



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

December 16, 2024

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, 2023 and 2022. 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, 2023 and 2022

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## Independent Auditor's Report

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

### REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

#### Opinion

We have audited the financial statements of the Pacific Hospital Preservation & Development Authority (the Pacific Hospital PDA), which comprise the statements of net position as of December 31, 2023 and 2022, and the related statements of revenues, expenses and changes in net position and statements of cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Pacific Hospital PDA as of December 31, 2023 and 2022, and the change in its net position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

#### Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Pacific Hospital PDA and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and 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.



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In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Pacific Hospital PDA's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

## **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Pacific Hospital PDA's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Pacific Hospital PDA's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

## **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 4 through 11 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 5, 2024 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 solely 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 the effectiveness of Pacific Hospital PDA's 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 Pacific Hospital PDA's internal control over financial reporting and compliance.

*Clark Nuber P.S.*

Certified Public Accountants  
June 5, 2024

## **PACIFIC HOSPITAL PRESERVATION & DEVELOPMENT AUTHORITY**

### **Management's Discussion and Analysis For the Years Ended December 31, 2023 and 2022**

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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, 2023 and 2022. 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 campus.

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, 2023 and 2022.

The statement of net position, statement of revenues, expenses and changes in net position, and statement of cash flows provide an indication of the Pacific Hospital PDA's financial health. The statement of net position includes all of the Pacific Hospital PDA's assets and liabilities, deferred inflows, and deferred outflows using the accrual basis of accounting. The statement of revenues, expenses and changes in net position reports 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, 2023 and 2022**

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#### **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 King County. In 2023, 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.
- In November 2021, the Pacific Hospital PDA signed a new long-term ten-year lease agreement with PacMed Clinics (doing business as Pacific Medical Centers (PMC)) for the ground floor and basement of the Pacific Tower and much of the east parking garage. Additionally, the parties signed a short-term lease for several of the Quarters buildings, which ended in August 2022.

Additionally, in 2023, the PHPDA entered into a two-year Temporary Use License for the Quarters buildings with the Department of Commerce, allowing them access to the space as they assess it for future potential use. This is a renewal of a previous agreement and covers July 2023 through June 2025.

Both long-term 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, 2023, 2022, and 2021 are presented in the tables below.



# PACIFIC HOSPITAL PRESERVATION & DEVELOPMENT AUTHORITY

## Management's Discussion and Analysis For the Years Ended December 31, 2023 and 2022

### Financial Analysis and Highlights - Continued

Table A-1 Statements of Net Position

	As of December 31,		
	2023	2022	2021
Current assets	\$ 16,748,576	\$ 14,948,311	\$ 9,044,668
Capital assets, net	2,661,032	3,127,600	4,054,266
Noncurrent assets	68,219,151	69,879,842	75,152,054
<b>Total Assets</b>	<b>\$ 87,628,759</b>	<b>\$ 87,955,753</b>	<b>\$ 88,250,988</b>
Current liabilities	\$ 443,614	\$ 896,679	\$ 593,004
Promissory note			3,000,000
Other noncurrent liabilities			1,525,000
<b>Total Liabilities</b>	<b>\$ 443,614</b>	<b>\$ 896,679</b>	<b>\$ 5,118,004</b>
Deferred lease revenue	\$ 56,416,136	\$ 59,306,759	\$ 62,758,640
<b>Deferred Inflow of Resources</b>	<b>\$ 56,416,136</b>	<b>\$ 59,306,759</b>	<b>\$ 62,758,640</b>
Invested in capital assets, net of related debt	\$ 2,661,032	\$ 3,127,600	\$ 5,118,753
Unrestricted	28,107,977	24,624,715	15,255,591
<b>Total Net Position</b>	<b>\$ 30,769,009</b>	<b>\$ 27,752,315</b>	<b>\$ 20,374,344</b>

As of December 31, 2023, there is \$223,547 in tenant and other receivables under current assets. This is primarily comprised of receivables from tenants for operating costs for the fourth quarter of 2023 and funds due from grantees that had unexpended funds at the end of their grant contracts. The other current assets consist of \$3,250,623 in cash and cash equivalents, \$11,034,744 in short-term investments, \$2,066,834 in current portions of lease and lease interest receivables, and \$172,828 in other current assets. Noncurrent assets represent \$5,180,582 of reserve funds held in a short-term investment account, a \$526,000 promissory note related to the sale of the North Lot, and \$62,512,569 in long-term lease receivables.

