

***PACIFIC HOSPITAL PRESERVATION
AND DEVELOPMENT AUTHORITY***

Financial Statements

For the Years Ended December 31, 2011 and 2010

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*Independent Auditors' Report**To the Governing Council
Pacific Hospital Preservation and Development Authority
Seattle, Washington*Certified Public
Accountants
and Consultants

We have audited the accompanying financial statements of the Pacific Hospital Preservation and Development Authority (the PHPDA), as of and for the years ended December 31, 2011 and 2010. These financial statements are the responsibility of the PHPDA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the PHPDA as of December 31, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 2 through 6 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.

Certified Public Accountants
May 9, 2012

PACIFIC HOSPITAL PRESERVATION AND DEVELOPMENT AUTHORITY

Management's Discussion and Analysis For the Years Ended December 31, 2011 and 2010

Management's Discussion and Analysis (MD&A) presents a narrative overview and analysis of the financial activities of the Pacific Hospital Preservation and Development Authority (the PHPDA) for the years ended December 31, 2011 and 2010. 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 PHPDA 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 PHPDA is not required to file a Form 990. The mission of the PHPDA is to champion effective health care for the vulnerable and disadvantaged in the Puget Sound area, with an emphasis on the Seattle-King County region. The PHPDA works to close gaps in health care access.

In 1981, the City of Seattle chartered the PHPDA, placing in its trust the U.S. Public Health Service Hospital and its campus. Subsequently, the property was designated a historic Seattle landmark. The PHPDA currently leases out the property and the lease revenues are used to support health care services to uninsured and underinsured King County residents.

The PHPDA 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 PHPDA's Governing Council. The Seattle City Council confirms all appointments.

The PHPDA has the following goals:

- To increase specialty care access for uninsured and underinsured persons in King County.
- To identify barriers to care and foster system changes to create a sustainable platform for improving specialty care to the uninsured and underinsured.
- To identify and foster the use of credible measures of healthcare access efforts to uninsured and underinsured persons.
- To steward the organization's finances and assets, in order to support mission priorities.
- To communicate its mission priorities, insights, and accomplishments.

Overview of the Financial Statements

The PHPDA'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, 2011 and 2010.

The balance sheet, statement of revenues, expenses, and changes in net assets, and statement of cash flows provide an indication of the PHPDA's financial health. The balance sheet includes all of the PHPDA's assets and liabilities, using the accrual basis of accounting. The statement of revenues, expenses, and changes in net assets report all of the revenues and expenses during the time period indicated.

PACIFIC HOSPITAL PRESERVATION AND DEVELOPMENT AUTHORITY

Management's Discussion and Analysis For the Years Ended December 31, 2011 and 2010

Overview of the Financial Statements - Continued

Lease payments comprise the primary revenue source for the PHPDA. The PHPDA uses lease monies from three lease agreements to fund health care services and programs for the uninsured and underinsured. In 1998, the PHPDA entered into a lease with WRC.COM Tower LLC for the former Pacific Medical Center hospital building known as the "Tower." An additional lease agreement with WRC.COM Development LLC was signed for the north parking lot area. The leases include renewal clauses which, if exercised, would extend the lease for 149 years from the commencement date. The PHPDA also has a lease agreement, through November 2021, with PacMed Clinics (doing business as Pacific Medical Centers (PMC)) for the campus' "Quarters" buildings, the east parking structure, and the ground floor and basement of the Tower (where a medical clinic is located). All leases are triple net leases and, under the terms of these leases, the lessees fully reimburse the PHPDA for leasehold excise taxes and property taxes. Both the revenues and expenses for these taxes are reflected (see Table A-2).

A second revenue source for the PHPDA is a grant from the Washington State Health Care Authority (HCA, previously administered by the Department of Social and Health Services or DSHS) for interpreter services to Medicaid patients with limited English proficiency or hearing impairment. This funding is provided under the Federal Medicaid Administrative Match Program. The PHPDA sub-contracts with PMC to provide these services. The current contract with HCA extends through June 2016 and the sub-contract with PMC extends through December 2012. Under the PHPDA-HCA agreement, the PHPDA matched the federal Medicaid monies.

