



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Health Science and Services Authority

For the period January 1, 2017 through December 31, 2019

Published June 28, 2021

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

June 28, 2021

Board of Directors
Health Science and Services Authority
Spokane, Washington

Report on Financial Statements

Please find attached our report on the Health Science and Services Authority's financial statements.

We are issuing this report in order to provide information on the Authority's financial condition.

Sincerely,

Pat McCarthy
State Auditor
Olympia, WA

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SCHEDULE OF AUDIT FINDINGS AND RESPONSES

Health Science and Services Authority January 1, 2017 through December 31, 2019

2019-001 The Authority did not have effective internal controls over financial statement preparation to ensure accurate financial reporting.

Background

The Health Science and Services Authority promotes bioscience-based economic development in Spokane County to advance new therapies and procedures to combat disease and promote public health. A nine-member Board of Directors governs the Authority. The Board appoints an Executive Director to manage the Authority's day-to-day operations. The Spokane County Treasurer is designated to serve as treasurer.

Authority management is responsible for designing, implementing, and maintaining internal controls to ensure financial statements are fairly presented, and to provide reasonable assurance regarding the reliability of financial reporting.

The Authority prepares its financial statements in accordance with the cash basis of accounting, under the *Budgeting, Accounting and Reporting System* (BARS) manual. Our audit identified deficiencies in the Authority's internal controls over financial reporting that hindered the Authority's ability to produce reliable financial statements.

Government Auditing Standards requires the auditor to communicate significant deficiencies in internal controls, as defined in the Applicable Laws and Regulations section below, as a finding.

Description of Condition

We noted the following deficiencies in internal controls over accounting and financial reporting that, when taken together, represent a material weakness:

- The Authority staff responsible for compiling financial information lacked the technical knowledge and experience needed to accurately prepare the financial statements and notes to the financial statements.
- The Authority was not familiar with the BARS manual annual reporting standards and omitted the Notes to the Financial Statements in their annual report submission.

- The Authority lacked an effective review process to ensure amounts reported in the financial statements and notes to the financial statements agreed to the underlying accounting records, supporting documentation, and followed BARS manual guidance.

Cause of Condition

This was the Authority's first financial statement audit, and Staff were not aware of all the required elements in the BARS manual for financial statements. Further, the Authority did not have an effective review process of the financial statements and notes to the financial statements of the annual financial report to ensure they were complete and accurate.

Effect of Condition

Because of these deficiencies, our audit identified the following:

The Authority did not originally submit Notes to the Financial Statement for any of the years under audit. Staff subsequently prepared the notes during the audit; however, those notes contained errors. For example, the revised notes omitted the cash and investment, long term debt and risk management notes. After the Authority added the cash and investment note it was understated by:

2017	2018	2019
\$10,751,530	\$11,416,416	\$11,785,718

In the Fund Resources and Uses arising from Cash Transactions, the Authority also misclassified cash and investments between reserved and unreserved by:

	2017	2018	2019
Beginning cash/investments	\$1,650,145	\$2,143,945	\$2,787,161
Ending cash/investments	\$2,143,945	\$2,787,161	\$3,509,403

In the Fund Resources and Uses arising from Cash Transactions for both 2018 and 2019, the Authority reported all activity in one general fund, rather than breaking out the debt service activity into a separate fund as required by the BARS manual.

We also identified other less significant errors in the Authority's annual report. The Authority corrected all of the financial statement errors, including those noted above.

Recommendation

We recommend the Authority strengthen internal controls and dedicate the resources necessary to ensure all staff responsible for preparing financial statements have the necessary resources and training to prepare accurate and complete financial statements and notes in accordance with reporting standards. In addition, the Authority should conduct an effective, independent financial statement review that ensures the required financial statement package is accurate and meets reporting standards.

Authority's Response

The Health Sciences and Services Authority (HSSA) of Spokane County is a public entity that takes its financial responsibilities seriously, and commits to be a prudent steward of public funds. It commits resources to providing grants for scientific health science research and access to health care for low income residents in the County. The Washington State Legislature passed legislation to create the HSSA to grow the health sciences academic and industry here through research and the infrastructure to support it, and to provide important economic development in the region.

While this was the first financial audit by the state since the HSSA began operations in 2009, the HSSA has received three “clean” accountability audits by the state with no findings. Those three clean accountability audits, combined with the clean opinion received in in this financial audit, reinforce the HSSA’s ongoing commitment to prudently steward the resources.

In the financial audit, the State Auditor’s Office identified the finding that the HSSA neglected to include notes on its annual financial report for the audit years of 2017-2019. The HSSA agrees with this finding. The HSSA did not have enough familiarity with the BARS manual requiring these notes. As noted in the audit finding, HSSA staff worked with the auditor during the audit and added the appropriate notes, and will continue to do so in the future. We appreciate the Auditor bringing this to our attention and working with us to correct it.