In previous years, noncurrent assets also included capitalized pre-development costs 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.

## **PACIFIC HOSPITAL PRESERVATION & DEVELOPMENT AUTHORITY**

### **Management's Discussion and Analysis For the Years Ended December 31, 2023 and 2022**

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#### **Financial Analysis and Highlights - Continued**

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 sale contract negotiations with potential partners beginning in 2018, 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. The deposit related to this sale was received in early 2020, and was included in the cash balance in current assets in the financial statements, as well as represented as a liability until sale was completed in 2022.

As of December 31, 2023, the components of current liabilities include \$223,660 in prepaid rent and other expenses from tenants, \$171,797 in payables, and \$48,247 in accrued payroll and other expenses. The deferred lease revenue of \$56,416,136 represents the deferred inflow for both long-term leases.

Prior year long-term liabilities of \$3,000,000 represented 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 prior year long-term liabilities was the \$1,525,000 deposit on the North Lot sale to SCIDpda. This income was recognized when the sale was finalized in 2022.

# PACIFIC HOSPITAL PRESERVATION & DEVELOPMENT AUTHORITY

## Management's Discussion and Analysis For the Years Ended December 31, 2023 and 2022

### Financial Analysis and Highlights - Continued

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

	For the Year Ended December 31,		
	2023	2022	2021
Tenant revenues	\$ 10,480,917	\$ 7,723,469	\$ 7,131,893
Grant revenue			48,500
Other revenue	239,900	185,600	1,010,550
<b>Total Operating Revenues</b>	<b>10,720,817</b>	<b>7,909,069</b>	<b>8,190,943</b>
Tower operating costs	6,741,922	3,882,655	3,617,519
Quarters operating expenses	198,005	99,480	1,735
Community grants	3,144,449	3,073,136	3,086,518
General operating expenses	926,344	930,249	1,215,448
<b>Total Operating Expenses</b>	<b>11,010,720</b>	<b>7,985,520</b>	<b>7,921,220</b>
<b>Operating Income Before Depreciation</b>	<b>(289,903)</b>	<b>(76,451)</b>	<b>269,723</b>
Depreciation	475,815	669,531	763,248
<b>Operating Income (Loss)</b>	<b>(765,718)</b>	<b>(745,982)</b>	<b>(493,525)</b>
Nonoperating revenues	3,782,412	3,203,900	2,751,739
Gain on sale of North Lot land		4,928,190	
Nonoperating expenses		(8,137)	(4,685)
<b>Nonoperating Income</b>	<b>3,782,412</b>	<b>8,123,953</b>	<b>2,747,054</b>
<b>Change in Net Position</b>	<b>3,016,694</b>	<b>7,377,971</b>	<b>2,253,529</b>
Net position, beginning of year	27,752,315	20,374,344	18,120,815
<b>Net Position, End of Year</b>	<b>\$ 30,769,009</b>	<b>\$ 27,752,315</b>	<b>\$ 20,374,344</b>

For 2023, the Pacific Hospital PDA had two long term leases. The PMC lease had a monthly payment of \$99,703 (\$1,196,430 annually), and the lease with the Washington State Department of Commerce had a monthly payment of \$267,959 in 2023 (\$3,482,990 annually). Additional payments were received from the Department of Commerce in 2023 for deferred rental income, per a 2020 lease amendment, and for the Temporary Use License for the Quarters Buildings. Income for these leases, per GASB 87, are represented on the statements as \$3,638,967 of Tenant revenues and \$2,975,698 of nonoperating revenues (interest).

## PACIFIC HOSPITAL PRESERVATION & DEVELOPMENT AUTHORITY

### Management's Discussion and Analysis For the Years Ended December 31, 2023 and 2022

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#### Financial Analysis and Highlights - Continued

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 2023 tenant revenue includes \$31,091 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 \$6,811,499. The costs for property management and operations related to these reimbursements are included as operating expenses.

The primary source of other operating income in 2023 is payment related to a previous short-term Temporary Use License for the Quarters buildings with the Department of Commerce, allowing them access to the space as they assess it for future potential use. As noted above, the new agreement signed in 2023, covering through 2025, is included with lease income per GASB 87, as it is not a short-term agreement.

The Pacific Hospital PDA operating expenses before depreciation totaled \$11,010,720 for 2023.

