018 and 2019, all costs related to the North Lot development project were capitalized in this noncurrent asset account. In 2016, these capitalized costs included the purchase of the lease, as well as legal and other consultant costs. In 2017, Pacific Hospital PDA began work with a development consultant to conduct processes necessary to entitle the land and then determine the nature of the Pacific Hospital PDA's ongoing development role. All payments related to this work were capitalized.

During 2019, it was determined that the housing development on the North Lot would be best accomplished with a sale of that portion of the Pacific Tower campus to the Seattle Chinatown International District PDA (SCIDpda), another public development authority in the city of Seattle. The Pacific Hospital PDA and SCIDpda entered into a Purchase and Sale Agreement in October 2019 with closing to occur by August 2022. The deposit related to this sale was in escrow as of December 31, 2019, and is included in current assets in the financial statements. The deposit was transferred to the Pacific Hospital PDA bank account from the escrow account in early 2020.

As of December 31, 2019, the components of current liabilities include \$224,496 in prepaid rent and other expenses from tenants, \$129,257 in payables, and \$18,070 in accrued payroll and other expenses.

Long-term liabilities of \$3,000,000 represent the loan from King County to purchase the previous lease for the North Lot. On April 12, 2018, \$1,700,000 of the original King County Promissory note was converted to a grant provided to the Pacific Hospital PDA by the Historic South Downtown Preservation and Development Authority (HSDPDA). This grant was provided to fund \$1,400,000 of the original cost to purchase the lease in 2016, as well as \$300,000 of the development costs. In recognizing this grant income in 2018, the Pacific Hospital PDA also expensed the items paid for with the grant funds, reducing the capitalized North Lot development account by \$1,700,000.

Also included in long-term liabilities is the \$1,525,000 deposit on the North Lot sale to SCIDpda. This income will be recognized when the sale is final.

PACIFIC HOSPITAL PRESERVATION & DEVELOPMENT AUTHORITY

Management's Discussion and Analysis
For the Years Ended December 31, 2019 and 2018

Table A-2 Statements of Revenues, Expenses and Changes in Net Position

	For the Years Ended December 31,		
	2019	2018	2017
Rent revenue	\$ 7,328,154	\$ 6,929,982	\$ 6,513,653
Other revenue	7,850	4,814	5,353
Total Operating Revenues	7,336,004	6,934,796	6,519,006
Tower operating costs	3,393,452	3,044,210	2,792,572
Community grants	3,024,327	3,051,052	3,031,038
General operating expenses	652,835	585,067	515,101
Total Operating Expenses	7,070,614	6,680,329	6,338,711
Operating Income Before Depreciation	265,390	254,467	180,295
Depreciation	763,248	761,986	762,585
Operating Income (Loss)	(497,858)	(507,519)	(582,290)
Nonoperating revenues	184,239	1,850,876	84,194
Nonoperating expenses	(132,851)	(1,712,787)	
Nonoperating Income (Loss)	51,388	138,089	84,194
Change in Net Position	(446,470)	(369,430)	(498,096)
Net position, beginning of year	17,029,964	17,399,394	17,897,490
Net Position, End of Year	\$ 16,583,494	\$ 17,029,964	\$ 17,399,394

For 2019, the Pacific Hospital PDA had two long term leases. The PMC lease had a monthly payment of \$78,802 in 2019 (\$945,624 annually), and the lease with the Washington State Department of Commerce had a monthly payment of \$238,078 in 2019 (\$2,856,934 annually).

The tenants have triple net leases, under the terms of which the lessees reimburse the Pacific Hospital PDA for property taxes and other costs. The fiscal year 2019 rent revenue includes \$35,308 in property tax payments. Also included are payments related to the tenants' shares of costs associated with the operations of the Pacific Tower building and grounds, totaling \$3,398,585. Income related to parking payments in the North Lot parking lot totaled \$91,703 in 2019.

The Pacific Hospital PDA operating expenses before depreciation totaled \$7,070,614 for 2019.

PACIFIC HOSPITAL PRESERVATION & DEVELOPMENT AUTHORITY

Management's Discussion and Analysis For the Years Ended December 31, 2019 and 2018

Financial Analysis and Highlights - Continued

The Pacific Hospital PDA's grant expenses of \$3,024,327 represent awards to organizations for programs addressing health access and outcome disparities in the Puget Sound region. Awards were made primarily through two grant programs: Major Grants (\$2,840,831 total expense) and Nimble Grants (\$168,496 total expense). In addition, a small grant of \$15,000 was awarded to a coalition to work on health planning and coordination in South King County.