On the finding of lack of financial notes, which has been corrected, we have identified the following measures that we will employ going forward:

- *Financial staff will become further familiar with the basics of the BARS manual.*
- *Annual financial reports will include relevant notes in financial reports in the future.*

- *HSSA will include Spokane County Treasurer in the review of annual financial report and notes, as the Spokane County Treasurer is also the HSSA Treasurer.*
- *Continue internal controls of review by the Executive Director, Finance Chair and Board Chair.*

Auditor's Remarks

We appreciate the Authority's commitment to resolving the issues noted and will follow up during the next scheduled audit.

Applicable Laws and Regulations

Government Auditing Standards, December 2011 Revision, paragraph 4.23 establishes reporting requirements related to significant deficiencies or material weaknesses in internal control, instances of fraud or abuse, and noncompliance with provisions of laws, regulations, contracts, or grant agreements.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its *Codification of Statements on Auditing Standards*, section 265, Communicating Internal Control Related Matters Identified in an Audit, paragraph 7.

RCW 43.09.200 Local government accounting – Uniform system of accounting, requires the state auditor to prescribe the system of accounting and reporting for all local governments.

The *Budgeting, Accounting, and Reporting System (BARS)* manual, 3.1.3, Internal Control, Internal Control, requires each local government to establish and maintain an effective system of internal controls that provides reasonable assurance that the government will achieve its objectives.

INDEPENDENT AUDITOR'S 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*

Health Science and Services Authority January 1, 2017 through December 31, 2019

Board of Directors
Health Science and Services Authority
Spokane, Washington

We have audited, 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, the financial statements of the Health Science and Services Authority, as of and for the years ended December 31, 2019, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Authority's financial statements, and have issued our report thereon dated June 11, 2021.

We issued an unmodified opinion on the fair presentation of the Authority's financial statements in accordance with its regulatory basis of accounting. We issued an adverse opinion on the fair presentation with regard to accounting principles generally accepted in the United States of America (GAAP) because the financial statements are prepared by the Authority using accounting practices prescribed by state law and the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual described in Note 1, which is a basis of accounting other than GAAP. The effects on the financial statements of the variances between the basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

As discussed in Note 6 to the 2019 financial statements, the full extent of the COVID-19 pandemic's direct or indirect financial impact on the Authority is unknown. Management's plans in response to this matter are also described in Note 6.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audits of the financial statements, we considered the Authority'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 opinions on the financial

statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Audit Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 Authority'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. We consider the deficiencies described in the accompanying Schedule of Audit Findings and Responses as Finding 2019-001 to be material weaknesses.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of the Authority's 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*.

AUTHORITY'S RESPONSE TO FINDINGS

The Authority's response to the findings identified in our audit is described in the accompanying Schedule of Audit Findings and Responses. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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 the Authority'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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy
State Auditor
Olympia, WA

June 11, 2021

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

Health Science and Services Authority January 1, 2017 through December 31, 2019

Board of Directors
Health Science and Services Authority
Spokane, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Health Science and Services Authority, for the years ended December 31, 2019, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Authority's financial statements, as listed on page 15.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of state law and the *Budgeting, Accounting and Reporting System* (BARS) manual prescribed by the State Auditor described in Note 1. This includes determining that the basis of accounting is acceptable for the presentation of the financial statements in the circumstances. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions 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 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 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 Authority'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 Authority'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 opinions.

Unmodified Opinion on Regulatory Basis of Accounting (BARS Manual)

As described in Note 1, the Health Science and Services Authority has prepared these financial statements to meet the financial reporting requirements of state law using accounting practices prescribed by the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual. Those accounting practices differ from accounting principles generally accepted in the United States of America (GAAP). The differences in these accounting practices are also described in Note 1.

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash and investments of the Health Science and Services Authority, and its changes in cash and investments, for the years ended December 31, 2019, 2018 and 2017, on the basis of accounting described in Note 1.

Basis for Adverse Opinion on U.S. GAAP

Auditing standards issued by the American Institute of Certified Public Accountants (AICPA) require auditors to formally acknowledge when governments do not prepare their financial statements, intended for general use, in accordance with GAAP. The effects on the financial statements of the variances between GAAP and the accounting practices the Authority used, as described in Note 1, although not reasonably determinable, are presumed to be material. As a result, we are required to issue an adverse opinion on whether the financial statements are presented fairly, in all material respects, in accordance with GAAP.

Adverse Opinion on U.S. GAAP

The financial statements referred to above were not intended to, and in our opinion they do not, present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Health Science and Services Authority, as of December 31, 2019, 2018 and 2017, or the changes in financial position or cash flows thereof for the years then ended, due to the significance of the matter discussed in the above “Basis for Adverse Opinion on U.S. GAAP” paragraph.

