Washington State Auditor's Office

Troy Kelley

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Financial Statements and Federal Single Audit Report

Harborview Medical Center

King County

For the period June 1, 2013 through June 30, 2014

Published March 30, 2015

Report No. 1013882

Washington State Auditor
Troy Kelley

March 30, 2015

Board of Trustees
Harborview Medical Center
Seattle, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on the Harborview Medical Center's financial statements and compliance with federal laws and regulations.

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

Sincerely,

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

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FEDERAL SUMMARY

Harborview Medical Center
King County
July 1, 2013 through June 30, 2014

The results of our audit of the Harborview Medical Center are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

Financial Statements

An unmodified opinion was issued on the basic financial statements.

Internal Control Over Financial Reporting:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

We noted no instances of noncompliance that were material to the financial statements of the Medical Center.

Federal Awards

Internal Control Over Major Programs:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified deficiencies that we consider to be material weaknesses.

We issued an unmodified opinion on the Medical Center's compliance with requirements applicable to each of its major federal programs.

We reported findings that are required to be disclosed under section 510(a) of OMB Circular A-133.

Identification of Major Programs:

The following were major programs during the period under audit:

CFDA No.	Program Title
14.267	Continuum of Care Program
93.224	Consolidated Health Centers
93.243	Substance Abuse and Mental Health Services

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was $300,000.

The Medical Center qualified as a low-risk auditee under OMB Circular A-133.

SCHEDULE OF FEDERAL AUDIT FINDINGS AND QUESTIONED COSTS

Harborview Medical Center
King County
July 1, 2013 through June 30, 2014

2014-001 The Medical Center did not have adequate controls in place to ensure compliance with federal procurement requirements.

CFDA Number and Title:	14.267 Continuum of Care Program; 93.224 Consolidated Health Centers
Federal Grantor Name:	U.S. Department of Housing and Urban Development; U.S. Department of Health and Human Services
Federal Award/Contract Number:	NA
Pass-through Entity Name:	King County Department of Public Health
Pass-through Award/Contract Number:	CHS2968, CHS3512, CHS3546
Questioned Cost Amount:	$0

Description of Condition

The objective of the Continuum of Care and Consolidated Health Centers programs is to provide services to King County residents who are homeless or have a history of homelessness. During fiscal year 2014, Harborview Medical Center spent $1,780,053 in federal grant funds providing these services at numerous locations. The Medical Center paid one vendor $95,262 and $42,517 on two separate contracts for security services at two of these locations during fiscal year 2014. While these services are allowable to both programs, the Medical Center must follow federal procurement requirements when selecting the contractor.

For the procurement of professional services in excess of $100,000, the Medical Center is required to obtain price or rate quotations in a competitive manner either through sealed bids or competitive proposals. If expected expenditures are less than $100,000 then small purchase procedures can be used by obtaining price or rate quotations from an adequate number of qualified sources.

We found the Medical Center originally signed the security contracts in 2009 and 2011 without a formal ending date. Since then, the Medical Center has renegotiated the unit price for these services annually. The Medical Center is unable to renegotiate these contracts as the services are required to be competitively procured.

The current internal control structure at the Medical Center relies on Departments to notify the Purchasing department if federal funds are being used to pay for contracted services. The Department did not notify Purchasing of the use of federal funds, therefore federal procurement requirements were not followed when obtaining these professional services.

We consider this control deficiency to be a material weakness.

Cause of Condition

The Purchasing Department was not aware that these contracts were being paid for with federal funds. As such, federal competitive procedures were not followed when prices were renegotiated.

Effect of Condition and Questioned Costs

The Medical Center cannot ensure it obtained the best services at the most competitive price. This resulted in material noncompliance with federal procurement requirements; however, we are not questioning costs as the services purchased are allowable under the federal programs.

Recommendation

We recommend the Medical Center establish and follow internal controls that ensure contracts for professional services paid through federal grants are procured in accordance with federal requirements.

Medical Center's Response

The Medical Center agrees with the recommendation and will be implementing a process to ensure compliance with federal procurement requirements.

The Grants and Contract Manager will train clinic personnel to correctly document goods and services purchased with federal funds and notify the Purchasing Department of federally funded contracts at the time contracts are signed. The Purchasing Department will train purchasing personnel on proper procedures for transactions paid through federal grants to ensure they are procured in accordance with federal requirements.

In addition, Finance will send out periodic reminders that grant departments are required to notate purchases made with federal funding in the HEMM purchasing system.

Auditor's Remarks

We appreciate the Medical Center's response and recognize that Harborview is committed to ongoing quality improvement and working to improve its internal controls.

We also wish to thank Medical Center management for their cooperation and assistance during our audit. We look forward to working with Harborview on this issue and will follow up on it during the next audit.

Applicable Laws and Regulations

U.S. Office of Management and Budget Circular A-133, *Audits of states, Local Governments, and Non-Profit Organizations,* states in part:

> Section 300 Auditee responsibilities.
>
> The auditee shall:
>
> (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.
>
> (c) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs.

Government Auditing Standards, December 2011 Revision, paragraph 4.23 states:

> **4.23** When performing GAGAS financial audits, auditors should communicate in the report on internal control over financial reporting and compliance, based upon the work performed, (1) significant deficiencies and material weaknesses in internal control; (2) instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the audit and any other instances that warrant the attention of those charged with governance; (3) noncompliance with provisions of contracts or grant agreements that has a material effect on the audit; and (4) abuse that has a material effect on the audit.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its *Codification of Statements on Auditing Standards*, section 935, as follows:

> **.11** For purposes of adapting GAAS to a compliance audit, the following terms have the meanings attributed as follows . . .
>
> **Deficiency in internal control over compliance.** A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance on a timely basis. A deficiency in *design* exists when *(a)* a control necessary to meet the control objective is missing, or *(b)* an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in *operation* exists when a properly designed control does not operate as designed or the person performing the control does not possess the necessary authority or competence to perform the control effectively . . .
>
> Material weakness in internal control over compliance. A deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis. In this section, a reasonable possibility exists when the likelihood of the event is either reasonably possible or probable as defined as follows:
>
> > Reasonably possible. The chance of the future event or events occurring is more than remote but less than likely.
> >
> > **Remote.** The chance of the future event or events occurring is slight.
> >
> > **Probable.** The future event or events are likely to occur . . .
>
> **Significant deficiency in internal control over compliance.** A deficiency, or a combination of deficiencies, in internal control over compliance that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Title 7, Code of Federal Regulations, Section 3016.36 – Procurement, states in part:

> b) Procurement standards.
>
> (1) Grantees and subgrantees will use their own procurement procedures which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in this section . . .
>
> (9) Grantees and subgrantees will maintain records sufficient to detail the significant history of a procurement. These records will include, but are not necessarily limited to the following: rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price.
>
> (d) Methods of procurement to be followed.
>
> (1) Procurement by small purchase procedures. Small purchase procedures are those relatively simple and informal procurement methods for securing services, supplies, or other property that do not cost more than the simplified acquisition threshold fixed at 41 U.S.C. 403(11) (currently set at $100,000). If small purchase procedures are used, price or rate quotations shall be obtained from an adequate number of qualified sources . . .
>
> (2) Procurement by sealed bids (formal advertising). Bids are publicly solicited and a firm-fixed-price contract (lump sum or unit price) is awarded to the responsible bidder whose bid, conforming with all the material terms and conditions of the invitation for bids, is the lowest in price . . .
>
> (3) Procurement by competitive proposals**.** The technique of competitive proposals is normally conducted with more than one source submitting an offer, and either a fixed price or cost reimbursement type contract is awarded. It is generally used when conditions are not appropriate for the use of sealed bids . . .
>
> (4) Procurement by noncompetitive proposals is procurement through solicitation of a proposal from only one source, or after solicitation of a number of sources, competition is determined inadequate . . . .