For Major Grants (which range from \$50,000 to \$200,000 for a 12-month grant period), \$1,291,725 of the expense was for 2019 portions of 21 grants awarded in 2018 (\$1,457,952 awarded and \$166,227 in returned unexpended funds).

Additional Major Grants were awarded in 2019 through two processes. The first was renewal of previous grant projects for an additional year of funding for the July 1, 2019 through June 30, 2020 grant year. Fifteen grants were awarded through this process, totaling \$2,096,239. This includes \$1,048,120 in 2019 grant expense for July through December, with the remainder to be expended in 2020.

In addition, the Pacific Hospital PDA again undertook a competitive process to award new Major Grants. In 2019, the Pacific Hospital PDA awarded seven new Major Grants totaling \$1,001,973, including \$500,987 in 2019 expense for July through December. The remainder will be expended in 2020.

The Major Grants projects funded through the 2019 Renewal and New Major Grant processes were:

- Aurora Commons - Safe Healthy Empowered Women's Clinic (SHE) to address the barriers to access for the street-based sex worker community
- Boyer Children's Clinic - Early intervention services and improving health access and outcomes for homeless children
- Children's Alliance - Advocacy related to health coverage for COFA migrants
- Community Health Board Coalition (through the Somali Health Board) - Coalition work of over 10 community health boards
- Country Doctor - Transgender and gender nonconforming healthcare and patient navigation services
- Country Doctor - HIV case management
- Downtown Emergency Service Center - Health navigators for residents at DESC Permanent Supportive Housing facilities
- Economic Opportunity Institute - Advocacy and policy research related to changes in federal and state health regulations
- Encompass Northwest - Child behavioral and speech therapy in a mobile unit for residents of rural east King County
- Global to Local - Community health workers in the SeaTac area
- Harborview Medical Center - Community health navigators to decrease disparity in hypertension control for African Americans
- Hepatitis Education Project (HEP) - Hepatitis C testing and access to clean injection supplies for homeless IV drug users
- International Community Health Services - Integration of community health workers into clinic care teams
- Lahai Health - Expansion of hours and services at Haller Lake clinic serving homeless and very low income population in north Seattle
- Lutheran Community Services Northwest - Health referrals and case management for asylees and asylum seekers
- Northwest Health Law Advocates - Policy options addressing Medicare underinsurance for low-income seniors

PACIFIC HOSPITAL PRESERVATION & DEVELOPMENT AUTHORITY

Management's Discussion and Analysis For the Years Ended December 31, 2019 and 2018

Financial Analysis and Highlights - Continued

- Peer Seattle - Peer counseling for primarily LGBTQ population and initiation of data collection and analysis project
- Real Escape from the Sex Trade - Medical and behavioral health care, and substance use counselling for commercial sexual exploitation victims
- Renton Area Youth and Family Services - Medical and behavioral health clinic in Skyway
- Ryther - Behavioral health for homeless youth and young adults
- Seattle Counseling Service - Outreach and services to immigrant, refugee, and undocumented LGBTQ + population
- YMCA of Greater Seattle - Classes focused on diabetes prevention and management among immigrant communities and communities of color in several King County YMCA locations

Nimble Grants (\$30,000 or under) totaled \$168,496 (\$174,941 awarded and \$6,445 in returned unexpended funds). Nimble Grants are for time-limited focused projects for planning, capacity development, technology, or other related short-term expenses. Nimble Grants were awarded in three separate cycles in November 2018 (for projects beginning January 1, 2019), March 2019, and September 2019. Eight Nimble Grants were awarded in 2019. An additional two grants were awarded in 2019 Nimble Grant cycles, but the projects and contracts did not begin until 2020. They are, therefore, not included in the grant expense for 2019.

Interest income, which is included in nonoperating revenues, was \$184,239, \$150,876, and \$84,194 in 2019, 2018, and 2017 respectively. Other nonoperating revenues in 2018 are comprised of the \$1,700,000 loan that was converted to a grant in 2018, as noted above. Nonoperating expenses in 2018 include the \$1,700,000 in previously-capitalized North Lot development costs that were expensed in 2018 related to the grant income, as well as other North Lot costs related to negotiations with potential and partners, expenses that are not part of capitalized development costs.