Matters of Emphasis

As discussed in Note 6 to the 2019 financial statements, the full extent of the COVID-19 pandemic’s direct or indirect financial impact on the Authority is unknown. Management’s plans in response to this matter are also described in Note 6. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary and Other Information

Our audits were conducted for the purpose of forming opinions on the financial statements taken as a whole. The Schedules of Liabilities are presented for purposes of additional analysis, as required by the prescribed BARS manual. These schedules are not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the 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 11, 2021 on our consideration of the Authority’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 Authority's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive style with a large, stylized "P" and "M".

Pat McCarthy
State Auditor
Olympia, WA

June 11, 2021

FINANCIAL SECTION

Health Science and Services Authority January 1, 2017 through December 31, 2019

FINANCIAL STATEMENTS

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Health Science and Services Authority
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2019

		Total for All Funds (Memo Only)	001 General Fund	200 Debt Service
Beginning Cash and Investments				
30810	Reserved	2,787,161	-	2,787,161
30880	Unreserved	8,628,985	8,628,985	-
388 / 588	Net Adjustments	38	38	-
Revenues				
310	Taxes	-	-	-
320	Licenses and Permits	-	-	-
330	Intergovernmental Revenues	2,416,345	604,086	1,812,259
340	Charges for Goods and Services	-	-	-
350	Fines and Penalties	-	-	-
360	Miscellaneous Revenues	289,642	207,902	81,740
Total Revenues:		2,705,987	811,988	1,893,999
Expenditures				
520	Public Safety	-	-	-
530	Utilities	-	-	-
550	Natural and Economic Environment	-	-	-
560	Social Services	1,256,645	1,254,695	1,950
570	Culture and Recreation	-	-	-
Total Expenditures:		1,256,645	1,254,695	1,950
Excess (Deficiency) Revenues over Expenditures:		1,449,342	(442,707)	1,892,049
Other Increases in Fund Resources				
391-393, 596	Debt Proceeds	-	-	-
397	Transfers-In	-	-	-
385	Special or Extraordinary Items	-	-	-
386 / 389	Custodial Activities	-	-	-
381, 382, 395, 398	Other Resources	-	-	-
Total Other Increases in Fund Resources:		-	-	-
Other Decreases in Fund Resources				
594-595	Capital Expenditures	-	-	-
591-593, 599	Debt Service	1,079,808	-	1,079,808
597	Transfers-Out	-	-	-
585	Special or Extraordinary Items	-	-	-
586 / 589	Custodial Activities	-	-	-
581, 582	Other Uses	-	-	-
Total Other Decreases in Fund Resources:		1,079,808	-	1,079,808
Increase (Decrease) in Cash and Investments:		369,534	(442,707)	812,241
Ending Cash and Investments				
5081000	Reserved	3,599,403	-	3,599,403
5088000	Unreserved	8,186,315	8,186,315	-
Total Ending Cash and Investments		11,785,718	8,186,315	3,599,403

The accompanying notes are an integral part of this statement.

Health Science and Services Authority
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2018

		Total for All Funds (Memo Only)	001 General Fund	200 Debt Service
Beginning Cash and Investments				
30810	Reserved	2,143,945	-	2,143,945
30880	Unreserved	8,607,585	8,607,585	-
388 / 588	Net Adjustments	-	-	-
Revenues				
310	Taxes	-	-	-
320	Licenses and Permits	-	-	-
330	Intergovernmental Revenues	2,239,535	559,884	1,679,651
340	Charges for Goods and Services	-	-	-
350	Fines and Penalties	-	-	-
360	Miscellaneous Revenues	173,905	131,302	42,603
Total Revenues:		2,413,440	691,186	1,722,254
Expenditures				
520	Public Safety	-	-	-
530	Utilities	-	-	-
550	Natural and Economic Environment	-	-	-
560	Social Services	670,605	669,784	821
570	Culture and Recreation	-	-	-
Total Expenditures:		670,605	669,784	821
Excess (Deficiency) Revenues over Expenditures:		1,742,835	21,402	1,721,433
Other Increases in Fund Resources				
391-393, 596	Debt Proceeds	-	-	-
397	Transfers-In	-	-	-
385	Special or Extraordinary Items	-	-	-
386 / 389	Custodial Activities	-	-	-
381, 382, 395, 398	Other Resources	-	-	-
Total Other Increases in Fund Resources:		-	-	-
Other Decreases in Fund Resources				
594-595	Capital Expenditures	-	-	-
591-593, 599	Debt Service	1,078,217	-	1,078,217
597	Transfers-Out	-	-	-
585	Special or Extraordinary Items	-	-	-
586 / 589	Custodial Activities	-	-	-
Total Other Decreases in Fund Resources:		1,078,217	-	1,078,217
Increase (Decrease) in Cash and Investments:		664,618	21,402	643,216
Ending Cash and Investments				
5081000	Reserved	2,787,161	-	2,787,161
5088000	Unreserved	8,628,985	8,628,985	-
Total Ending Cash and Investments		11,416,146	8,628,985	2,787,161

The accompanying notes are an integral part of this statement.