Financial Analysis and Highlights

Summaries of financial information of the PHPDA for the years ended December 31, 2011, 2010, and 2009 are presented in the tables below.

Table A-1 Balance Sheets

	<i>As of December 31,</i>		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
Current assets	\$ 2,899,889	\$ 1,937,146	\$ 1,689,788
Capital assets, net	11,914,753	12,809,584	13,770,963
Non-current assets	<u>200,000</u>	<u>200,000</u>	<u>200,000</u>
Total Assets	<u>\$ 15,014,642</u>	<u>\$ 14,946,730</u>	<u>\$ 15,660,751</u>
Current Liabilities	\$ 480,646	\$ 736,067	\$ 658,755
Invested in capital assets, net of related debt	11,914,753	12,809,584	13,770,963
Unrestricted	<u>2,619,243</u>	<u>1,401,079</u>	<u>1,231,033</u>
Total Net Assets	<u>14,533,996</u>	<u>14,210,663</u>	<u>15,001,996</u>
Total Liabilities and Net Assets	<u>\$ 15,014,642</u>	<u>\$ 14,946,730</u>	<u>\$ 15,660,751</u>

PACIFIC HOSPITAL PRESERVATION AND DEVELOPMENT AUTHORITY

**Management's Discussion and Analysis
For the Years Ended December 31, 2011 and 2010**

Financial Analysis and Highlights - Continued

There is \$21,693 in grants receivable under current assets. This represents grant payments from HCA for 2011 Interpreter Service payments, which will be received in 2012, as well as unexpended grant funds from the Patient Navigator Project, which will be returned to the PHPDA in 2012. The other current assets consist of \$432,880 in cash and cash equivalents, \$2,342,939 in short-term investments, and \$102,377 in other current assets. Non-current assets represent \$200,000 of reserve funds held in demand deposits.

As of December 31, 2011, the largest components of current liabilities include \$345,504 for pre-paid rent, \$83,455 for fourth quarter leasehold excise tax, and \$31,615 in accounts payable to PMC for interpreter services for 2011.

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

	<i>For the Years Ended December 31,</i>		
	<i>2011</i>	<i>2010</i>	<i>2009</i>
Rent revenue	\$ 2,950,693	\$ 2,943,424	\$ 2,979,567
Grant revenue	111,633	85,661	187,144
Other revenue	1,664	1,127	356
Total Operating Revenues	3,063,990	3,030,212	3,167,067
Charity care contributions and grants	923,739	2,010,879	1,716,023
Interpreter services	199,966	163,737	379,158
General operating expenses	730,808	695,367	675,928
Total Operating Expenses	1,854,513	2,869,983	2,771,109
Operating Income before Depreciation	1,209,477	160,229	395,958
Depreciation	894,831	961,379	1,039,270
Operating Income (Loss)	314,646	(801,150)	(643,312)
Non-operating revenues	8,687	9,817	15,295
Change in Net Assets	323,333	(791,333)	(628,017)
Net assets, beginning of year	14,210,663	15,001,996	15,630,013
Net Assets, End of Year	\$ 14,533,996	\$ 14,210,663	\$ 15,001,996

PACIFIC HOSPITAL PRESERVATION AND DEVELOPMENT AUTHORITY

Management's Discussion and Analysis For the Years Ended December 31, 2011 and 2010

Financial Analysis and Highlights - Continued

The PHPDA has three long term leases with annual lease payments of \$2,599,848. The "Tower" base lease is \$128,850 per month, with an annual lease payment of \$1,546,200. The North Lot lease increased to \$17,300 per month in late 2011 with an annual payment of \$207,600 (the previous rate was \$16,875 per month). The PMC lease is \$70,504 per month with an annual lease payment of \$846,048.

The tenants have triple net leases, under the terms of which the lessees fully reimburse the PHPDA for leasehold excise taxes and property taxes. The fiscal year 2011 rent revenue includes \$333,329 in leasehold excise taxes and \$17,823 in property tax payments.

HCA Interpreter Services grant revenues for 2011 were slightly higher than 2010. Effective July 2009, HCA modified the manner of documenting and billing for interpreter services. This change resulted in a significant decrease in grant revenues in the first, second, and third quarters of 2010. Effective October 1, 2010, HCA modified the manner of documenting and billing for interpreter services to more closely reflect the pre-July 2009 modification, which increased the fourth quarter 2010 and all 2011 grant revenues. As a result, overall grant revenues were up compared to 2010. The 2011 grant was \$111,633, compared to \$85,661 in 2010, an increase of 30% or \$25,972.