The Pacific Hospital PDA's grant expenses of \$3,144,449 represent awards to organizations for programs addressing health access and outcome disparities in the Puget Sound region. Awards were primarily made through two grant programs: Major Grants (\$2,742,349 total expense) and Nimble Grants (\$371,100 total expense). Additionally, the Pacific Hospital PDA began a partnership with Seattle University School of Law for a health policy law clinic in 2022. As part of the partnership, the Pacific Hospital PDA provided \$30,000 in funding to the university for faculty expenses in both 2023 and 2022.

For Major Grants (which range from \$50,000 to \$200,000 for a 12-month grant period), \$1,268,215 of the expense was for 2023 portions of 20 grants awarded in 2022 (\$1,502,980 awarded and \$234,765 in returned unexpended funds).

Additional Major Grants were awarded in 2023 through two processes. The first was renewal of previous grant projects for an additional year of funding for the July 1, 2023 through June 30, 2024 grant year. Eleven grants were awarded through this process, totaling \$1,944,670. Half of this is grant expense for July through December 2023, with the remainder to be expended in 2024.

In addition, the Pacific Hospital PDA again undertook a competitive process to award new Major Grants. In 2023, the Pacific Hospital PDA awarded seven new Major Grants totaling \$1,003,598, including \$501,799 in 2023 expense for July through December. The remainder will be expended in 2024.

The Major Grants projects funded through the 2023 Renewal and New Major Grant processes were:

Afghan Health Initiative - Afghan American Health Coalition, to convene of community members, public health officials, and healthcare providers to create solutions to barriers to accessing prenatal care.  
Asian Counseling and Referral Service - Wellness for Asian Pacific Americans (WAPA) Nurse Project for low-income Asian Pacific Islanders with severe mental illness.  
Childhaven - Partnership with SeaMar to reduce disparities in diagnosis of Developmental Delays and access to support services for young Latinx children.

## PACIFIC HOSPITAL PRESERVATION & DEVELOPMENT AUTHORITY

### Management's Discussion and Analysis For the Years Ended December 31, 2023 and 2022

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#### Financial Analysis and Highlights - Continued

Comunidad Latino de Vashon (Through the Latino Community Fund) - Community-led and culturally aligned mental health supports for the rural Latino community of Vashon Island.

Downtown Emergency Service Center - ConnectCare, providing intensive medical case management to a subset of DESC clients whose combined behavioral and physical healthcare needs are complex.

East African Community Services - Education and empowerment of low-income, English Language-Limited, Black immigrants and refugees in South King County on the impacts of diabetes, obesity, mental health and autism.

Elizabeth Gregory Home - Health Navigation to improve access to health education and resources for women experiencing homelessness.

Evergreen Treatment Services - Community-based opioid use disorder treatment, support services, and outreach to homeless individuals and other underserved King County populations.

Global Perinatal Services - Wraparound perinatal services and programs for first time Black parents.

Living Well Kent - Improvement in access to early intervention services for Somali and East African families served by linguistically and culturally attuned family child care providers in Kent/South King County.

Lutheran Community Services Northwest - Enhanced mental health services and/or access to intensive case management services for asylum seekers and humanitarian migrants.

Neighborcare Health - Culturally sensitive Midwifery care in five Seattle clinics to low-income persons, including immigrants and refugees.

Peer Washington - Enhance health outcomes for justice-involved people in municipal courts - the majority of whom have behavioral health issues - by facilitating their access to peer support services.

Public Defender Association (now Purpose Dignity Action) - Comprehensive care to people at risk of involvement with the legal system due to behavioral health issues, substance use disorder, and homelessness.

Somali Health Board - Culturally responsive mental health services to address high rates of untreated or undiagnosed mental illness for Somalis in south King County.

Tubman Center for Health and Freedom - Implementation and piloting of community-designed healthcare solutions for marginalized communities through a school-based health center.

UTOPIA Washington - Mapu Maia Clinic, providing culturally aligned, accessible healthcare focusing on the LGBTQI Pacific Islander community, including gender affirming care, primary and urgent care, vaccinations, and health and safety resources.

Youth Experiential Training Institute - Outdoor programming for students in underserved schools in the Highline and Tukwila School Districts, resulting in improved mental and physical health outcomes for low-income, BIPOC, and immigrant youth.