INDEPENDENT AUDITOR'S 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*

Harborview Medical Center
King County
June 1, 2013 through June 30, 2014

Board of Trustees
Harborview Medical Center
Seattle, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Harborview Medical Center, King County, Washington, as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Medical Center's basic financial statements, and have issued our report thereon dated March 26, 2015. As discussed in Note 2 to the financial statements, during the year ended July 31, 2013, the Medical Center implemented Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities* and Statement No. 70, *Nonexchange Financial Guarantees*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audits of the financial statements, we considered the Medical Center's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Medical Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Medical Center'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 Medical Center's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency,

or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

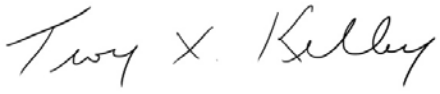
COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Medical Center's financial statements are free from material misstatement, we performed tests of the Medical Center's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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



TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

March 26, 2015

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Harborview Medical Center
King County
July 1, 2013 through June 30, 2014

Board of Trustees
Harborview Medical Center
Seattle, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited the compliance of the Harborview Medical Center, King County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014. The Medical Center's major federal programs are identified in the accompanying Federal Summary.

Management's Responsibility

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

Auditor's Responsibility

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

occurred. An audit includes examining, on a test basis, evidence about the Medical Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the Medical Center's compliance.

Opinion on Each Major Federal Program

In our opinion, the Medical Center complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Federal Audit Findings and Questioned Costs as Finding 2014-001. Our opinion on each major federal program is not modified with respect to these matters.

Medical Center's Response to Findings

The Medical Center's response to the noncompliance findings identified in our audit is described in the accompanying Schedule of Federal Audit Findings and Questioned Costs. The Medical Center's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

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

of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Medical Center's internal control over compliance.

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

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Federal Audit Findings and Questioned Costs as Finding 2014-001 to be a material weakness.

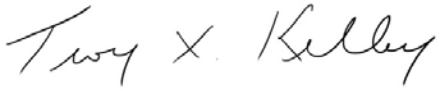
Medical Center's Response to Findings

The Medical Center's response to the internal control over compliance findings identified in our audit is described in the accompanying Schedule of Federal Audit Findings and Questioned Costs. The Medical Center's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

PURPOSE OF THIS REPORT

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

It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

March 26, 2015

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Harborview Medical Center
King County
June 1, 2013 through June 30, 2014

Board of Trustees
Harborview Medical Center
Seattle, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Harborview Medical Center, King County, Washington, as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Medical Center's basic financial statements as listed on page 20.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor

considers internal control relevant to the Medical Center's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Medical Center's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Harborview Medical Center, as of June 30, 2014 and 2013, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 2 to the financial statements, in 2013, the Medical Center adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 65*, Items Previously Reported as Assets and Liabilities* and Statement No. 70*, Nonexchange Financial Guarantees*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 21 through 35 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 audit 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.

Supplementary and Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Medical Center's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. This schedule is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated March 26, 2015 on our consideration of the Medical Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Medical Center's internal control over financial reporting and compliance.

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

March 26, 2015

FINANCIAL SECTION

Harborview Medical Center
King County
June 1, 2013 through June 30, 2014

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2014 and 2013

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2014 and 2013
Statement of Revenues, Expenses and Changes in Net Position – 2014 and 2013
Statement of Cash Flows – 2014 and 2013
Notes to Financial Statements – 2014 and 2013

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2014
Notes to the Schedule of Expenditures of Federal Awards – 2014

HARBORVIEW MEDICAL CENTER
(A Component Unit of King County)
(Operated by the University of Washington)

Management's Discussion and Analysis (Unaudited)

June 30, 2014 and 2013

The following discussion and analysis provides an overview of the financial position and activities of Harborview Medical Center (Harborview), for the years ended June 30, 2014 and 2013. This discussion has been prepared by management and is designed to focus on current activities, resulting changes, and current known facts and should be read in conjunction with the financial statements and accompanying notes that follow this section.

Harborview is a discretely presented component unit of King County and a part of UW Medicine through the management contract that includes: UW Medical Center, Northwest Hospital & Medical Center (Northwest Hospital), Valley Medical Center (VMC), UW Physicians Network dba UW Neighborhood Clinics (UWNC), UW Physicians (UWP), the UW School of Medicine (the School), and Airlift Northwest (Airlift).

Financial Highlights for Fiscal Year 2014

Harborview recorded a decrease in net position of $6.8 million in fiscal year 2014; an improvement of $6.4 million from the negative change in net position of $13.2 million in 2013. The improved change in net position primarily relates to improved reimbursement associated with a higher-intensity inpatient case mix and expansion of Medicaid program eligibility. In addition, strong outpatient revenue in the pharmacy department and continued success in implementing process improvement initiatives in the areas of revenue cycle, supply chain and resource utilization helped to offset the impact of lower than expected admissions and flat inpatient surgical volumes.

	2014	2013	2012
		(In thousands)	
Total operating revenues	$ 814,652	788,387	765,800
Total operating expenses	815,436	796,872	747,525
Operating (loss) income	(784)	(8,485)	18,275
Investment income, net	2,670	2,737	1,259
Interest expense	(161)	(217)	(224)
Other, net	(8,855)	(8,345)	(11,638)
Nonoperating expenses	(6,346)	(5,825)	(10,603)
Capital contributions and transfers	328	1,076	863
(Decrease) increase in net position	(6,802)	(13,234)	8,535
Net position, beginning of year	622,469	635,703	627,168
Net position, end of year	$ 615,667	622,469	635,703

- During fiscal year 2014, the Washington state Medicaid program was expanded which significantly increased the number of Medicaid enrollees receiving benefits. With the increase of eligible Medicaid enrollees, Harborview has seen a decline in the number of self-pay patients and charity care applicants as many of these patients are now eligible for Medicaid.