The PHPDA operating expenses before depreciation totaled \$1,854,513 for 2011.

The PHPDA's Charity Care expenses of \$923,739 represent payments to Project Access Northwest (PANW, formerly King County Project Access or KCPA), Pacific Medical Centers, Seattle Children's Hospital and Medical Center, as well as consulting projects directly related to the PHPDA mission.

The PHPDA entered into an inter-local agreement with King County in 1991 to provide certain health services for the uninsured and underinsured. Additionally, the PHPDA had a Charity Care Agreement with PMC that would terminate upon the earlier of the termination of the PHPDA's obligations pursuant to the inter-local agreement or December 31, 2011. The inter-local agreement expired in May 2011 and the term of the bonds issued in 1991 that were used to perform seismic stabilization on the Tower. The PMC agreement also ended May 2011. In 2011, PMC received \$673,357 to underwrite their provision of specialty care services to the uninsured, low income persons between January and May.

The PHPDA's grant to PANW for medical case management totaled \$150,000 in 2011. In 2011, the PHPDA entered into a partnership with the Seattle-King County Dental Society (SKCDS) and the Seattle-King County Dental Foundation (SKCDF) to provide specialty dental care to uninsured patients, with each partner responsible to fund a different portion of the project. The PHPDA provided a \$51,000 grant to PANW to fund dental case management from May 2011 through April 2012, of which \$34,000 was expended as of December 31, 2011. As such, total grants awarded from the PHPDA to PANW were \$184,000 for 2011. The Executive Director of the PHPDA served on the Project Access Board, and her term ended at the end of 2011.

In its inter-local agreement with King County, the PHPDA had a benchmark goal that over 1,200 uninsured patients would be served annually. This translated to a pro-rated goal of 458 patients for January through May. In the first five months of 2011, the two PHPDA grantees served 2,058 patients. PMC provided care to 561 uninsured patients and PANW served 1,497 uninsured and underinsured patients.

PACIFIC HOSPITAL PRESERVATION AND DEVELOPMENT AUTHORITY

Management's Discussion and Analysis For the Years Ended December 31, 2011 and 2010

Financial Analysis and Highlights - Continued

The PHPDA entered into a second one-year Patient Navigator Pilot program grant with Children's Hospital and Medical Center. The annual grant of \$125,000 was effective July 2010 through June 2011. The PHPDA funded this project to evaluate and document the value of patient navigators on health care organizations, providers, patients, and families. In addition, the PHPDA retained a firm to conduct an independent evaluation of the effectiveness of the Navigator Pilot. Expenses for the pilot and the evaluation are both included in this expense.

In 2011, the PHPDA expended \$199,966 for interpreter services. The contract for services to Pacific Medical Centers was \$198,365. Also reflected in the 2011 interpreter services expenses is a \$1,601 administrative fee paid to HCA. HCA invoices the PHPDA for these expenses, as it did in 2010. This fee is determined by totaling all administrative costs of HCA staff accrued for a certain billing period and dividing that total by the number of contractors that submitted billings.

Interest income continues to decline - \$8,687 in 2011 compared to \$9,817 in 2010. This is due to low interest rates paid on investments.

The PHPDA uses the straight-line method of depreciation. In fiscal years 2011 and 2010, depreciation expense was \$894,831 and \$961,379 respectively.

The PHPDA approached cash expenditures in a conservative manner, and ended all years with unexpended funds. Due the conservative approach, the PHPDA ended 2011 with a positive change in net assets.

Budgetary Integrity, Accounting Systems, and Internal Controls

In the year ended December 31, 2011, operating expenses and revenues were under budget.

Budgetary control is exercised with each major type of expenditure with budget-to-actual performance being reported monthly to the Finance Committee of the PHPDA 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 Finance Committee also reviews the check register, all credit card expenditures, retirement plan contributions, and employment tax payments.

Capital Asset Activity

The PHPDA had no additions to capital assets during 2011.