Nimble Grants (\$30,000 or under) totaled \$371,100 (\$373,943 awarded and \$2,843 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 2022 (for projects beginning January 1, 2023), March 2023, and September 2023. Fifteen Nimble Grants were awarded in 2023.

Investment income, which is included in nonoperating revenues, was \$806,714, \$207,433 and \$11,042 in 2023, 2022, and 2021 respectively. Nonoperating expenses in past years include some North Lot costs related to negotiations with potential and existing partners, expenses that are not part of capitalized development costs. There were no non-operating expenses in 2023.

## **PACIFIC HOSPITAL PRESERVATION & DEVELOPMENT AUTHORITY**

### **Management's Discussion and Analysis For the Years Ended December 31, 2023 and 2022**

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#### **Financial Analysis and Highlights - Continued**

The Pacific Hospital PDA uses the straight-line method of depreciation. Depreciation expense was \$475,815 for the year ended December 31, 2023.

#### **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**

There was no significant capital asset activity in 2023.

Two additions were made to capital assets in 2022. Improvement work to a garage on campus that was not immediately reimbursable under existing leases was capitalized. It will be reimbursed by tenants on an amortized basis over the same period of time that the item is depreciated. The Pacific Hospital PDA also commissioned a Community Mosaic to be placed in the Pacific Tower for the organization's 40th Anniversary. Capitalized costs related to the mosaic totaled \$19,050.

The Pacific Hospital PDA has established a designated reserve fund. As of December 31, 2023, 2022, and 2021 the Pacific Tower and Property Reserve Fund was \$5,180,582, \$5,180,582, and \$5,180,582, respectively. The Governing Council developed a process for ongoing assessment of board designated reserves and other savings in 2020. While no funds have been added to the designated reserves, the balance is reviewed regularly, in combination with other financial assessments. 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**

**Statements of Net Position**

**For the Years Ended December 31, 2023 and 2022**

	<u>2023</u>	<u>2022</u>
<b>Assets:</b>		
Cash and cash equivalents	\$ 3,250,623	\$ 2,573,529
Short-term investments	11,034,744	10,228,959
Short-term lease receivables	2,066,834	1,761,520
Tenant and other receivables	223,547	223,105
Prepaid grant management software fees		9,888
Other current assets	<u>172,828</u>	<u>151,310</u>
<b>Total Current Assets</b>	<b>16,748,576</b>	<b>14,948,311</b>
Note receivable	526,000	526,000
Reserve funds	5,180,582	5,180,582
Long-term lease receivables	62,512,569	64,173,260
Capital assets, net	<u>2,661,032</u>	<u>3,127,600</u>
<b>Total Assets</b>	<b><u>\$ 87,628,759</u></b>	<b><u>\$ 87,955,753</u></b>
<b>Liabilities:</b>		
Accounts payable and accrued expenses	\$ 219,954	\$ 260,295
Unearned revenue	<u>223,660</u>	<u>636,384</u>
<b>Total Current Liabilities</b>	<b><u>\$ 443,614</u></b>	<b><u>\$ 896,679</u></b>
<b>Deferred Inflow of Resources:</b>		
Deferred lease revenue	<u>\$ 56,416,136</u>	<u>\$ 59,306,759</u>
<b>Total Deferred Inflow of Resources</b>	<b><u>\$ 56,416,136</u></b>	<b><u>\$ 59,306,759</u></b>
<b>Net Position:</b>		
Invested in capital assets, net of related debt	\$ 2,661,032	\$ 3,127,600
Unrestricted	<u>28,107,977</u>	<u>24,624,715</u>
<b>Total Net Position</b>	<b><u>\$ 30,769,009</u></b>	<b><u>\$ 27,752,315</u></b>

See accompanying notes.