Health Science and Services Authority
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2017

		Total for All Funds (Memo Only)	001 General Fund	200 Debt Service
Beginning Cash and Investments				
30810	Reserved	2,230,310	580,165	1,650,145
30880	Unreserved	7,997,298	7,997,298	-
388 / 588	Net Adjustments	-	-	-
Revenues				
310	Taxes	-	-	-
320	Licenses and Permits	-	-	-
330	Intergovernmental Revenues	2,066,198	516,549	1,549,649
340	Charges for Goods and Services	-	-	-
350	Fines and Penalties	-	-	-
360	Miscellaneous Revenues	108,051	86,046	22,005
Total Revenues:		2,174,249	602,595	1,571,654
Expenditures				
520	Public Safety	-	-	-
530	Utilities	-	-	-
550	Natural and Economic Environment	-	-	-
560	Social Services	573,124	572,474	650
570	Culture and Recreation	-	-	-
Total Expenditures:		573,124	572,474	650
Excess (Deficiency) Revenues over Expenditures:		1,601,125	30,121	1,571,004
Other Increases in Fund Resources				
391-393, 596	Debt Proceeds	-	-	-
397	Transfers-In	-	-	-
385	Special or Extraordinary Items	-	-	-
386 / 389	Custodial Activities	-	-	-
381, 382, 395, 398	Other Resources	-	-	-
Total Other Increases in Fund Resources:		-	-	-
Other Decreases in Fund Resources				
594-595	Capital Expenditures	-	-	-
591-593, 599	Debt Service	1,077,204	-	1,077,204
597	Transfers-Out	-	-	-
585	Special or Extraordinary Items	-	-	-
586 / 589	Custodial Activities	-	-	-
Total Other Decreases in Fund Resources:		1,077,204	-	1,077,204
Increase (Decrease) in Cash and Investments:		523,921	30,121	493,800
Ending Cash and Investments				
5081000	Reserved	2,143,945	-	2,143,945
5088000	Unreserved	8,607,585	8,607,585	-
Total Ending Cash and Investments		10,751,530	8,607,585	2,143,945

The accompanying notes are an integral part of this statement.

Health Sciences and Services Authority of Spokane County
Notes to the Financial Statements
For the Year ended December 31, 2019

Note 1 – Summary of Significant Accounting Policies

The Health Sciences and Services Authority (HSSA) of Spokane County was created by the Washington State Legislature in 2007 (RCW 35.104) to promote bioscience-based economic development and to advance new therapies and procedures to combat disease and to promote public health through year 2022. This was, in part, a response to the Technology Alliance's Bio 21 Report to develop an economic strategy with health and science at its core. In May 2019 The Health Sciences and Services Authority was extended to January 1, 2038 when SB 5596 was signed by the Governor. The operations of The Health Sciences and Services Authority are financed by a .02 percent sales tax levy collected in Spokane County. The Health Sciences and Services Authority is not authorized to levy taxes. The Health Sciences and Services Authority has four funds which account for its general fund activity. These funds are also reported in Spokane County's financial statements at the fund level in the special revenue funds and at the government-wide level in Governmental Activities.

The Health Sciences and Services Authority reports financial activity in accordance with the Cash Basis Budgeting, Accounting and Reporting System (BARS) Manual prescribed by the State Auditor's Office under the authority of Washington State law, [Chapter 43.09 RCW](#). This manual prescribes a financial reporting framework that differs from generally accepted accounting principles (GAAP) in the following manner:

- Financial transactions are recognized on a cash basis of accounting as described below.

- Component units are required to be disclosed, but are not included in the financial statements.
- Government-wide statements, as defined in GAAP, are not presented.
- All funds are presented, rather than a focus on major funds.
- The Schedule of Liabilities is required to be presented with the financial statements as supplementary information.
- Supplementary information required by GAAP is not presented.
- Ending balances are not presented using the classifications defined in GAAP

A. Fund Accounting

Financial transactions of the government are reported in individual funds. Each fund uses a separate set of self-balancing accounts that comprises its cash and investments, revenues and expenditures. The government's resources are allocated to and accounted for in individual funds depending on their intended purpose. Each fund is reported as a separate column in the financial statements, except for fiduciary funds, which are presented by fund types.

GOVERNMENTAL FUND TYPES:

General Fund

This fund is the primary operating fund of the government. It accounts for all financial resources except those required or elected to be accounted for in another fund.

Debt Service Funds

These funds account for the financial resources that are restricted, committed, or assigned to expenditures for principal, interest and related costs on general long-term debt.

B. Basis of Accounting and Measurement Focus

Financial statements are prepared using the cash basis of accounting and measurement focus. Revenues are recognized when cash is received and expenditures are recognized when paid.