- Harborview is continuing to invest in information technology. During fiscal year 2014, UW Medicine implemented EpicCare, a specialty clinics medical record and computerized physician order system.
- Harborview management implemented cost saving enterprise-wide initiatives through the process improvement program focusing on the standardization of high volume/high dollar medical supplies and equipment.

Factors Affecting the Future

UW Medicine Strategic Planning

Strategic Collaborations

In September 2013, UW Medicine signed a strategic collaboration with PeaceHealth for UW Medicine to serve as PeaceHealth's complex tertiary and quaternary health system for specialty care not available in their community. The agreement will also allow both organizations to work together on improving the quality, safety and cost-effectiveness of care. The two organizations will remain legally independent and there is no change in the governance or mission of either organization.

In March 2014, UW Medicine and Capital Medical Center (Olympia, WA) signed an agreement selecting UW Medicine as the healthcare system of choice for complex tertiary and quaternary care for Capital Medical Center patients. This strategic collaboration, effective April 1, will provide Capital Medical Center patients prompt access to the highest level of care for advanced services while allowing the organizations to work together to continue improving the quality, safety and cost-effectiveness of care in the South Sound.

UW Medicine Accountable Care Network

In 2014, UW Medicine formed an accountable care network (ACN) with certain other health care organizations and healthcare professionals in Western Washington to work together to assume responsibility for the healthcare of particular populations of patients to achieve the Triple Aim: improved healthcare experience for the individual, improved health of the population, and more affordable care. The UW Medicine Accountable Care Network will focus on keeping people healthy and out of the hospital by employing evidence-based preventive measures to identify and treat underlying health problems early before they become chronic conditions. UW Medicine and its Network members entered into agreements to provide health care services to employees of The Boeing Company beginning in January 2015. The arrangement provides an opportunity for shared savings between the ACN and Boeing based on achieving quality and financial benchmarks. If certain financial benchmarks are not attained, UW Medicine, along with contractually agreed upon risk sharing payments from its Network members, will pay Boeing based on the agreement.

Employee Costs

Rising employee benefit costs, particularly for healthcare and pensions, continue to impact Harborview. Employer pension funding rates are expected to increase 9.2% in 2014 to 10.0% of covered salary in 2015, and are likely to continue increasing over the next few years.

UW Medicine Patients Are First

UW Medicine is committed to its mission of improving the health of the public. Patients Are First was launched across UW Medicine as the organizational framework for delivering consistent quality and service excellence to every patient, every time. Through Patients Are First, UW Medicine creates better leaders, refines metrics to support systems of accountability, and provides employees and physicians with the tools, tactics, and reports to achieve its strategic outcomes. UW Medicine relies on the following four "pillars" as the foundation for building its Patients Are First culture:

- Focus on Serving the Patient & Family: serve all patients and family members with compassion, respect, and excellence
- Provide the Highest Quality Care: provide the highest quality, safest and most effective care to every patient, every time
- Become the Employer of Choice: recruit and retain a competent, professional workforce focused on serving our patients and their families
- Practice Fiscal Responsibility: ensure effective financial planning and the economic performance necessary to invest in strategies that improve the health of our patients

Each pillar has several measurable core goals that, when cascaded throughout the entire health system and teamed with other evidence-based leadership tactics, hardwire commitment to Patients Are First.

UW Medicine engaged a national expert consultant group, Studer Group, LLC, in 2010 to implement its evidence-based leadership program that improves service, satisfaction, quality, and safety while reducing costs. The current contract with Studer Group runs through fiscal year 2016.

Using the Financial Statements

Harborview's financial statements consist of three statements: statements of net position; statements of revenues, expenses, and changes in net position; and statements of cash flows. These financial statements and related notes provide information about the activities of Harborview, including resources held by Harborview but restricted for specific purposes by contributors, grantors, or enabling legislation.

The statements of net position includes all of Harborview's assets and liabilities, using the accrual basis of accounting, as well as an indication about which assets can be used for general purposes and which are designated for a specific purpose. The statements of net position also include information to help compute the rate of return on investments, evaluate the capital structure of Harborview, and assess the liquidity and financial flexibility of Harborview.

The statements of revenues, expenses, and changes in net position reports all of the revenues and expenses during the time period indicated. Net position, the difference between the sum of assets and the sum of liabilities, is one way to measure the financial health of Harborview and whether the organization has been able to recover all its costs through net patient service revenues and other revenue sources.

The statements of cash flows reports the cash provided by Harborview's operating activities, as well as other cash sources such as investment income and cash payments for capital additions and improvements. These statements provide meaningful information on where Harborview's cash was generated and what it was used for.

Financial Analysis

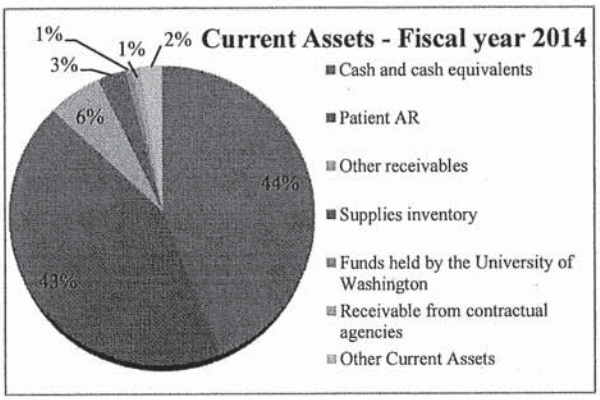
Net Position

The table below is a presentation of certain condensed financial information derived from Harborview's net position as of the fiscal years ended June 30, 2014, 2013 and 2012.

	2014	2013	2012
		(In thousands)	
Current assets	$ 285,596	262,945	248,534
Noncurrent assets:			
Capital assets, net	331,359	354,841	373,406
Funds held by UW	600	600	600
Assets whose use is limited	113,103	113,880	121,734
Other assets	10,865	—	—
Total assets	741,523	732,266	744,274
Current liabilities	108,860	91,614	89,370
Noncurrent liabilities	16,996	18,183	19,201
Total liabilities	125,856	109,797	108,571
Net position	$ 615,667	622,469	635,703

Total assets were $741.5 million at June 30, 2014 compared to $732.3 million at June 30, 2013, an increase of $9.2 million. Significant events within total assets during fiscal year 2014 included an increase in cash and cash equivalents due to positive cash flows from operating activities. Overall net position decreased $6.8 million during the same fiscal year primarily as a result flat volumes. Total assets decreased $12.0 million from June 30, 2012 to June 30, 2013 as a result of focused reductions in capital spending to ensure contained liquidity despite operating losses during the fiscal year. Net position decreased $13.2 million in fiscal year 2013 as a result of operating losses experienced during the period driven by lower than anticipated inpatient volumes.