**PACIFIC HOSPITAL PRESERVATION & DEVELOPMENT AUTHORITY**

**Statements of Revenues, Expenses and Changes in Net Position  
For the Years Ended December 31, 2023 and 2022**

	<u>2023</u>	<u>2022</u>
<b>Operating Revenues:</b>		
Lease revenue	\$ 3,638,327	\$ 3,451,881
Operating reimbursement and other rental revenue	6,842,590	4,271,588
Other revenue	<u>239,900</u>	<u>185,600</u>
<b>Total Operating Revenues</b>	<b>10,720,817</b>	<b>7,909,069</b>
<b>Operating Expenses:</b>		
Community grants	3,144,449	3,073,136
Tower operating costs	6,741,922	3,882,655
Quarters operating expenses	198,005	99,480
Salaries and benefits	600,580	550,258
Professional fees	232,821	272,844
Other administrative costs	<u>92,943</u>	<u>107,147</u>
<b>Total Operating Expenses</b>	<b>11,010,720</b>	<b>7,985,520</b>
<b>Operating Income Before Depreciation and Amortization</b>	<b>(289,903)</b>	<b>(76,451)</b>
Depreciation and amortization	<u>475,815</u>	<u>669,531</u>
<b>Operating Loss</b>	<b>(765,718)</b>	<b>(745,982)</b>
<b>Nonoperating Revenues and Expenses:</b>		
Interest from leasing activities	2,975,698	2,996,467
Interest income, net	806,714	207,433
Gain on sale of North Lot		4,928,190
North Lot project expenses		<u>(8,137)</u>
<b>Total Nonoperating Income</b>	<b>3,782,412</b>	<b>8,123,953</b>
<b>Change in Net Position</b>	<b>3,016,694</b>	<b>7,377,971</b>
Net position, beginning of year	<u>27,752,315</u>	<u>20,374,344</u>
<b>Net Position, End of Year</b>	<b><u>\$ 30,769,009</u></b>	<b><u>\$ 27,752,315</u></b>

See accompanying notes.



# PACIFIC HOSPITAL PRESERVATION & DEVELOPMENT AUTHORITY

## Statements of Cash Flows

For the Years Ended December 31, 2023 and 2022

	2023	2022
<b>Cash Flows From Operating Activities:</b>		
Receipts from lease, operating reimbursements and other revenue	\$ 8,772,405	\$ 5,741,769
Payments to grantees, suppliers and others	(10,464,442)	(7,499,148)
Payments to employees for services	(603,799)	(543,189)
<b>Net Cash Used in Operating Activities</b>	<b>(2,295,836)</b>	<b>(2,300,568)</b>
<b>Cash Flows From Capital and Related Financing Activities:</b>		
Cash received for land sale		4,272,188
Purchase of capital assets	(3,697)	(73,376)
Payments for North Lot project expenses		(8,137)
<b>Net Cash Provided by Capital and Related Financing Activities</b>	<b>(3,697)</b>	<b>4,190,675</b>
<b>Cash Flows From Investing Activities:</b>		
Purchase of investments and reserves	(805,785)	(5,206,788)
Interest from leasing activities	2,975,698	2,996,467
Interest on investments, net	806,714	207,433
<b>Net Cash Provided by (Used in) Investing Activities</b>	<b>2,976,627</b>	<b>(2,002,888)</b>
<b>Net Change in Cash and Cash Equivalents</b>	<b>677,094</b>	<b>(112,781)</b>
Cash and equivalents balance, beginning of year	2,573,529	2,686,310
<b>Cash and Equivalents Balance, End of Year</b>	<b>\$ 3,250,623</b>	<b>\$ 2,573,529</b>
<b>Reconciliation of Operating Income to Net Cash</b>		
<b>Provided by Operating Activities:</b>		
Operating loss	\$ (765,718)	\$ (745,982)
Adjustment to reconcile operating loss to net cash		
used by operating activities-		
Depreciation and amortization	470,265	669,531
Change in assets and liabilities:		
Tenant and other receivables	(442)	(165,988)
Prepaid grant management software fees	9,888	(5,989)
Other current assets	(21,518)	(17,018)
Lease receivables, net of deferred lease revenues	(1,535,246)	(2,338,797)
Accounts payable and accrued expenses	(40,341)	(33,810)
Deferred revenue	(412,724)	337,485
<b>Net Cash Provided by Operating Activities</b>	<b>\$ (2,295,836)</b>	<b>\$ (2,300,568)</b>
<b>Supplemental Disclosure of Cash Flow Information:</b>		
Noncash investing and financing activities-		
Note receivable acquired from the land sale transaction	\$ -	\$ 526,000
Note payable paid off during the land sale transaction	\$ -	\$ 3,000,000

See accompanying notes.

## PACIFIC HOSPITAL PRESERVATION & DEVELOPMENT AUTHORITY

### Notes to Financial Statements

For the Years Ended December 31, 2023 and 2022

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#### 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 requirements associated with the deed expired November 24, 2021, but the healthcare mission as per the Pacific Hospital PDA Charter remains in place.