C. Cash and Investments

See Note 2 – Deposits and Investments

D. Long-Term Debt

See Note 3 – Debt Service Requirements.

E. Restricted and Committed Portion of Ending Cash and Investments

Beginning and Ending Cash and Investments are reported as restricted or committed when it is subject to restrictions on use imposed by external parties or due to internal commitments established by resolution of the Board. When expenditures that meet restrictions are incurred the Authority intends to use the most restricted resources first.

Restrictions and commitments of Ending Cash and Investments consist of \$3,599,403.

Note 2 – Deposits and Investments

A. Deposits

Cash on hand held by the Spokane County Treasurer at December 31, 2019 was \$11,785,718.

B. Investments

The Authority invests all temporary cash surpluses in the investment pool through the county treasury services department. Investments in Spokane County Investment Pool. The authority is a voluntary participant in the Spokane County Investment Pool, an external investment pool operated by the County Treasurer. The pool is not rated or registered with the SEC. Rather oversight is provided by the County Finance Committee in accordance with RCW 36.48.070. The authority reports its investment in the pool at fair value which is the same as the value of the pool per share. (The SCIP does not impose liquidity fees or redemption dates on participant withdrawals/disclose any liquidity fees or redemption dates).

Investments are reported at fair value. Deposits and investments by type at December 31, 2019 are as follows:

Type of Investment	Authority's Own deposits and investments	Total
Spokane County Investment Pool	\$11,785,718	\$11,785,718

Note 3 – Long-Term Debt

The accompanying Schedule of Liabilities provides more details of the outstanding debt and liabilities of the Authority and summarizes the Authority's debt transactions for year ended December 31, 2019.

In 2010, Spokane County issued a bond in the amount of \$10.73 million and loaned the proceeds to The Health Sciences and Services Authority for operations. The loan is to be repaid from a reservation of the sales tax revenues collected by Spokane County for The Health Sciences and Services Authority.

In October of 2019 the Board of Spokane County Commissioners authorized the issuance of its Limited Tax General Obligation Refunding Bonds, Series 2019C in order to achieve a debt service savings, a portion of the interest savings were used to reduce the interest payments amending the payment schedule with HSSA.

	Principal	Interest	Total
2020	950,000	108,639	1,058,639
2021	985,000	67,708	1,052,708
2022	1,030,000	24,458	1,054,458
TOTALS	2,965,000	200,805	3,165,805

Note 4 – Related Party Transactions

The Health Sciences and Services Authority’s Board of Directors and staff members have professional and personal associations throughout the community. Where a direct or indirect conflict of interest exists as a result of

these associations, the board or staff member is required to abstain from any discussion and voting concerning the matter. Board and staff members must publicly disclose all such associations for inclusion in the meeting minutes. Staff and board members adhere to internal administrative policies regarding the code of ethics and conflicts of interest.

During 2019, The Health Sciences and Services Authority paid grant writing assistance expenses to the following organizations which a board member or staff had a professional association.

- \$2,625 was paid to a grant writer to assist Iasis Molecular Sciences
 - David Vachon serves as a Board member

During 2019, The Health Sciences and Services Authority reimbursed expenses towards grants awarded in previous years.

- \$94,407 was reimbursed to Coordinated Health Initiative for expenses against grants awarded in previous years.
 - Michael D. Wilson served as a board member on both HSSA and Catholic Charities, a part of the Coordinated Health Initiative
 - Board member Nancy L. Isserlis, J.D. served as a board member on both HSSA and Pioneer Health, a part of the Coordinated Health Initiative
- \$24,798 was reimbursed to Catholic Charities for expenses against separate grants awarded in a previous year.
 - Michael D. Wilson served as a member on both HSSA and Catholic Charities
- \$122,168 was reimbursed to Whitworth University
 - Jason Thackston served as a member on both boards
- \$259,450 was reimbursed to Iasis Novel Catheter for expenses against a grant awarded in a previous year.
 - David Vachon is a principal in Iasis Novel Catheter and serves on the HSSA board.
- \$26,180 was reimbursed to YWCA for expenses against a grant awarded in a previous year.

- Susan Ashe serves as HSSA's executive director and on the board of the YWCA

During 2019, The Health Sciences and Services Authority awarded three reimbursable grants to organizations which a board member had a professional association.

- \$250,000 for Health Science Research Grant to 2nd Sight Bioscience
 - Board Member Kevin Oldenburg is a principal with 2nd Sight Bioscience
- \$500,000 for Health Science Research Grant to Iasis Novel Urinary
 - Board Member David J. Vachon is a principal with Iasis Novel Urinary
- \$500,000 for Health Science Research Grant to WSU College of Pharmacy
 - Board member Daryll DeWald is the Vice President of WSU Health and Chancellor and the WSU Spokane Academic Center
- \$250,000 for Health Science Research Grant to Gleason Institute of Neuroscience at WSU
 - Board member Daryll DeWald is the Vice President of WSU Health and Chancellor and the WSU Spokane Academic Center
- \$32,000 for Access To Care Grant awarded to Pioneer Human Services
 - Board member Nancy L. Isserlis, J.D. served on both Boards

Note 5 – Risk Management

The Authority purchases insurance from commercial carriers to protect itself against general liability, employee dishonesty, automobile, and property damages. The insurance is purchased through Hub Insurance Agency.