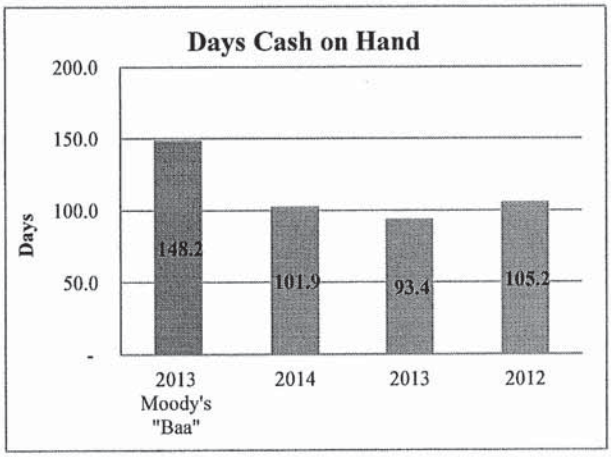
Current Assets



Current Assets consist of cash and cash equivalents, and other current assets that are expected to be converted to cash within a year. Total current assets were $285.6 million, $262.9 million, and $248.5 million at fiscal year-ends 2014, 2013, 2012, respectively. Fiscal year 2014 composition of current assets is illustrated in the chart to the left.

Cash and cash equivalents represent amounts invested in the King County Investment Pool (the KCIP) on behalf of Harborview. All amounts invested in the KCIP are available upon demand and, as such, are considered cash equivalents. Harborview's investment in the KCIP is split between cash and cash equivalents and assets whose use is limited in the statements of net position. Cash and cash equivalents increased $21.3 million in 2014 from $104.4 million at June 30, 2013 to $125.7 million at June 30, 2014 and decreased $4.0 million in 2013 from $108.4 million at June 30, 2012 to $104.4 million at June 30, 2013.

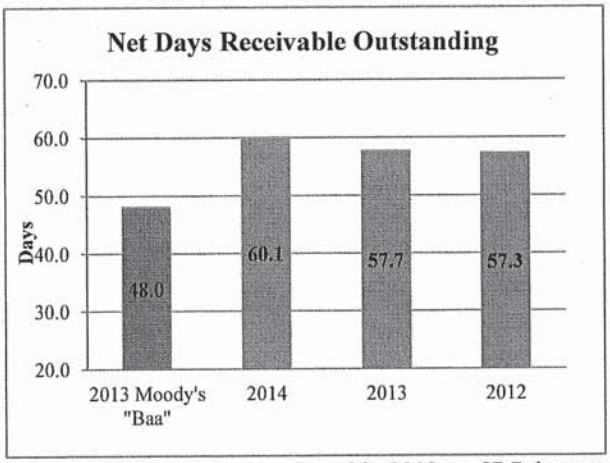
Days cash on hand is utilized to evaluate an organization's continuing ability to meet its short-term operating needs. Days cash on hand, including board-designated assets whose use is limited, as of June 30, 2014, 2013 and 2012 are illustrated in the graph to the right.



Harborview's total days cash on hand, including board-designated assets whose use is limited, increased 8.5 days from 93.4 days at June 30, 2013 to 101.9 days at June 30, 2014 and decreased 11.8 days from 105.2 days at June 30, 2012 to 93.4 days at June 30, 2013. The increase in 2014 was driven by Medicaid expansion and positive cash flow from operating activities. In 2014, days cash on hand is favorably impacted by the State's Medicaid payment methodology, which will be factored into the CPE hold harmless estimate. The decrease in 2013 was driven by growth in operating expenses and capital spending in excess of cash flows from operations during the year.

Net patient accounts receivable was $123.2 million as of June 30, 2014, compared to $114.5 million at June 30, 2013. The increase of $8.7 million in net accounts receivable during fiscal year 2014 is due to the expansion of

Washington State Medicaid program, which provided an increase in Medicaid eligible patients and a decrease in self-pay patients.



Net patient accounts receivable increased $4.2 million during fiscal year 2013 is due to changes in payer mix and is also representative of the higher level of scrutiny that payers are subjecting claims to that is increasing the time to collect on patient accounts.

Days receivable outstanding illustrates an organization's ability to convert net patient service revenue to cash. Days receivable outstanding as of June 30, 2014, 2013 and 2012 are illustrated in the graph included to the left.

Harborview's net days receivable outstanding increased 2.4 days from 57.7 days at June 30, 2013 to 60.1 days at June 30, 2014 and increased 0.4 days from 57.3 days at June 30, 2012 to 57.7 days at June 30, 2013. The increase in net days receivable outstanding during fiscal year 2014 was driven by increased reimbursement time for Medicaid expansion claims and the Hospital Safety Net program funding being presented as other operating revenue in the form of grant revenue rather than net patient service as it has historically been presented. The increase during fiscal year 2013 was driven by higher initial denial rates by payers and increasing work required to get services reimbursed under payer contracts.

As of June 30, 2014 and 2013, 39% and 41% of the gross patient accounts receivable balance is due from commercial payers, 55% and 49% is due from governmental payers Medicare and Medicaid, 5% and 10% is due from self-pay patients and 1% from the Washington Health Benefit Exchange. On January 1, 2014, the Washington state Medicaid program was expanded to significantly increase the number of eligible Medicaid enrollees receiving benefits. Due to this expansion, Harborview has seen an increase in Medicaid gross patient accounts receivable and a decrease in self-pay gross accounts receivable at June 30, 2014, when compared to the previous fiscal year.

Other receivables primarily consist of amounts due from the State for grants and other funding programs supporting Harborview operations. Other activity within other receivables includes amounts due from UW Medicine entities. Other receivables decreased $6.6 million from $23.3 million at June 30, 2013 to $16.7 million at June 30, 2014. The decrease during fiscal year 2014 is due to the timing of state funding as well as the elimination of the Medicaid Administrative Match program.

During fiscal year 2013, other receivables increased $5.1 million. The change is a result of accrued State grants and trauma funding.

Supplies Inventory was $8.6 million as of June 30, 2014, compared to $7.7 million at June 30, 2013. The increase of $0.9 million was the result of general inventory movement and timing of stock reorders.

The balance of supplies inventory decreased $0.6 million in 2013 as a result of general inventory movement and timing of stock orders.

Funds held by the University of Washington (the University) represent deposits held with the University for advance funding of capital projects managed by the University.

Receivable from contractual agencies consist of estimated receivables for cost report settlements. Receivable from contractual agencies decreased $7.3 million from $9.9 million as of June 30, 2013 to $2.6 million as of June 30, 2014 as a result of a decrease in Medicare and Medicaid CPE reports settlements and development in open Medicare cost report and CPE hold harmless estimates. During fiscal year 2013, receivables from contractual agencies increased $8.8 million as a result of changes in Harborview's reserve methodology and development in open CPE hold harmless estimates.