The Pacific Hospital PDA uses the straight-line method of depreciation. Depreciation expense was \$763,248 for the year ended December 31, 2019.

Budgetary Integrity, Accounting Systems and Internal Controls

Budgetary control is exercised with each major type of expenditure with budget-to-actual performance reported monthly to the Finance Committee of the Pacific Hospital PDA Governing Council and quarterly to the entire Governing Council. These financial reports include narrative description and explanation of significant deviations between actual expenses and the budget. On a quarterly basis, the Pacific Hospital PDA Treasurer also reviews the check register, all credit card expenditures, retirement plan contributions, and employment tax payments.

Capital Asset Activity

The Pacific Hospital PDA capitalized the costs of an air conditioning system (\$18,950) in August 2018. This amount was added to the Fixed Assets schedule, with depreciation beginning in September.

As noted above, the development costs incurred related to the North Lot project before the decision was made to sell that portion of the property are capitalized in a separate asset account. These capitalized costs totaled \$0, \$93,411, and \$1,073,816 in 2019, 2018, and 2017 respectively. As noted, the account was reduced by \$1,700,000 in 2018 to expenses the costs covered by a grant. The remaining costs will be offset at the time of closing on the sale of the North Lot.

PACIFIC HOSPITAL PRESERVATION & DEVELOPMENT AUTHORITY

Management's Discussion and Analysis For the Years Ended December 31, 2019 and 2018

The Pacific Hospital PDA has established a designated reserve fund. As of December 31, 2019, 2018, and 2017, the Pacific Tower and Property Reserve Fund was \$5,180,582, \$5,008,301, and \$5,038,960, respectively. The funds are held in the Pacific Hospital PDA's authorized bank and investment accounts.

Additional Information

Questions and inquires may be directed to the Pacific Hospital PDA, 1200 12th Avenue South, Quarters 2, Seattle, WA 98144, (206) 325-1365.

PACIFIC HOSPITAL PRESERVATION & DEVELOPMENT AUTHORITY

Balance Sheets
December 31, 2019 and 2018

	2019	2018
Assets		
Cash and cash equivalents	\$ 1,894,985	\$ 1,453,261
Short-term investments	3,075,050	3,050,001
Tenant and other receivables	56,823	242,619
Prepaid grant management software fees	3,704	8,934
Other current assets	98,924	92,940
Deposit receivable	1,525,000	
Total Current Assets	6,654,486	4,847,755
Reserve funds	5,180,582	5,008,301
Capitalized North Lot project costs	4,064,487	4,064,487
Capital assets, net	5,580,763	6,344,011
Total Assets	\$ 21,480,318	\$ 20,264,554
Liabilities and Net Position		
Accounts payable and accrued expenses	\$ 147,328	\$ 171,868
Deferred revenue	224,496	62,722
Total Current Liabilities	371,824	234,590
Deposit on land sale	1,525,000	
Promissory note	3,000,000	3,000,000
Total Liabilities	4,896,824	3,234,590
Net Position		
Invested in capital assets, net of related debt-		
Capital assets	5,580,763	6,344,011
Capitalized North Lot project costs, net of related debt	1,064,487	1,064,487
Total invested in capital assets	6,645,250	7,408,498
Unrestricted	9,938,244	9,621,466
Total Net Position	16,583,494	17,029,964
Total Liabilities and Net Position	\$ 21,480,318	\$ 20,264,554

See accompanying notes.

PACIFIC HOSPITAL PRESERVATION & DEVELOPMENT AUTHORITY

Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended December 31, 2019 and 2018

	2019	2018
Operating Revenues:		
Rent and operating reimbursement revenue	\$ 7,328,154	\$ 6,929,982
Other revenue	7,850	4,814
Total Operating Revenues	7,336,004	6,934,796
Operating Expenses:		
Community grants	3,024,327	3,051,052
Tower operating costs	3,393,452	3,044,210
Salaries and benefits	384,682	380,543
Professional fees	165,809	106,761
Other administrative costs	102,344	97,763
Total Operating Expenses	7,070,614	6,680,329
Operating Income Before Depreciation	265,390	254,467
Depreciation	763,248	761,986
Operating Loss	(497,858)	(507,519)
Nonoperating Revenues and Expenses:		
Interest income, net	184,239	150,876
Grant revenue		1,700,000
North Lot project expenses	(132,851)	(1,712,787)
Total Nonoperating Income	51,388	138,089
Change in Net Position	(446,470)	(369,430)
Net position, beginning of year	17,029,964	17,399,394
Net Position, End of Year	\$ 16,583,494	\$ 17,029,964

See accompanying notes.