The Authority participates in the State of Washington Labor and Industries worker's compensation insurance program and the Washington State Employment Security Department.

Note 6 – Subsequent Events

In February 2020, the Governor of the state of Washington declared a state of emergency in response to the spread of a deadly new virus. In the weeks following the declaration, precautionary measures to slow the spread of the virus were ordered. These measures include closing schools, colleges and universities, cancelling public events, prohibiting public and private gatherings, and requiring people to stay home unless they are leaving for an essential function. Sales tax revenues were affected by local sales but remained strong for online sales.

The length of time these measures will be in place, and the full extent of the financial impact on the HSSA is unknown at this time.

Health Sciences and Services Authority of Spokane County
Notes to the Financial Statements
For the Year ended December 31, 2018

Note 1 – Summary of Significant Accounting Policies

The Health Sciences and Services Authority (HSSA) of Spokane County was created by the Washington State Legislature in 2007 (RCW 35.104) to promote bioscience-based economic development and to advance new therapies and procedures to combat disease and to promote public health through year 2022. This was, in part, a response to the Technology Alliance's Bio 21 Report to develop an economic strategy with health and science at its core. The operations of The Health Sciences and Services Authority are financed by a .02 percent sales tax levy collected in Spokane County. The Health Sciences and Services Authority is not authorized to levy taxes. The Health Sciences and Services Authority has four funds which account for its general fund activity. These funds are also reported in Spokane County's financial statements at the fund level in the special revenue funds and at the government-wide level in Governmental Activities.

The Health Sciences and Services Authority reports financial activity in accordance with the Cash Basis Budgeting, Accounting and Reporting System (BARS) Manual prescribed by the State Auditor's Office under the authority of Washington State law, [Chapter 43.09 RCW](#). This manual prescribes a financial reporting framework that differs from generally accepted accounting principles (GAAP) in the following manner:

- Financial transactions are recognized on a cash basis of accounting as described below.
- Component units are required to be disclosed, but are not included in the financial statements.

- Government-wide statements, as defined in GAAP, are not presented.
- All funds are presented, rather than a focus on major funds.
- The Schedule of Liabilities is required to be presented with the financial statements as supplementary information.
- Supplementary information required by GAAP is not presented.
- Ending balances are not presented using the classifications defined in GAAP

A. Fund Accounting

Financial transactions of the government are reported in individual funds. Each fund uses a separate set of self-balancing accounts that comprises its cash and investments, revenues and expenditures. The government's resources are allocated to and accounted for in individual funds depending on their intended purpose. Each fund is reported as a separate column in the financial statements, except for fiduciary funds, which are presented by fund types.

GOVERNMENTAL FUND TYPES:

General Fund

This fund is the primary operating fund of the government. It accounts for all financial resources except those required or elected to be accounted for in another fund.

Debt Service Funds

These funds account for the financial resources that are restricted, committed, or assigned to expenditures for principal, interest and related costs on general long-term debt.

B. Basis of Accounting and Measurement Focus

Financial statements are prepared using the cash basis of accounting and measurement focus. Revenues are recognized when cash is received and expenditures are recognized when paid.

C. Cash and Investments

See Note 2 – Deposits and Investments.

D. Long-Term Debt

See Note 3 – Debt Service Requirements.

E. Restricted and Committed Portion of Ending Cash and Investments

Beginning and Ending Cash and Investments are reported as restricted or committed when it is subject to restrictions on use imposed by external parties or due to internal commitments established by resolution of the Board. When expenditures that meet restrictions are incurred the Authority intends to use the most restricted resources first.

Restrictions and commitments of Ending Cash and Investments consist of \$2,787,161.

Note 2 – Deposits and Investments

A. Deposits

Cash on hand held by the Spokane County Treasurer at December 31, 2018 was \$11,416,146.

B. Investments

The Authority invests all temporary cash surpluses in the investment pool through the county treasury services department. Investments in Spokane County Investment Pool. The district is a voluntary participant in the Spokane County Investment Pool, an external investment pool operated by the County Treasurer. The pool is not rated or registered with the SEC. Rather oversight is provided by the County Finance Committee in accordance with RCW 36.48.070. The district reports its investment in the pool at fair value which is the same as the value of the pool per share. (The SCIP does not impose liquidity fees or redemption dates on participant withdrawals/disclose any liquidity fees or redemption dates).