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, 2023 and 2022

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#### 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, 2023 and 2022. 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, 2023 and 2022, the total reserve funds were \$5,180,582, and are included as noncurrent reserve funds in the statement of financial position. 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

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

**Deferred Inflow of Resources** - Deferred inflow of resources is the acquisition of net position that is applicable to a future reporting period and so will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources presented in this manner on the accompanying financial statements represent deferred lease revenue. See Note 4 for additional information on the Pacific Hospital PDA's lease revenue.

**Net Position** - Net position is classified into the following two components: 1) Invested in capital assets, net of related debt - This component of net position consists of capital assets, net of accumulated depreciation and amortization and reduced by the outstanding balances of any borrowings that are attributable to the acquisition, construction, or improvement of those assets. 2) Unrestricted - This component consists of the net position that does not meet the definition of "invested in capital assets, net of related debt."

**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.

## PACIFIC HOSPITAL PRESERVATION & DEVELOPMENT AUTHORITY

### Notes to Financial Statements

For the Years Ended December 31, 2023 and 2022

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#### Note 1 - Continued

**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, 2023 and 2022.

**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.

#### Note 2 - Investments and Reserve Funds

As of December 31, 2023 and 2022, the Pacific Hospital PDA had funds invested in the LGIP representing a fair value of \$16,215,326 and \$15,409,541, respectively. \$5,180,582 of the December 31, 2023 and 2022 balances, are included in reserve funds with the remaining balance being included in short-term investments on the statement of financial position. 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 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, 2023, the Pacific Hospital PDA had approximately \$16,215,326 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.

# PACIFIC HOSPITAL PRESERVATION & DEVELOPMENT AUTHORITY

## Notes to Financial Statements For the Years Ended December 31, 2023 and 2022

### Note 3 - Capital Assets

Land, buildings and improvements activity consisted of the following for 2023:

	January 1, 2023	Additions	Disposals	December 31, 2023
Land	\$ 769,490	\$ -	\$ -	\$ 769,490
Buildings and improvements	41,643,798	9,247		41,653,045
Improvements - reimbursable	54,325			54,325
	42,467,613	9,247		42,476,860
Less accumulated depreciation	(39,340,013)	(475,815)		(39,815,828)
	<u>\$ 3,127,600</u>	<u>\$ (466,568)</u>	<u>\$ -</u>	<u>\$ 2,661,032</u>

Land, buildings and improvements activity consisted of the following for 2022:

	January 1, 2022	Additions	Disposals	December 31, 2022
Land	\$ 1,100,000	\$ -	\$ (330,510)	\$ 769,490
Buildings and improvements	41,624,748	19,050		41,643,798
Improvements - reimbursable		54,325		54,325
	42,724,748	73,375	(330,510)	42,467,613
Less accumulated depreciation	(38,670,482)	(669,531)		(39,340,013)
	<u>\$ 4,054,266</u>	<u>\$ (596,156)</u>	<u>\$ (330,510)</u>	<u>\$ 3,127,600</u>

Disposals in 2022 are for the sale of the North Lot land as further described in Note 9.

A significant portion of capital assets of the Pacific Hospital PDA were committed under operating leases (see Note 4) at December 31, 2023 and 2022.

### Note 4 - 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 \$3.2 million and are scheduled to increase 3% annually.

## **PACIFIC HOSPITAL PRESERVATION & DEVELOPMENT AUTHORITY**

### **Notes to Financial Statements For the Years Ended December 31, 2023 and 2022**

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#### **Note 4 - Continued**

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) and ending in August 2023. 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. This agreement was terminated early, in late 2022.

During 2020, the DOC lease was amended to delay payment of the 3% annual increases for the 2021 and 2022 years. In 2023 the rent payment schedule returned to the originally negotiated schedule. Unpaid rent amounts accrued in 2021 and 2022 were due no later than August 1, 2026 with interest retroactive to January 1, 2023. If these amounts were paid in full by August 1, 2023, no interest shall have accrued or be owing. Amounts were paid in full by that deadline and no interest was collected.

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 with an expiration date of December 31, 2031. The lease allows for one five-year extension at the end of the original term. Annual base rent for the lease starts at \$1,166,914 and increases every year, going up to \$1,458,643 by year 2031.

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 \$6,652,031 and \$3,895,512, for the years ended December 31, 2023 and 2022, respectively.