PACIFIC HOSPITAL PRESERVATION & DEVELOPMENT AUTHORITY

Statements of Cash Flows

For the Years Ended December 31, 2019 and 2018

	2019	2018
Cash Flows From Operating Activities:		
Receipts from rent	\$ 7,683,574	\$ 6,561,386
Payments to grantees, suppliers and others	(6,707,833)	(6,378,669)
Payments to employees for services	(388,075)	(374,311)
Net Cash Provided by (Used in) Operating Activities	587,666	(191,594)
Cash Flows From Capital and Related Financing Activities:		
Payments for capitalized North Lot project costs		(93,411)
Payments for capital assets purchases		(18,950)
Payments for North Lot project expenses	(132,851)	(12,787)
Net Cash Used in Capital and Related Financing Activities	(132,851)	(125,148)
Cash Flows From Investing Activities:		
Proceeds from sale and maturity of investment securities	1,036,909	750,556
Purchase of investments and reserves	(1,234,239)	(850,877)
Interest and dividends on investments, net	184,239	150,876
Net Cash (Used in) Provided by Investing Activities	(13,091)	50,555
Net Change in Cash and Cash Equivalents	441,724	(266,187)
Cash and equivalents balance, beginning of year	1,453,261	1,719,448
Cash and Equivalents Balance, End of Year	\$ 1,894,985	\$ 1,453,261
Reconciliation of Operating Income to Net Cash		
Provided by Operating Activities:		
Operating loss	\$ (497,858)	\$ (507,519)
Adjustment to reconcile operating loss to net cash provided by operating activities-		
Depreciation	763,248	761,986
Change in assets and liabilities:		
Tenant and other receivables	185,796	(215,719)
Prepaid grant management software fees	5,230	(5,363)
Other current assets	(5,984)	(3,248)
Deposits receivable	(1,525,000)	
Accounts payable and accrued expenses	(24,540)	(64,040)
Deferred revenue	161,774	(157,691)
Deposits on land sale	1,525,000	
Net Cash Provided by (Used in) Operating Activities	\$ 587,666	\$ (191,594)

See accompanying notes.

PACIFIC HOSPITAL PRESERVATION & DEVELOPMENT AUTHORITY

Notes to Financial Statements

For the Years Ended December 31, 2019 and 2018

Note 1 - Operations and Summary of Significant Accounting Policies

Operations - The Pacific Hospital Preservation & Development Authority (the Pacific Hospital PDA) is organized as a public development authority pursuant to RCW 35.21.730 and by charter of the City of Seattle (the City), and is also a 501(c)(3) not-for-profit organization. The mission of the Pacific Hospital PDA is to champion effective health care for underserved populations in the Puget Sound area with an emphasis on the Seattle-King County region.

In 1981, the City of Seattle chartered the Pacific Hospital PDA, placing in its trust the U.S. Public Health Service Hospital and its campus. Subsequently, the property was designated a historic Seattle landmark. The Pacific Hospital PDA currently leases out the property and the lease revenues are used to support effective health care for vulnerable residents of Seattle-King County as required by the Modification and Partial Abrogation of Conditions Subsequent and Partial Release of Mortgage agreement, dated August 26, 1998.

The Pacific Hospital PDA is governed by a nine-member Governing Council. Four members are appointed by the Mayor of Seattle, one by the King County Executive, and four by the Pacific Hospital PDA Council. The Seattle City Council confirms all appointments. The Pacific Hospital PDA is legally separate from the City, does not receive funds from the City, and does not impose a financial burden on, nor accrue any financial benefit to, the City. Accordingly, the Pacific Hospital PDA is not considered a component unit or related organization of the City under the definitions established by the Governmental Accounting Standards Board (GASB).

Basis of Presentation - Financial statement presentation follows accounting principles defined for special-purpose governments involved only in business-type activities. The Pacific Hospital PDA is a government enterprise and follows all pronouncements of the GASB. These financials have been prepared using the economic resources measurement focus and the accrual basis of accounting.