The PHPDA has established two designated reserve funds. As of December 31, 2011, the Operating and Maintenance Reserve Funds were \$100,000 each. As of December 31, 2011, these reserve funds were held in a demand deposit account.

Additional Information

Questions and inquires may be directed to the Pacific Hospital Preservation and Development Authority, 1200 12th Avenue South, Quarters 2, Seattle, WA 98144, (206) 325-1357.

PACIFIC HOSPITAL PRESERVATION AND DEVELOPMENT AUTHORITY

Balance Sheets
December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Assets		
Cash and cash equivalents	\$ 432,880	\$ 508,957
Short-term investments	2,342,939	1,289,801
Grants receivable	21,693	52,471
Tenant receivables	83,455	83,291
Other current assets	18,922	2,626
Total Current Assets	2,899,889	1,937,146
Reserve funds	200,000	200,000
Capital assets, net	11,914,753	12,809,584
Total Assets	\$ 15,014,642	\$ 14,946,730
Liabilities and Net Assets		
Accounts payable and accrued expenses	\$ 135,142	\$ 461,492
Deferred revenue	345,504	274,575
Total Current Liabilities	480,646	736,067
Net Assets:		
Invested in capital assets, net of related debt	11,914,753	12,809,584
Unrestricted	2,619,243	1,401,079
Total Net Assets	14,533,996	14,210,663
Total Liabilities and Net Assets	\$ 15,014,642	\$ 14,946,730

See accompanying notes.

PACIFIC HOSPITAL PRESERVATION AND DEVELOPMENT AUTHORITY

**Statements of Revenues, Expenses and Changes in Net Assets
For the Years Ended December 31, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
Operating Revenues:		
Rent revenue	\$ 2,950,693	\$ 2,943,424
Grant revenue	111,633	85,661
Other revenue	1,664	1,127
	<u>3,063,990</u>	<u>3,030,212</u>
Operating Expenses:		
Charity care contributions and grants	923,739	2,010,879
Interpreter services	199,966	163,737
Other administrative costs	401,678	401,592
Salaries and benefits	193,822	180,200
Professional fees	135,308	113,575
	<u>1,854,513</u>	<u>2,869,983</u>
Total Operating Expenses	1,854,513	2,869,983
Operating Income Before Depreciation	1,209,477	160,229
Depreciation	894,831	961,379
	<u>314,646</u>	<u>(801,150)</u>
Operating Income (Loss)	314,646	(801,150)
Non-Operating Revenues:		
Interest income	8,687	9,817
	<u>323,333</u>	<u>(791,333)</u>
Change in Net Assets	323,333	(791,333)
Net assets, beginning of year	14,210,663	15,001,996
	<u>14,210,663</u>	<u>15,001,996</u>
Net Assets, End of Year	\$ 14,533,996	\$ 14,210,663

See accompanying notes.

PACIFIC HOSPITAL PRESERVATION AND DEVELOPMENT AUTHORITY

Statements of Cash Flows

For the Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash Flows from Operating Activities:		
Receipts from rent and grants	\$ 3,149,237	\$ 2,937,906
Payments to suppliers and others	(1,985,745)	(2,528,113)
Payments to employees for services	(195,118)	(182,997)
	<u>968,374</u>	<u>226,796</u>
Net Cash Provided by Operating Activities	968,374	226,796
Cash Flows from Investing Activities:		
Net purchase of investments	(1,053,138)	(336,974)
Receipts of investment income	8,687	9,817
	<u>(1,044,451)</u>	<u>(327,157)</u>
Net Cash Used in Investing Activities	(1,044,451)	(327,157)
Net Change in Cash and Cash Equivalents	(76,077)	(100,361)
Cash and equivalents balance, beginning of year	508,957	609,318
	<u>508,957</u>	<u>609,318</u>
Cash and Equivalents Balance, End of Year	\$ 432,880	\$ 508,957
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Operating income (loss)	\$ 314,646	\$ (801,150)
Adjustment to reconcile operating income (loss) to net cash provided by operating activities-		
Depreciation	894,831	961,379
Change in assets and liabilities:		
Grants receivable	30,778	(21,802)
Tenant receivables	(164)	5,329
Other current assets	(16,296)	5,728
Accounts payable and accrued expenses	(326,350)	147,816
Deferred revenue	70,929	(70,504)
	<u>968,374</u>	<u>226,796</u>
Net Cash Provided by Operating Activities	\$ 968,374	\$ 226,796

See accompanying notes.