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 \$31,000 and \$41,000 for the years ended December 31, 2023 and 2022, respectively.

Reimbursements for 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.

## PACIFIC HOSPITAL PRESERVATION & DEVELOPMENT AUTHORITY

### Notes to Financial Statements For the Years Ended December 31, 2023 and 2022

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#### Note 4 - Continued

The following is a schedule by year of approximate minimum lease payments under these noncancelable operating leases:

For the Year Ending December 31,	Principal	Interest	Total
2024	\$ 2,066,834	\$ 2,894,659	\$ 4,961,493
2025	1,858,670	2,806,482	4,665,152
2026	2,073,952	2,728,813	4,802,765
2027	2,298,631	2,641,806	4,940,437
2028	2,537,091	2,544,866	5,081,957
2029 - 2033	13,673,267	10,980,586	24,653,853
2034 - 2038	15,816,268	7,814,746	23,631,014
2039 - 2043	24,254,690	3,120,936	27,375,626
	<u>\$ 64,579,403</u>	<u>\$ 35,532,894</u>	<u>\$100,112,297</u>

#### Note 5 - Commitments and Contingencies

**Grant Commitments** - The Pacific Hospital PDA entered into multiple major grants during the year ended December 31, 2023 that fund program work spanning 2023 and 2024. These grants are paid in two installments with the second installments of \$1,474,134 being paid during January 2024. As all of these grant agreements have implied time restrictions for use of funds in 2024, the Pacific Hospital PDA does not accrue and record these future payments as liabilities and expenses at December 31, 2023.

#### 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 nontemporary employees are eligible for enrollment in the Plan. The Pacific Hospital PDA contributes an amount equal to 5% of the employee's gross salary. Total employer contributions for the years ended December 31, 2023 and 2022, were \$24,302 and \$23,536, respectively. Employees may also elect to contribute to the Plan.

#### 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, 2023 and 2022. 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.

## PACIFIC HOSPITAL PRESERVATION & DEVELOPMENT AUTHORITY

### Notes to Financial Statements

For the Years Ended December 31, 2023 and 2022

#### Note 8 - Promissory Note

Promissory note consisted 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 was contingently repayable if certain conditions were not met. The promissory note was 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 proceeds from both notes were used for the North Lot project (Note 9) and were transferred to the buyer as part of the sale of the land during 2022.

Promissory note activity consisted of the following for 2022:

	January 1, 2022	Principal Additions	Principal Payments	Converted to Grant	December 31, 2022
Promissory note	\$ 3,000,000	\$ -	\$ (3,000,000)	\$ -	\$ -

#### 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 expensed to match 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 and closed on the sale in 2022. Under the sale an affiliate of SCIDPDA purchased the North Lot land and related development work to carry out the project. The sales price was \$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 was paid at closing via a \$526,000 seller-financed promissory note payable from the buyer to Pacific Hospital PDA and the remainder of the purchase price was paid in cash at closing. In addition to the purchase price, at closing the buyer assumed the King County loan and HSDPDA grant described in Note 8. A gain of \$4,928,190 was recognized during 2022 as a result of the sale.



**PACIFIC HOSPITAL PRESERVATION & DEVELOPMENT AUTHORITY**

**Notes to Financial Statements**  
**For the Years Ended December 31, 2023 and 2022**

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**Note 9 - Continued**

Capitalized North Lot project cost activity consisted of the following for 2022:

	<u>December 31,</u> <u>2021</u>	<u>Additions</u>	<u>Disposals</u>	<u>December 31,</u> <u>2022</u>
Capitalized North Lot project costs	\$ 4,064,487	\$ -	\$ (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 (*Government Auditing Standards*), the consolidated financial statements of the Pacific Hospital Preservation & Development Authority (the Pacific Hospital PDA), which comprise the statement of net position as of and for the year ended December 31, 2023, and the related statement of revenue, expenses and changes in net position, and statement of cash flows and the related notes to the financial statements, which collectively comprise Pacific Hospital PDA's financial statements, and have issued our report thereon dated June 5, 2024.

**Report on Internal Control Over Financial Reporting**

In planning and performing our audit of the consolidated financial statements, we considered the Pacific Hospital PDA's internal control over financial reporting (internal control) as a basis for designing 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.



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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 or significant deficiencies may exist that were not identified.

## **Report on 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 financial statements. 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 the 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 5, 2024