Under the flow of economic resources measurement focus and accrual basis of accounting, revenues are recognized when earned and expenses are recorded when incurred when these activities are related to exchange and exchange-like activities. Expenses related to voluntary nonexchange transactions, which consist of grants made by the Pacific Hospital PDA, are recognized when eligibility requirements are met by the grantees. In addition, long-lived assets such as buildings and equipment are capitalized and depreciated over their estimated economic lives.

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

Cash and Cash Equivalents - For purposes of reporting cash flows, the Pacific Hospital PDA considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents, except for funds held in Washington State's Local Government Investment Pool (LGIP).

The Pacific Hospital PDA's deposits are substantially covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission. The balance in the Pacific Hospital PDA's checking account may, from time to time, exceed the FDIC insurance limits throughout the year.

PACIFIC HOSPITAL PRESERVATION & DEVELOPMENT AUTHORITY

Notes to Financial Statements
For the Years Ended December 31, 2019 and 2018

Note 1 - Continued

Tenant and Other Receivables - Tenant and other receivables are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to receivables. Based on prior experience, management has determined that expected losses on balances outstanding are immaterial at December 31, 2019 and 2018. Accordingly, no allowance for doubtful accounts has been recorded.

Reserve Funds - The Pacific Hospital PDA has established the Pacific Tower and property reserve fund. As of December 31, 2019 and 2018, the total reserve funds were \$5,180,582 and \$5,008,301, respectively, and are included as noncurrent reserve funds in the balance sheets. The funds were included in the Pacific Hospital PDA's authorized bank and investment accounts.

Capital Assets - Capital assets are stated at cost. Contributed assets are stated at fair value at the date of donation. The Pacific Hospital PDA's policy is to capitalize building, improvements and equipment with an acquisition cost greater than \$10,000.

Capitalized assets are depreciated using the straight-line method over the following estimated useful lives:

Buildings, including certain fixed equipment	10 - 40 years
Fixed equipment	5 - 25 years
Land improvements	2 - 20 years
Major moveable equipment	5 - 20 years
Minor equipment	3 - 5 years

Deferred Revenue - Deferred revenue consists of rental payments paid in advance and excess operating expense and other reimbursements to the Pacific Hospital PDA by tenants.

Operating Revenue and Expenses - Operating activities include rental revenues derived from leases on the Pacific Hospital PDA's capital assets, expenses associated with operating the Pacific Tower, grant revenues and expenses for community grants. Nonoperating activities consist of interest income and debt issuance costs.

Community Grants - The Pacific Hospital PDA awards community grants to tax-exempt organizations for the purpose of supporting new or expanded efforts to eliminate disparities in access to health resources and/or improve health outcomes for underserved communities in King County. Community grant expense is recognized in the statements of revenues, expenses, and changes in net position at the time committed by the Pacific Hospital PDA. See Note 5 for further discussion of grant commitments as of December 31, 2019.

Federal Income Taxes - The Pacific Hospital PDA has tax exempt status under 501(c)(3), as described under section 509(a)(1) and 170(b)(1)(A)(v) of the Internal Revenue Code and, accordingly, is exempt from federal income tax on income related to its exempt purposes. Pursuant to Revenue Procedure 95-48, the Pacific Hospital PDA is not required to file a Form 990 with the Internal Revenue Service.

PACIFIC HOSPITAL PRESERVATION & DEVELOPMENT AUTHORITY

Notes to Financial Statements

For the Years Ended December 31, 2019 and 2018

Note 2 - Investments and Reserve Funds

As of December 31, 2019 and 2018, the Pacific Hospital PDA had funds invested in the LGIP representing a fair value of \$8,255,632 and \$7,822,173, respectively. \$5,180,582 and \$5,008,301 of the December 31, 2019 and 2018 balances, respectively, are included in reserve funds with the remaining balance being included in short-term investments on the balance sheets. The LGIP is managed and operated by the Office of the State Treasurer (OST). The State Finance Committee is the administrator of the statute that created the pool and adopts appropriate rules. The State Treasurer is responsible for establishing the investment policy for the pool and reviews the policy annually. The LGIP portfolio is invested in a manner that meets the maturity, quality, diversification and liquidity requirements set forth by GASB for external investment pools that elect to measure, for financial reporting purposes, investments at amortized cost. The amounts invested in the pool are measured at the net asset value per share of the pool shares held by Pacific Hospital PDA.