PACIFIC HOSPITAL PRESERVATION AND DEVELOPMENT AUTHORITY

Notes to Financial Statements

For the Years Ended December 31, 2011 and 2010

Note 1 - Operations and Summary of Significant Accounting Policies

Operations - The Pacific Hospital Preservation and Development Authority (the PHPDA) 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 PHPDA is to champion effective health care for the vulnerable and disadvantaged in the Puget Sound community with an emphasis on the Seattle-King County region.

The PHPDA 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 PHPDA Council. The Seattle City Council confirms all appointments. The PHPDA 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 PHPDA is not considered a component unit or related organization of the City under the definitions established by the Governmental Accounting Standards Board (GASB).

The PHPDA had a Charity Care Cooperation Agreement with Pacific Medical Centers (PMC), under which the PHPDA committed its Tower and North lot lease revenues to PMC to support PMC's provision of specialty care to the uninsured. This agreement expired on May 29, 2011. The PHPDA also has a contract with PMC, under which PMC provides interpreter services to Medicaid-eligible persons. PMC is reimbursed by the PHPDA for the cost of providing such services. The PHPDA has a Medicaid administrative match grant that provides 50% for adults and 75% for children of the payment to PMC (see Grants Receivable and Interpreter Services in Note 1). The current interpreter services contract with PMC expires December 2012.

Basis of Presentation - Financial statement presentation follows accounting principles defined for special-purpose governments involved only in business-type activities. The PHPDA 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 non-exchange transactions, which consist of grants made by the PHPDA, 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.

The PHPDA has applied all applicable GASB pronouncements, as well as pronouncements of the Financial Standards Board (or its predecessors) issued on or before November 30, 1989 unless they conflict with or contradict GASB pronouncements.

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.

PACIFIC HOSPITAL PRESERVATION AND DEVELOPMENT AUTHORITY

Notes to Financial Statements

For the Years Ended December 31, 2011 and 2010

Note 1 - Continued

Cash and Cash Equivalents - For purposes of reporting cash flows, the PHPDA 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 and in Pacific Continental Money Market.

The PHPDA'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.

Grants Receivable and Interpreter Services - Receivables consist primarily of Washington State Health Care Authority (HCA, previously administered by the Department of Social and Health Services) interpreter services reimbursement for expenses incurred by the PHPDA's subcontractor, PMC, in providing interpreter services to Medicaid-eligible persons under the terms of an Interlocal Agreement with the HCA. The reimbursement rate is 50% of expenses for Medicaid-eligible adults over 21 years of age and 75% of expenses for Medicaid-eligible children 21 years of age and younger. Interpreter services are provided for limited English speaking, deaf, deaf-blind, or hard of hearing clients who are accessing medical services covered by the Medicaid program. No administrative fee is charged to HCA by the PHPDA. No collateral and no allowance for uncollectible balances have been deemed necessary by management based upon the PHPDA's historical experience in the collection of balances due and the nature of the receivables.

Reserve Funds - The PHPDA has established two designated reserve funds: an Operating Reserve Fund and a Maintenance Reserve Fund. As of December 31, 2011 and 2010, the Operating and Maintenance Reserve Funds (the Funds) were each \$100,000 and are included as non-current reserve funds in the balance sheet. The Funds were included in the PHPDA's operating account at December 31, 2011 and 2010.

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

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

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

Deferred Revenue - Deferred revenue consists of rental payments paid in advance to the PHPDA by tenants.

Operating Revenue and Expenses - Operating activities include rental revenues derived from leases on the PHPDA's capital assets, grant revenues and expenses for interpreter services, and expenses associated with the implementation and delivery of charity medical care. Non-operating activities consist of interest income.

PACIFIC HOSPITAL PRESERVATION AND DEVELOPMENT AUTHORITY

Notes to Financial Statements

For the Years Ended December 31, 2011 and 2010

Note 1 - Continued

Federal Income Taxes - The PHPDA 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 PHPDA is not required to file a Form 990 with the Internal Revenue Service.