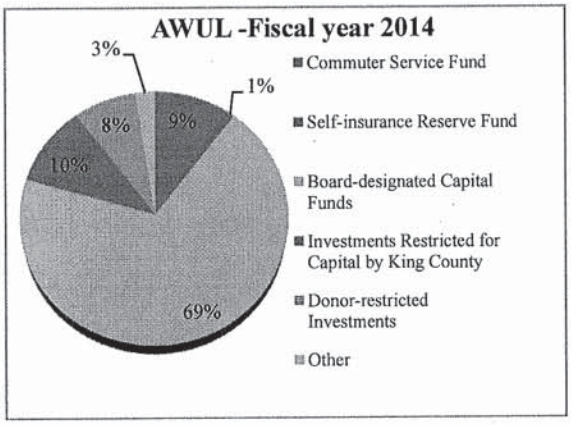
Other current assets include prepaid expenses and interest receivable. The increase in other current assets of $5.6 million relates to Harborview's current portion of IT prepaid expenses. See further discussion below in other assets. The remaining balance of other current assets remained unchanged from the prior year.

Noncurrent Assets

Capital assets net of accumulated depreciation, decreased $23.4 million during fiscal year 2014 from $354.8 million at June 30, 2013 to $331.4 million at June 30, 2014 and decreased $18.6 million from $373.4 million at June 30, 2012 to $354.8 million at June 30, 2013. The decrease in both years was primarily due to continued depreciation of depreciable assets offset by moderate capital spending.

Additional discussion regarding capital asset activity during the fiscal years can be found in the notes to the financial statements.

Assets whose use is limited (AWUL) includes board-designated, restricted investments and property held for future development. These investments include cash, long-term investments and property held for future use. Board-designated cash and investments are used by Harborview to fund strategic initiatives, capital improvements, and to purchase equipment.



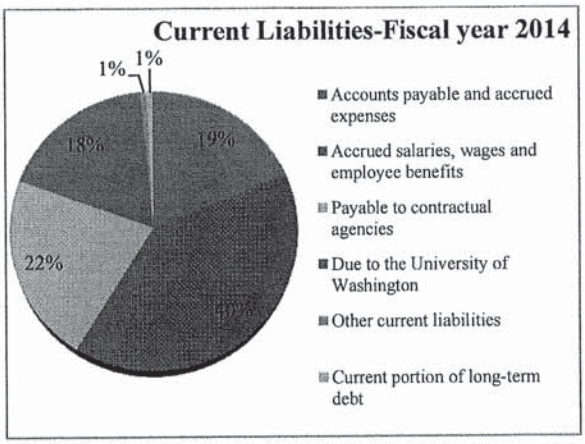
At June 30, 2014, total assets whose use is limited were $113.1 million, compared to $113.9 million at June 30, 2013, a decrease of $0.8 million between years. Assets whose use is limited decreased $7.8 million during fiscal year 2013 due to funding of strategic initiatives and capital improvements.

Other assets consist of long-term prepaid expenses. Beginning in July 2013, UW Medicine ITS (a department of the UW) began recording enterprise-wide information technology (IT) capital assets that are purchased for use by UW Medicine

entities. Previously, IT capital assets were recorded by Harborview. The long-term prepaid expense reflected in other assets of $10.9 million at June 30, 2014 entitles Harborview access to the enterprise-wide IT software and services.

Current Liabilities

Current liabilities consist of accounts payable and other accrued liabilities that are expected to be paid within a year. Total current liabilities were $108.9 million at June 30, 2014, compared to $91.6 million at June 30, 2013. Fiscal year 2014 composition of current liabilities is illustrated in the chart to the right.



Accounts payable and accrued expenses increased $1.8 million from $18.0 million at June 30, 2013 to $19.8 million at June 30, 2014 and increased $1.8 million from $16.2 million at June 30, 2012 to $18.0 million at June 30, 2013. Changes in accounts payable and accrued expenses are primarily driven by timing of payments to vendors and employees. Accounts payable includes amounts accrued for capital related expenditures. Included in accounts payable as of June 30, 2014 and 2013 were amounts accrued for capital related expenditures of $0.4 million and $1.7 million, respectively.

Accrued salaries, wages and employee benefits decreased $2.5 million from $44.7 million at June 30, 2013 to $42.2 million at June 30, 2014 and increased $2.1 million from $42.6 million at June 30, 2012 to $44.7 million at June 30, 2013.

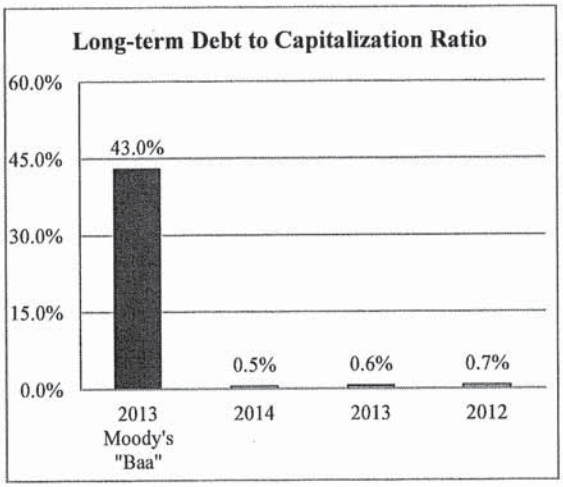
Payable to contractual agencies consists of estimated reserves for cost report settlements and amounts due as intergovernmental transfers to the Washington State Department of Social and Health Services. Payable to contractual agencies increased $5.4 million from $21.0 million at June 30, 2013 to $26.4 million at June 30, 2014 and decreased $0.8 million from $21.8 million at June 30, 2012 to $21.0 million at June 30, 2013. The increase in fiscal year 2014 was driven by the development in open Medicare cost report and CPE hold harmless estimates. The decrease in fiscal year 2013 was driven by changes in Harborview's reserve methodology, settlement of Medicare and Medicaid CPE reports and development in open Medicare cost report and CPE hold harmless estimates.

Payable to the University of Washington (the University) consists of amounts due for services provided to Harborview through the University and UW Medicine administrative and information technology support. Due to the University increased $12.5 million from $6.5 million at June 30, 2013 to $19.0 million at June 30, 2014 and decreased $0.9 million from $7.4 million at June 30, 2012 to $6.5 million at June 30, 2013. The increase in the payable to the University was driven by timing of invoices to the School of Medicine and to UW Medicine ITS for invoices related to operating expenses of the IT department. The decrease in 2013 was a result of timing in settlement between Harborview and the University.

Current portion of long-term debt was $0.8 million as of June 30, 2014 and represents upcoming debt payments on various bond issues within the next year. The current portion of long-term debt as of June 30, 2013 was $0.7 million.

Other current liabilities consist of the current portion of long-term unearned rent related to the Pat Steel Building and Ninth & Jefferson Building leases.

Noncurrent Liabilities



Long-term liabilities consist of long-term debt and unearned rent.

Long-term debt as of June 30, 2014, 2013, and 2012 consists of bonds issued by King County.