Legal Requirements - The Pacific Hospital PDA's investment activities are governed by the Washington State law, which defines the types of securities authorized as appropriate investments and the conditions for making investment transactions. Investment transactions may be conducted only through qualified depositories, certified dealers, or directly with issuers of investment securities.

Interest Rate Risk - In order to minimize interest rate risk, investment of the Pacific Hospital PDA funds in certificates of deposit will not exceed 12 months unless approved by a motion of the Finance and Audit Committee.

At December 31, 2019, the Pacific Hospital PDA did not hold any certificates of deposit. At December 31, 2018, the Pacific Hospital PDA had \$236,129 invested in one certificate of deposit maturing within 12 months of December 31, 2018 and were included in short-term investments in the balance sheets as of December 31, 2018.

At December 31, 2019, the Pacific Hospital PDA had approximately \$8,255,632 in investments which were not fully insured by FDIC limits.

Credit Risk - The Pacific Hospital PDA's general investment policy is to apply the prudent-person rule: investments are made as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital, and, in general, avoid speculative investments.

Note 3 - Capital Assets

Land, buildings and improvements activity consisted of the following for 2019:

	January 1, 2019	Additions	Disposals	December 31, 2019
Land	\$ 1,100,000	\$ -	\$ -	\$ 1,100,000
Buildings and improvements	41,624,748			41,624,748
	42,724,748			42,724,748
Less accumulated depreciation	(36,380,737)	(763,248)		(37,143,985)
	<u>\$ 6,344,011</u>	<u>\$ (763,248)</u>	<u>\$ -</u>	<u>\$ 5,580,763</u>

PACIFIC HOSPITAL PRESERVATION & DEVELOPMENT AUTHORITY

Notes to Financial Statements For the Years Ended December 31, 2019 and 2018

Note 3 - Continued

Land, buildings and improvements activity consisted of the following for 2018:

	January 1, 2018	Additions	Disposals	December 31, 2018
Land	\$ 1,100,000	\$ -	\$ -	\$ 1,100,000
Buildings and improvements	41,605,798	18,950		41,624,748
	42,705,798	18,950		42,724,748
Less accumulated depreciation	(35,618,751)	(761,986)		(36,380,737)
	<u>\$ 7,087,047</u>	<u>\$ (743,036)</u>	<u>\$ -</u>	<u>\$ 6,344,011</u>

A significant portion of capital assets of the Pacific Hospital PDA were committed under operating leases (see Note 4) at December 31, 2019 and 2018. The capital assets were assigned to the Pacific Hospital PDA in 1981 from the United States Government via a Quitclaim Deed. The Quitclaim Deed, and subsequent modification, requires the Pacific Hospital PDA to apply the net proceeds from the lease of its capital assets to the costs incurred in connection with the Pacific Hospital PDA's Community Healthcare Mission. The requirement expires November 24, 2021.

Note 4 - Operating Leases

The Pacific Hospital PDA leases virtually all of its Beacon Hill property to third parties as further described below.

During the year ended December 31, 2013, the Pacific Hospital PDA entered into an agreement to lease the majority of the space in the Pacific Tower to the State of Washington Department of Commerce (DOC). The lease commenced January 2014 and extends through December 2043 with two separate renewal option periods of 10 years each. Annual lease payments are approximately \$2.9 million and are scheduled to increase 3% annually.

During 2015, a nondisturbance and attornment agreement was signed between the Pacific Hospital PDA and the DOC, the DOC's sublessee, and other parties. The agreement provides that the Pacific Hospital PDA will not terminate the DOC lease if the DOC defaults on the lease during an eight year period beginning August 2015 (the Nondisturbance Period).

If the DOC defaults on the lease during the Nondisturbance Period then the Pacific Hospital PDA will honor the sublease, which provides for rent of \$1 per year and no reimbursement of operating costs, but the Pacific Hospital PDA will retain other rights under the lease against DOC. In the event of a default of DOC during the Nondisturbance Period, at the end of the Nondisturbance Period, the sublessee would assume the obligations of the master tenant (previously DOC) under the lease and pay the full amount of rents and operating cost reimbursements as set forth in the lease.

The Pacific Hospital PDA leases space on the Beacon Hill property to PacMed Clinics (doing business as Pacific Medical Centers (PMC)) under a lease agreement that expires in 2021. Annual lease payments are approximately \$946,000.