Reclassification - Certain accounts in the 2010 financial statements have been reclassified for comparative purposes to conform to the presentation in the 2011 financial statements. Such reclassifications had no impact on net asset balances or the change in net assets.

Note 2 - Investments and Reserve Funds

As of December 31, 2011 and 2010, the PHPDA had funds invested in the Local Government Investment Pool (LGIP) representing a fair value of \$962,320 and \$611,145, respectively, and are included in short-term investments in the balance sheet.

The LGIP, created by the Washington State Legislature in 1986, is managed and operated solely by the Office of the State Treasurer (OST). The State Finance Committee administers the statute that created the pool and adopts appropriate rules. The State Treasurer established the LGIP Advisory Committee to provide advice on the pool's operation. The advisory committee includes twelve members selected from active pool participants. Eight members are appointed by participant associations and four are appointed by the State Treasurer. The investment activity is guided by an investment policy, approved by the State Treasurer and operates under the standard of the prudent investor. OST operates the LGIP for investing cash in excess of daily requirements. Among the investments authorized by statute are: U.S. Treasury and agency securities, banker's acceptances, repurchase agreements, reverse repurchase agreements, commercial paper, and certificates of deposit with qualified public depositories. As the LGIP is considered a 2a7-like pool under the Securities and Exchange Commission's Investment Company Act of 1940, the PHPDA's investment in the LGIP is determined based on the LGIP's quoted pool share price as of the measurement date. The fair value of the PHPDA's position in the LGIP as of December 31, 2011 and 2010, was the same as the value of the pool shares. As the LGIP is a 2a7-like pool, the value of the pool shares are based on amortized cost.

Legal Requirements - The PHPDA's investment activities are governed by the Washington State law under the Revised Code of Washington (RCW), Titles 35, 39, and 43. The RCWs define 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 PHPDA funds in certificates of deposit will not exceed 12 months unless approved by a motion of the Finance and Audit Committee.

At December 31, 2011, the PHPDA had \$229,204 invested in one 12 month certificate of deposit, \$229,345 invested in one 9 month certificate of deposit, and \$676,476 invested in three six-month certificates of deposit, which were included in short-term investments in the balance sheet as of December 31, 2011. In addition, the PHPDA had \$245,594 held in a money market account included in short-term investments in the balance sheet as of December 31, 2011.

PACIFIC HOSPITAL PRESERVATION AND DEVELOPMENT AUTHORITY

Notes to Financial Statements

For the Years Ended December 31, 2011 and 2010

Note 2 - Continued

At December 31, 2010, the PHPDA had \$463,656 invested in two 12 month certificates of deposit, and \$225,000 invested in a six month certificate of deposit, which were included in short-term investments in the balance sheet as of December 31, 2010.

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

Note 3 - Capital Assets

Land, buildings and equipment activity consisted of the following for 2011:

	<i>December 31,</i> <i>2010</i>	<i>Additions</i>	<i>Disposals</i>	<i>December 31,</i> <i>2011</i>
Land	\$ 1,100,000	\$ -	\$ -	\$ 1,100,000
Buildings and improvements	41,605,798			41,605,798
	42,705,798			42,705,798
Less accumulated depreciation	(29,896,214)	(894,831)		(30,791,045)
Total	<u>\$ 12,809,584</u>	<u>\$ (894,831)</u>	<u>\$ -</u>	<u>\$ 11,914,753</u>

Land, buildings and equipment activity consisted of the following for 2010:

	<i>December 31,</i> <i>2009</i>	<i>Additions</i>	<i>Disposals</i>	<i>December 31,</i> <i>2010</i>
Land	\$ 1,100,000	\$ -	\$ -	\$ 1,100,000
Buildings and improvements	41,605,798			41,605,798
	42,705,798			42,705,798
Less accumulated depreciation	(28,934,835)	(961,379)		(29,896,214)
Total	<u>\$ 13,770,963</u>	<u>\$ (961,379)</u>	<u>\$ -</u>	<u>\$ 12,809,584</u>

A significant portion of capital assets of the PHPDA were committed under operating leases (see Note 4) at December 31, 2011 and 2010. The capital assets were assigned to the PHPDA in 1981 from the United States Government via a Quitclaim Deed. The Quitclaim Deed, and subsequent modification, requires the PHPDA to apply the net proceeds from the lease of its capital assets to the costs incurred in connection with the PHPDA's Community Healthcare Mission. The requirement expires November 24, 2021.