Long-term debt to capitalization is a ratio used to evaluate capital structure of healthcare organizations. The graph to the left shows the long-term debt to capitalization ratio as of June 30 for 2014, 2013 and 2012 including a comparison to the stand-alone hospital median.

Historically, Harborview's significant construction projects have been funded through tax payer supported debt. As a policy, King County carries all tax payer supported debt and proceeds of debt are funded to Harborview through a voluntary nonexchange transaction. Debt carried by Harborview represents debt issued and supported through Harborview revenues. As a result of these policies, Harborview tends to report a significantly lower debt to capitalization ratio than other academic medical centers.

Additional discussion regarding long-term debt activity during the fiscal years can be found in the notes to the financial statements.

Net Position

Harborview reports its net position in four categories:

Net investment in capital assets – Total investment in Harborview property, plant, and equipment net of accumulated depreciation and outstanding debt obligations related to those capital assets.

Restricted for debt service and expendable net position – Resources Harborview is legally or contractually obligated to spend in accordance with restrictions placed by donors and/or external parties that have placed time or purpose restrictions on the use of the asset.

Restricted nonexpendable net position – Resources subject to externally imposed restrictions requiring Harborview to maintain in perpetuity.

Unrestricted net position – All other funds available to Harborview that do not meet the definition of restricted or invested in capital net of related debt.

As of June 30, 2014, total net position was $615.7 million compared to $622.5 million at June 30, 2013.

Summary of Revenues, Expenses, and Changes in Net Position

Results of Operations

Harborview reported an operating loss of $0.8 million and a decrease in net position of $6.8 million for the year ended June 30, 2014 compared to an operating loss of $8.5 million and decrease in net position of $13.2 million for the year ended June 30, 2013. For the year ended June 30, 2012, Harborview reported operating income of $18.3 million and an increase in net position of $8.5 million.

	2014	2013	2012
		(In thousands)	
Total operating revenues	$ 814,652	788,387	765,800
Total operating expenses	815,436	796,872	747,525
Operating (loss) income	(784)	(8,485)	18,275
Investment income, net	2,670	2,737	1,259
Interest expense	(161)	(217)	(224)
Other, net	(8,855)	(8,345)	(11,638)
Nonoperating expense	(6,346)	(5,825)	(10,603)
Capital contributions and transfers	328	1,076	863
(Decrease) increase in net position	(6,802)	(13,234)	8,535
Net position, beginning of year	622,469	635,703	627,168
Net position, end of year	$ 615,667	622,469	635,703

Contributing factors for the improved performance in fiscal year 2014 included the following: improved reimbursement associated with a higher-intensity inpatient case mix and expansion of the Medicaid program eligibility. In addition, strong outpatient revenue in the Pharmacy Department and continued success in implementing process improvement initiatives in the areas of revenue cycle, supply chain and resource utilization helped offset the impact of lower admissions and flat inpatient surgical volumes.

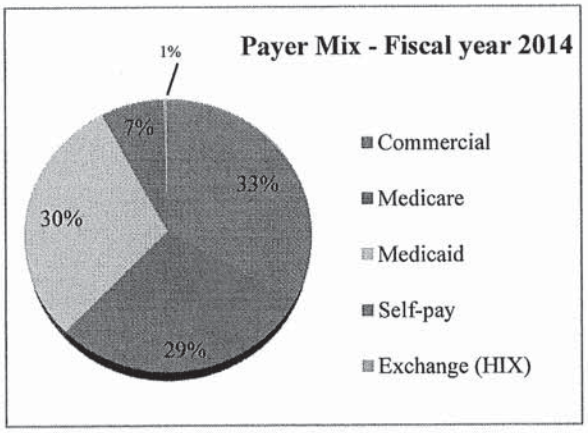
Decreased patient volumes offset by federal and state funding programs, such as electronic health record incentive payments and Hospital Safety Net Assessments contributed to the unfavorable operating performance between fiscal years 2013 and 2012.

	2014	2013	2012
Available beds	413	413	413
Admissions	17,176	17,999	19,094
Patient days	132,284	135,779	134,930
Average length of stay	7.7	7.5	7.1
Occupancy	88%	90%	89%
Case mix index (CMI)	2.100	1.986	1.911
Surgery cases	15,938	15,488	15,175
Emergency room visits	64,512	66,285	62,432
Primary care clinic visits	83,148	82,873	82,850
Specialty care clinic visits	164,201	162,878	162,114
Full time equivalents (FTEs)	4,475	4,763	4,684
Trauma cases	5,888	6,248	5,982

Total Operating Revenues

Total operating revenues consists primarily of net patient service revenues and other operating revenues. Net patient service revenues are recorded based on standard billing rates less contractual adjustments, charity, and a provision for uncollectible accounts. Harborview has agreements with federal and state agencies, and commercial insurers that provide for payments at amounts different from gross charges. Harborview provides care at no charge or reduced charges to patients who qualify under Harborview's charity policy. Harborview also estimates the amount of accounts receivable due from patients that will become uncollectible which is also reported as a reduction of net patient service revenues. The difference between gross charges and the estimated net realizable amounts from payers and patients is recorded as an adjustment to charges. The resulting net patient service revenue is shown in the statements of revenues, expenses, and changes in net position.

Net patient service revenues comprise both inpatient and outpatient revenue. Outpatient revenue consists of both hospital-based and other clinic network revenue. Other operating revenue comprises hospital-related revenues such as the grants and contract revenue as well as parking and cafeteria revenues.



Harborview's payer mix is a key factor in the overall financial operating results. The chart to the left illustrates payer mix for 2014. For the year ended June 30, 2014 and 2013, Medicaid revenue represented 30% and 24% and self-pay revenue represented 7% and 12%, respectively. This increase in Medicaid revenue is a direct result of the expansion of the Medicaid program in Washington State as part of the Affordable Care Act. Due to Medicaid expansion, many patients who were previously self-pay now qualify for Medicaid coverage, thus there is a decrease in the number of applicants for charity care and a decrease in the cost of charity care provided.

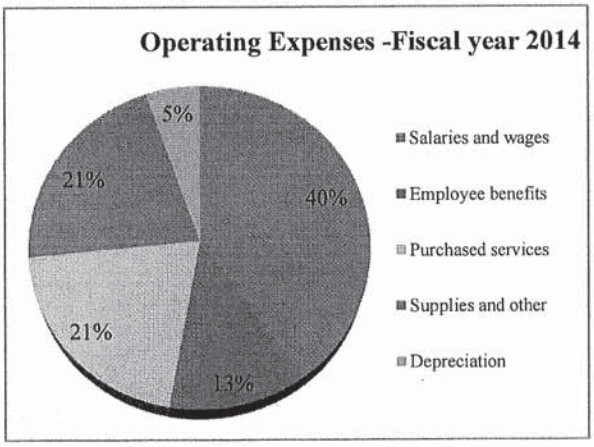
Reimbursement from governmental payers is generally below commercial rates and reimbursement rules are complex and subject to both interpretation and settlements. With the expansion of Medicaid, Harborview will have higher government revenues which are subject to settlements.