Investments are reported at fair value. Deposits and investments by type at December 31, 2018 are as follows:

Type of Investment	Authority's Own deposits and investments	Total
Spokane County Investment Pool	\$11,416,146	\$11,416,146

Note 3 – Long-Term Debt

The accompanying Schedule of Liabilities provides more details of the outstanding debt and liabilities of the Authority and summarizes the Authority's debt transactions for year ended December 31, 2018.

In 2010, Spokane County issued a bond in the amount of \$10.73 million and loaned the proceeds to The Health Sciences and Services Authority for

operations. The loan is to be repaid from a reservation of the sales tax revenues collected by Spokane County for The Health Sciences and Services Authority.

	Principal	Interest	Total
2019	920,000	159,808	1,079,808
2020	950,000	129,527	1,079,527
2021	985,000	97,302	1,082,302
2022	1,030,000	49,875	1,079,875
TOTALS	\$3,885,000	\$436,512	\$4,321,512

Note 4 – Related Party Transactions

The Health Sciences and Services Authority’s Board of Directors and staff members have professional and personal associations throughout the community. Where a direct or indirect conflict of interest exists as a result of these associations, the board or staff member is required to abstain from any discussion and voting concerning the matter. Board and staff members must publicly disclose all such associations for inclusion in the meeting minutes. Staff

and board members adhere to internal administrative policies regarding the code of ethics and conflicts of interest.

During 2018, The Health Sciences and Services Authority paid grant writing assistance expenses to the following organizations which a board member or staff had a professional association.

- \$9,071 to a grant writer to assist Iasis Molecular Sciences
 - David Vachon is a principal in Iasis Novel Catheter and serves on the HSSA board.

During 2018, The Health Sciences and Services Authority reimbursed expenses towards grants awarded in previous years.

- \$72,727 was reimbursed to Empire Health/Catholic Charity for expenses against grants awarded in previous years.
 - Michael D. Wilson served as a member on both HSSA and Catholic Charities

During 2018, The Health Sciences and Services Authority awarded reimbursable grants to the following organizations which a board member or staff had a professional association.

- \$122,168 Human Capital and Infrastructure reimbursable grant was awarded to Whitworth University; no expenses were reimbursed toward the grant during 2018
 - Jason Thackston Served as a member on both boards
- \$52,927 Access to Care reimbursable grant was awarded to YWCA; no expenses were reimbursed toward the grant during 2018
 - Susan Ashe, HSSA Executive Director served as YWCA Board member
- \$120,000 Access to Care reimbursable grant was awarded to Coordinated Health Initiative; no expenses were reimbursed toward the grant during 2018
 - Michael D. Wilson served as a member on both HSSA and Catholic Charities, a part of the Coordinated Health Initiative

- Nancy L. Isserlis, J.D. served as a member on both HSSA and Pioneer Health, a part of the Coordinated Health Initiative

Note 5 – Risk Management

The Authority purchases insurance from commercial carriers to protect itself against general liability, employee dishonesty, automobile, and property damages. The insurance is purchased through Hub Insurance Agency.

The Authority participates in the State of Washington Labor and Industries worker's compensation insurance program and the Washington State Employment Security Department.

Health Sciences and Services Authority of Spokane County
Notes to the Financial Statements
For the Year ended December 31, 2017

Note 1 – Summary of Significant Accounting Policies

The Health Sciences and Services Authority (HSSA) of Spokane County was created by the Washington State Legislature in 2007 (RCW 35.104) to promote bioscience-based economic development and to advance new therapies and procedures to combat disease and to promote public health through the year 2022. This was, in part, a response to the Technology Alliance's Bio 21 Report to develop an economic strategy with health and science at its core. The operations of The Health Sciences and Services Authority are financed by a .02 percent sales tax levy collected in Spokane County. The Health Sciences and Services Authority is not authorized to levy taxes. The Health Sciences and Services Authority has four funds which account for its general fund activity. These funds are also reported in Spokane County's financial statements at the fund level in the special revenue funds and at the government-wide level in Governmental Activities.

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- The Schedule of Liabilities is required to be presented with the financial statements as supplementary information.
- Supplementary information required by GAAP is not presented.
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A. Fund Accounting

Financial transactions of the government are reported in individual funds. Each fund uses a separate set of self-balancing accounts that comprises its cash and investments, revenues and expenditures. The government's resources are allocated to and accounted for in individual funds depending on their intended purpose. Each fund is reported as a separate column in the financial statements, except for fiduciary funds, which are presented by fund types.

GOVERNMENTAL FUND TYPES:

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Debt Service Funds

These funds account for the financial resources that are restricted, committed, or assigned to expenditures for principal, interest and related costs on general long-term debt.

B. Basis of Accounting and Measurement Focus

Financial statements are prepared using the cash basis of accounting and measurement focus. Revenues are recognized when cash is received and expenditures are recognized when paid.

C. Cash and Investments

See Note 2 – Deposits and Investments.

D. Long-Term Debt

See Note 3 – Debt Service Requirements.