PACIFIC HOSPITAL PRESERVATION AND DEVELOPMENT AUTHORITY

Notes to Financial Statements

For the Years Ended December 31, 2011 and 2010

Note 4 - Operating Leases

The PHPDA leases virtually all of its Beacon Hill property to three entities- WRC.Com Tower LLC, WRC.Com Development LLC, and Pacific Medical Centers (PMC).

Starting in 1998, the PHPDA leases the Beacon Hill Tower and an adjacent parking lot to WRC.com Tower LLC and WRC.Com Development LLC, respectively. The leases include renewal clauses which, if exercised, would extend the lease for 149 years after the commencement dates. The leases describe the timing and methodology of lease rate adjustments.

The PHPDA leases space on the Beacon Hill property to PMC under a lease agreement that expires in 2021. Annual lease payments are approximately \$846,000, and will be renegotiated for the change in the CPI during 2015.

Under the terms of these leases, the lessees fully reimburse the PHPDA for leasehold excise taxes and property taxes. Leasehold excise taxes collected from the lessees and remitted to the Washington State Department of Revenue were approximately \$333,000 for the years ended December 31, 2011 and 2010, respectively. Property taxes collected from the lessees and remitted to King County approximated \$18,000 and \$16,000 for the years ended December 31, 2011 and 2010, respectively. Reimbursements for leasehold excise taxes and property taxes are included in rent revenue in the statements of revenues, expenses, and changes in net assets.

Annual lease revenues from WRC.com Tower LLC and WRC.Com Development LLC represented 65% of total revenue for both years ended December 31, 2011 and 2010. Annual lease revenues from PMC represented 31% and 32% of total revenue for the years ended December 31, 2011 and 2010, respectively.

The following is a schedule by year of approximate minimum future rentals under these non-cancellable operating leases as of December 31, 2011:

For the Year Ending December 31,

2012	\$ 2,251,000
2013	2,251,000
2014	2,251,000
2015	2,251,000
2016	2,251,000
Thereafter	<u>141,443,000</u>
	<u>\$ 152,698,000</u>

PACIFIC HOSPITAL PRESERVATION AND DEVELOPMENT AUTHORITY

Notes to Financial Statements

For the Years Ended December 31, 2011 and 2010

Note 5 - Commitments and Contingencies

Grant Commitments - The PHPDA has commitments for a conditional grant program totaling \$17,000 at December 31, 2011. As the remaining four months of conditions have not been met by the grant recipient as of December 31, 2011, the remaining commitment is not recorded as a liability and expense at December 31, 2011. This commitment was fully funded to the recipient upon issuance; however, as the grant term had four months remaining at yearend the PHPDA has included the remaining \$17,000 as prepaid grant expense in current assets on the balance sheet as of December 31, 2011.

Note 6 - Retirement Plan

The PHPDA has a Defined Contribution Retirement Plan (the Plan) under Section 403(b) of the Internal Revenue Code. All employees are eligible for enrollment in the Plan. The PHPDA contributes an amount equal to 3% of the employee's gross salary. Total employer contributions for the years ended December 31, 2011 and 2010, were approximately \$4,796 and \$4,436, respectively. Employees may also elect to contribute to the Plan.

Note 7 - Risk Management

The PHPDA 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 PHPDA carries commercial insurance for risk of loss. The PHPDA did not have settled claims in excess of its commercial insurance coverage during the years ended December 31, 2011 and 2010. In addition, the two long term lessees hold insurance on the assets they lease. The PHPDA is designated as additional insured on those insurance policies held by lessees.

Note 8 - Related Party Transactions

The PHPDA granted Project Access Northwest (formerly King County Project Access) \$184,000 and \$150,000 during the years ending December 31, 2011 and 2010, respectively. In addition, \$17,000 of unexpended grant funding to Project Access Northwest remains as of December 31, 2011. The PHPDA's Executive Director served on the Project Access Northwest Board of Directors as of December 31, 2011 and 2010. Her term of office ended December 31, 2011 and she no longer serves on the board.