For the years ended June 30, 2014, 2013 and 2012, Harborview's total operating revenues were $814.7 million, $788.4 million and $765.8 million, which was composed of $747.9 million, $724.3 million and $702.3 million in net patient service revenues and $66.8 million, $64.1 million and $63.5 million of state appropriations and other operating revenue, respectively. The increase in fiscal year 2014 was driven by an increase in net patient service revenues due to increases in case acuity and a greater number of eligible Medicaid patients. The increase in fiscal year 2013 was driven by an increase in net patient service revenues due to a price increase and increases in high acuity and trauma cases.

Total Operating Expenses

Total operating expenses were $815.4 million for fiscal year 2014 compared to $796.9 million for fiscal year 2013 and $747.5 million for fiscal year 2012. The composition of fiscal year 2014 operating expenses is illustrated in the chart to the right.

Effective July 2013, UW Medicine adopted a purchased service model for their shared services function related to information technology services. With this adoption, Harborview's allocation of IT operating costs are recorded as purchased services in 2014. Previously, IT operating costs allocated to Harborview were recorded as salaries and wages, benefits and purchased services expense.



Salaries and wages decreased $17.7 million from $344.8 million in fiscal year 2013 to $327.1 million in fiscal year 2014. The decrease in salaries and wages in fiscal year 2014 is primarily attributed to in the adoption of the purchased service model for IT services as described above, offset by employee merit increases.

Salaries and wages increased $11.9 million from $332.9 million in fiscal year 2012 to $344.8 million in fiscal year 2013. The increase in salaries and wages expense was driven by increased full-time equivalent (FTE) employees and wage increases associated with collective bargaining agreements.

Employee benefits decreased $12.5 million from $115.7 million in fiscal year 2013 to $103.2 million in fiscal year 2014 and increased $13.1 million from $102.6 million in fiscal year 2012 to $115.7 million in fiscal year 2013. Employee benefit costs are a function of employment and the decrease in benefits expense was consistent with the decrease in salaries and wages in 2014. The increase in expense between fiscal years 2013 and 2012 was driven by increases in FTE employees, salaries and wages expense and an increase in the fringe benefit rate.

Purchased services consists of professional and consulting fees, increased $40.7 million from $127.9 million in fiscal year 2013 to $168.6 million in fiscal year 2014 and increased $22.9 million from $105.0 million in fiscal year 2012 to $127.9 million in fiscal year 2013. As described above, Harborview's allocation of IT operating expenses are recorded in purchased services during fiscal year 2014 as a result of adopting a purchased service model for IT expenditures. Additionally, the increase in purchased services is driven by the implementation of EpicCare, a specialty clinics medical record and computerized physician order entry (CPOE) system that occurred in late fiscal year 2014 and other major IT projects.

The increase in purchased services expense for 2013 was primarily driven by increased IT department costs, including consulting fees for IT work related to CPOE implementation and other planned major projects.

Supplies and other expense include medical and surgical supplies, pharmaceutical supplies, insurance, taxes, and other expenses. In total, these expenses increased $11.3 million from $162.3 million in fiscal year 2013 to $173.6 million in fiscal year 2014 and increased $0.6 million from $161.7 million in fiscal year 2012 to $162.3 million in fiscal year 2013. In 2014, Harborview began dispensing a new and specialized pharmaceutical drug for the treatment of hepatitis C in their outpatient pharmacy which accounts for the majority of the increase in supplies expense.

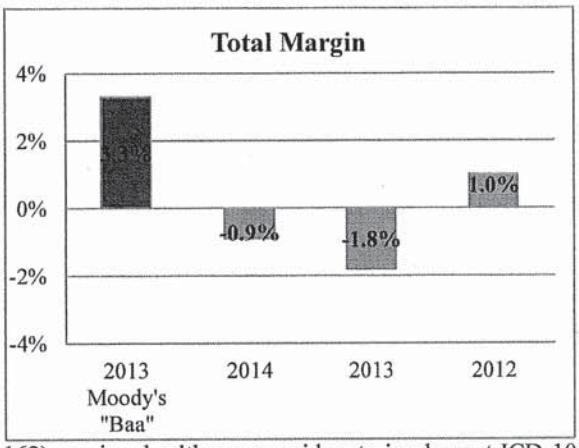
Depreciation expense decreased $3.2 million from $46.2 million in fiscal year 2013 to $43.0 million in fiscal year 2014 and increased $0.9 million from $45.3 million in fiscal year 2012 to $46.2 million in fiscal year 2013. The decrease in 2014 was primarily due to a decline in capital spending and the increase between 2013 and 2012 primarily relates to investments in information technology.

Nonoperating Revenues (Expenses)

Nonoperating revenues (expenses) consist primarily of investment income, interest expense, intergovernmental transfer expense, and strategic support funding to UW Medicine entities. Net nonoperating expense increased $0.5 million between fiscal years 2014 and 2013 and decreased $4.8 million between fiscal years 2013 and 2012. In 2014, the increase in net nonoperating expenses are attributed to a reduction in realized gains as part of investment income as compared to the prior year. In 2013, the decrease in net nonoperating expenses from the prior year was primarily due to reductions in intergovernmental transfers related to Harborview's participation in the Washington State's Professional Services Supplemental Payment (PSSP) program and an increase in investment income.

Total Margin

Total margin or excess margin is a ratio that defines the percentage of total revenue that has been realized in the form of net income (loss) and is a common measure of total hospital profitability. Total margin for the fiscal years 2014, 2013 and 2012 compared to industry median is illustrated in the chart to the right.



Regulatory, Legislative and Accounting Changes

The following regulatory, legislative and accounting activity will impact all entities in UW Medicine during fiscal year 2014 and beyond:

- ***International Classification of Diseases (ICD) v10*** – Code of Federal Regulations (45 CFR Part 162) requires healthcare providers to implement ICD-10 no later than October 1, 2015. The implementation date has been delayed from October 1, 2014. ICD-10 represents a significant change in the standard healthcare coding system and will impact every system, process and transaction that contains or uses a diagnosis code or inpatient procedure code.

  UW Medicine has been undertaking activities related to the implementation of ICD-10 since the beginning of fiscal year 2012.

- ***Medicare Sequestration*** – On April 1, 2013, a provision of the Budget Control Act of 2011 requiring mandatory across-the-board reductions in federal spending commenced (commonly referred to as sequestration). The provision included a 2% reduction to Medicare payments made to healthcare providers, including payments made under the meaningful use incentive program. The payment reduction is effective until 2023.