E. Restricted and Committed Portion of Ending Cash and Investments

Beginning and Ending Cash and Investments are reported as restricted or committed when it is subject to restrictions on use imposed by external parties or due to internal commitments established by resolution of the Board. When expenditures that meet restrictions are incurred the Authority intends to use the most restricted resources first.

Restrictions and commitments of Ending Cash and Investments consist of \$2,143,945.

Note 2 – Deposits and Investments

A. Deposits

Cash on hand held by the Spokane County Treasurer at December 31, 2017 was \$10,751,530.

B. Investments

The Authority invests all temporary cash surpluses in the investment pool through the county treasury services department. The Authority is a voluntary participant in the Spokane County Investment Pool, an external investment pool operated by the County Treasurer. The pool is not rated or registered with the SEC. Rather oversight is provided by the County Finance Committee in accordance with RCW 36.48.070. The Authority reports its investment in the pool at fair value which is the same as the value of the pool per share. (The SCIP does not impose liquidity fees or redemption dates on participant withdrawals/disclose any liquidity fees or redemption dates).

Investments are reported at fair value. Deposits and investments by type at December 31, 2017 are as follows:

Type of Investment	Authority's Own deposits and investments	Total
Spokane County Investment Pool	\$10,751,530	\$10,751,530

Note 3 – Long-Term Debt

The accompanying Schedule of Liabilities provides more details of the outstanding debt and liabilities of the Authority and summarizes the Authority's debt transactions for year ended December 31, 2017.

In 2010, Spokane County issued a bond in the amount of \$10.73 million and loaned the proceeds to The Health Sciences and Services Authority for operations. The loan is to be repaid from a reservation of the sales tax

revenues collected by Spokane County for The Health Sciences and Services Authority.

	Principal	Interest	Total
2018	\$890,000	\$188,217	\$1,078,217
2019	920,000	159,808	1,079,808
2020	950,000	129,527	1,079,527
2021	985,000	97,302	1,082,302
2022	1,030,000	49,875	1,079,875
TOTALS	\$4,775,000	\$624,729	\$5,399,729

Note 4 – Risk Management

The Authority purchases insurance from commercial carriers to protect itself against general liability, employee dishonesty, automobile, and property damages. The insurance is purchased through Hub Insurance Agency.

The Authority participates in the State of Washington Labor and Industries worker's compensation insurance program and the Washington State Employment Security Department.

Health Science and Services Authority
Schedule of Liabilities
For the Year Ended December 31, 2019

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Debt/Liabilities						
263.85	Limited Tax General Obligation Bonds	12/1/2022	3,885,000	-	920,000	2,965,000
Total General Obligation Debt/Liabilities:			3,885,000	-	920,000	2,965,000
Total Liabilities:			3,885,000	-	920,000	2,965,000

Health Science and Services Authority
Schedule of Liabilities
For the Year Ended December 31, 2018

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Debt/Liabilities						
263.85	Limited Tax General Obligation Bonds	12/1/2022	4,775,000	-	890,000	3,885,000
Total General Obligation Debt/Liabilities:			4,775,000	-	890,000	3,885,000
Total Liabilities:			4,775,000	-	890,000	3,885,000

Health Science and Services Authority
Schedule of Liabilities
For the Year Ended December 31, 2017

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Debt/Liabilities						
263.85	Limited Tax General Obligation Bonds	12/1/2022	5,640,000	-	865,000	4,775,000
Total General Obligation Debt/Liabilities:			5,640,000	-	865,000	4,775,000
Total Liabilities:			5,640,000	-	865,000	4,775,000

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the Washington State Constitution and is part of the executive branch of state government. The State Auditor is elected by the people of Washington and serves four-year terms.

We work with state agencies, local governments and the public to achieve our vision of increasing trust in government by helping governments work better and deliver higher value.

In fulfilling our mission to provide citizens with independent and transparent examinations of how state and local governments use public funds, we hold ourselves to those same standards by continually improving our audit quality and operational efficiency, and by developing highly engaged and committed employees.

As an agency, the State Auditor's Office has the independence necessary to objectively perform audits, attestation engagements and investigations. Our work is designed to comply with professional standards as well as to satisfy the requirements of federal, state and local laws. The Office also has an extensive quality control program and undergoes regular external peer review to ensure our work meets the highest possible standards of accuracy, objectivity and clarity.

Our audits look at financial information and compliance with federal, state and local laws for all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits and cybersecurity audits of state agencies and local governments, as well as state whistleblower, fraud and citizen hotline investigations.

The results of our work are available to everyone through the more than 2,000 reports we publish each year on our website, www.sao.wa.gov. Additionally, we share regular news and other information via an email subscription service and social media channels.

We take our role as partners in accountability seriously. The Office provides training and technical assistance to governments both directly and through partnerships with other governmental support organizations.

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- Toll-free Citizen Hotline:
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webmaster@sao.wa.gov