The Pacific Hospital PDA has the property management responsibilities of the leases. Accordingly, the lessees reimburse Pacific Hospital PDA for lease-related operating expenses which totaled \$3,382,541 and \$3,032,311, for the years ended December 31, 2019 and 2018, respectively.

PACIFIC HOSPITAL PRESERVATION & DEVELOPMENT AUTHORITY

Notes to Financial Statements

For the Years Ended December 31, 2019 and 2018

Note 4 - Continued

Under the terms of these leases, the lessees fully reimburse the Pacific Hospital PDA for lease-related taxes. In April 2014, the Washington State Department of Revenue determined that the Pacific Tower property is exempt from leasehold excise tax per RCW 35.21.755, due to the fact that the property is a registered historic site owned by a public corporation that existed prior to January 1, 1987. As a result of this determination, the Pacific Hospital PDA ceased collecting and remitting leasehold excise tax from tenants. Property taxes collected from the lessees and remitted to King County approximated \$38,000 and \$35,000 for the years ended December 31, 2019 and 2018, respectively.

The PMC reimburses the Pacific Hospital PDA for insurance for the Quarters building occupied by PMC, which totaled \$16,044 and \$16,964 for the years ended December 31, 2019 and 2018, respectively.

Reimbursements for leasehold excise taxes, property taxes, lease-related operating expenses and other reimbursable costs are included in rent and operating reimbursement revenue in the statements of revenues, expenses and changes in net position.

The following is a schedule by year of approximate minimum future rental revenue under these noncancelable operating leases:

For the Year Ending December 31,

2020	\$ 3,888,266
2021	3,881,982
2022	3,121,848
2023	3,215,504
2024	3,311,969
Thereafter	<u>85,681,878</u>
	<u><u>\$ 103,101,447</u></u>

Note 5 - Commitments and Contingencies

Grant Commitments - The Pacific Hospital PDA entered into twenty two major grants during the year ended December 31, 2019 that fund program work spanning 2019 and 2020. These grants are paid in two installments with the second installments of \$1,549,106 being paid during January 2020. Additionally, four Nimble grants were entered into during the year ended December 31, 2019 that funded work for 2020, totaling \$73,000. As all of these grant agreements have implied time restrictions for use of funds in 2020, the Pacific Hospital PDA does not accrue and record these future payments as liabilities and expenses at December 31, 2019.

Note 6 - Retirement Plan

The Pacific Hospital PDA has a defined contribution retirement plan (the Plan) under Section 403(b) of the Internal Revenue Code. All non-temporary employees are eligible for enrollment in the Plan. The Pacific Hospital PDA contributes an amount equal to 3% of the employee's gross salary. Total employer contributions for the years ended December 31, 2019 and 2018, were \$9,273 and \$9,510, respectively. Employees may also elect to contribute to the Plan.

PACIFIC HOSPITAL PRESERVATION & DEVELOPMENT AUTHORITY

Notes to Financial Statements

For the Years Ended December 31, 2019 and 2018

Note 7 - Risk Management

The Pacific Hospital PDA is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions, injuries to employees, and natural disasters. The Pacific Hospital PDA carries commercial insurance for risk of loss. The Pacific Hospital PDA did not have settled claims in excess of its commercial insurance coverage during the years ended December 31, 2019 and 2018. In addition, the long term lessee holds insurance on the assets they lease. The Pacific Hospital PDA is designated as additional insured on those insurance policies held by lessee.

Note 8 - Promissory Note

Promissory note consists of one promissory note from King County broken out into two allocations with varying terms in the amounts of \$3,000,000 with a 1% interest rate maturing on December 31, 2070 and \$1,700,000, noninterest bearing note maturing on December 31, 2021, respectively. In April 2018, \$1,700,000 of the outstanding principal balance of the King County Promissory note was converted to a grant from the Historic South Downtown PDA (HSDPDA). The grant is contingently repayable if certain conditions are not met. As of the date of issuance of these financial statements the Pacific Hospital PDA was in progress with King County to update the loan documents to reflect the \$1.7 million grant from HSDPDA. The proceeds from both notes were used for the North Lot project (Note 9).

The promissory note is secured by a deed of trust and subject to various covenants, including a portion of the residential units on the North Lot to be designated as affordable units. The note will become due and payable pursuant of any breach of the covenants.

Promissory note activity consisted of the following for 2019 and 2018:

	<u>January 1, 2019</u>	<u>Principal Additions</u>	<u>Principal Payments</u>	<u>Converted to Grant</u>	<u>December 31, 2019</u>
Promissory note	\$ 3,000,000	\$ -	\$ -	\$ -	\$ 3,000,000

	<u>January 1, 2018</u>	<u>Principal Additions</u>	<u>Principal Payments</u>	<u>Converted to Grant</u>	<u>December 31, 2018</u>
Promissory note	\$ 4,700,000	\$ -	\$ -	\$ (1,700,000)	\$ 3,000,000

PACIFIC HOSPITAL PRESERVATION & DEVELOPMENT AUTHORITY

Notes to Financial Statements

For the Years Ended December 31, 2019 and 2018

Note 9 - North Lot Project

In May 2016, the Pacific Hospital PDA was informed by WRC.com Development LLC that they planned to sell the lease rights to the Pacific Tower campus's North Lot. As owner of the property, the Pacific Hospital PDA was given right of first offer to purchase the lease. Pacific Hospital PDA contracted with King County to secure a loan in the amount of \$4.7 million (Note 8) to purchase the lease and to use some of funds to secure the services of a pre-development consultant to assist the Pacific Hospital PDA in determining optimal uses of the land. As part of this County covenant, the Pacific Hospital PDA has agreed (1) to work with International Community Health Services and Kin On to site their senior day program on the North Lot and (2) to build a minimum of 100 units of affordable units of housing on the site (or 50% of affordable units in excess of 200 total units). Expenditures related to the North Lot project in 2016 included the purchase of the lease, loan fees and expenses, as well as legal and other consultant costs. In 2017, Pacific Hospital PDA began work with a development consultant to conduct processes necessary to entitle the land and then determine the nature of the Pacific Hospital PDA's ongoing development role. Expenditures related to the project are capitalized and expenditures related to financing, such as loan fees, are expensed. In 2018, \$1,700,000 of previously-capitalized North Lot development costs were written off related to the grant income received from King County.

In 2019, the Pacific Hospital PDA entered into a purchase and sale agreement with Seattle Chinatown-International District Preservation and Development Authority (SCIDPDA) for transfer of the North Lot project. Under the agreement SCIDPA will purchase the North Lot land and related development work to carry out the project. The purchase and sale agreement calls for a purchase price of \$6,525,000. \$1,525,000 of the purchase price was paid as a deposit during 2019. The remaining \$5,000,000 of the purchase price will be paid at closing with \$3,000,000 in cash and \$2,000,000 with a seller-financed promissory note payable from SCIDPDA to Pacific Hospital PDA. In addition to the purchase price, at closing SCIDPA will assume the King County loan and HSDPDA grant described in Note 8. The closing date of the sale will be no later than August 31, 2022.

Capitalized North Lot project cost activity consisted of the following for 2019 and 2018:

	<u>January 1, 2019</u>	<u>Additions</u>	<u>Disposals</u>	<u>December 31, 2019</u>
Capitalized North Lot project costs	\$ 4,064,487	\$ -	\$ -	\$ 4,064,487
	<u>December 31, 2017</u>	<u>Additions</u>	<u>Disposals</u>	<u>December 31, 2018</u>
Capitalized North Lot project costs	\$ 5,671,076	\$ 93,411	\$ (1,700,000)	\$ 4,064,487

GOVERNMENTAL AUDITING STANDARDS REPORT

**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***

Independent Auditor's Report

**To the Governing Council
Pacific Hospital Preservation & Development Authority
Seattle, Washington**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Pacific Hospital Preservation & Development Authority (the Pacific Hospital PDA), which comprise the balance sheet as of December 31, 2019, and the related statements of revenue, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated June 9, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Pacific Hospital PDA'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 financial statements, but not for the purpose of expressing an opinion on the effectiveness of Pacific Hospital PDA's internal control. Accordingly, we do not express an opinion on the effectiveness of Pacific Hospital PDA'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.



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

10900 NE 4th St
Suite 1400
Bellevue WA
98004

clarknuber.com

Compliance and Other Matters

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

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 Pacific Hospital PDA's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Clark Nuber P.S.

Certified Public Accountants
June 9, 2020