- ***WA Medicaid IP & OP Payment System Rebasing*** – The Washington Healthcare Authority (HCA) uses the Outpatient Prospective Payment System (OPPS) and All Patient Diagnosis Related Group (AP-DRG) methodologies for reimbursing outpatient and inpatient Medicaid claims, respectively. In 2013, HCA began a project to implement new payment systems for outpatient and inpatient claims which was implemented on July 1, 2014. Under the project, outpatient reimbursement will transition to Enhanced

Ambulatory Payment Groups (EAPG) methodology and inpatient reimbursement will transition to All Patient Refined Diagnosis Related Group (APR-DRG) methodology. The EAPG method is a visit-based patient classification system that directs payment to the main significant procedure or treatment provided during a visit, instead of "a la carte" volume-based purchasing and uses packaging and bundling of payment for related services to create incentives to provide services in the most efficient way. The APR-DRG will ensure the state is compliant with ICD-10 requirements, is more granular than AP-DRG and will increase the number of acuity-driven groupings for payment purposes.

- ***Medicaid Expansion*** – On January 1, 2014, the Washington state Medicaid program was expanded to significantly increase the number of Medicaid enrollees receiving benefits. Due to the increased access to Medicaid coverage, Harborview is experiencing a reduction in uninsured and underinsured patients and an increase in patients who qualify for Medicaid. The reduction of uninsured and underinsured patients is expected to have an impact on Medicare and Medicaid Disproportionate Share (DSH) reimbursement methodologies in the future. Harborview has experienced a change to their payer mix, which is anticipated to continue in 2015.

- ***Pay for Performance*** – The Affordable Care Act mandated programs that affect reimbursement through evaluation of the quality of care and cost of care provided to patients at the federal level, however, there are an increasing number of programs arising from state and private interests. These programs provide incentives (and/or penalties) for reporting performance data and those that provide incentives (and/or penalties) based on benchmarking performance data against other providers regionally and nationally. The pay for performance programs will continue into the future and UW Medicine is examining performance to attain incentive dollars.

- ***Management Services Agreement*** – Harborview is managed by the University of Washington (the University) under a management services agreement between the Board of Trustees (the Trustees) and the Board of Regents of the University. The agreement expires on June 30, 2015. Management, the Board of Trustees and the Board of Regents will be negotiating a new agreement during fiscal year 2015.

- ***Employee Pension Costs*** – In June 2012, the Governmental Accounting Standards Board issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, effective for the Harborview's fiscal year beginning July 1, 2014. This statement requires governments providing defined benefit pensions to their employees to recognize the net pension liability for pension benefits on their statements of net position. Net pension liability is measured as total pension liability, less the amount of the plan's fiduciary net position. Currently, the Harborview does not record an obligation of net pension liability. Management is evaluating the impact of this statement.

HARBORVIEW MEDICAL CENTER
(A Component Unit of King County)
(Operated by the University of Washington)

Statements of Net Position

June 30, 2014 and 2013

(Dollar amounts in thousands)

Assets		2014	2013
Current assets:			
Cash and cash equivalents	$	125,666	104,356
Funds held by the University of Washington		2,177	1,976
Patient accounts receivable, less allowance for uncollectible accounts of $28,608 in 2014 and $36,323 in 2013		123,160	114,527
Other receivables		16,669	23,323
Supplies inventory		8,568	7,711
Receivable from contractual agencies		2,591	9,850
Other current assets		6,765	1,202
Total current assets		285,596	262,945
Noncurrent assets:			
Capital assets, net of accumulated depreciation		331,359	354,841
Fund held by the University of Washington		600	600
Assets whose use is limited		113,103	113,880
Other assets		10,865	—
Total noncurrent assets		455,927	469,321
Total assets	$	741,523	732,266
Liabilities and Net Position			
Current liabilities:			
Accounts payable and accrued expenses	$	19,829	17,996
Accrued salaries, wages and employee benefits		42,206	44,729
Payable to the University of Washington		19,014	6,464
Payable to contractual agencies		26,352	21,016
Other current liabilities		704	704
Current portion of long-term debt		755	705
Total current liabilities		108,860	91,614
Noncurrent liabilities:			
Unearned rent and other		14,669	15,086
Long-term debt, net of current portion		2,327	3,097
Total liabilities		125,856	109,797
Net position:			
Net investment in capital assets		328,277	351,039
Expendable, restricted		16,618	20,450
Nonexpendable, restricted		3,709	3,547
Unrestricted		267,063	247,433
Total net position		615,667	622,469
Total liabilities and net position	$	741,523	732,266

See accompanying notes to basic financial statements.

HARBORVIEW MEDICAL CENTER
(A Component Unit of King County)
(Operated by the University of Washington)

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2014 and 2013

(Dollar amounts in thousands)

	2014	2013
Operating revenues:		
Net patient service revenues (net of provision for uncollectible accounts of $37,580 in 2014 and $46,135 in 2013)	$ 747,884	724,298
State appropriation	6,125	6,022
Other operating revenues	60,643	58,067
Total operating revenues	814,652	788,387
Operating expenses:		
Salaries and wages	327,085	344,778
Employee benefits	103,156	115,666
Purchased services	168,594	127,927
Supplies and other expenses	173,644	162,320
Depreciation	42,957	46,181
Total operating expenses	815,436	796,872
Loss from operations	(784)	(8,485)
Nonoperating revenues (expenses):		
Investment income, net	1,309	3,333
Interest expense	(161)	(217)
Donations and other income	1,090	2,419
Funding to affiliates	(8,651)	(9,646)
Unrealized gain (loss) on investments, net	1,361	(596)
Other, net	(1,294)	(1,118)
Nonoperating expenses	(6,346)	(5,825)
Loss before capital contributions and additions to permanent endowments	(7,130)	(14,310)
Capital contributions and additions to permanent endowments:		
Capital contributions	157	968
Additions to permanent endowments	171	108
Total capital contributions and additions to permanent endowments	328	1,076
Decrease in net position	(6,802)	(13,234)
Net position – beginning of year	622,469	635,703
Net position – end of year	$ 615,667	622,469

See accompanying notes to basic financial statements.

HARBORVIEW MEDICAL CENTER
(A Component Unit of King County)
(Operated by the University of Washington)

Statements of Cash Flows

Years ended June 30, 2014 and 2013

(Dollar amounts in thousands)

	2014	2013
Cash flows from operating activities:		
Cash received for patient service revenues and other	$ 751,846	710,425
Cash received for other services	72,364	58,661
Cash paid to employees	(432,764)	(458,312)
Cash paid to suppliers and others	(343,379)	(289,097)
Net cash provided by operating activities	48,067	21,677
Cash flows from noncapital financing activities:		
Donations and other income received	1,090	2,419
Funding to affiliates	(8,651)	(9,646)
Additions to permanent endowments	171	108
Other	(1,191)	(797)
Net cash used in noncapital financing activities	(8,581)	(7,916)
Cash flows from capital and related financing activities:		
Principal payments on long-term debt	(705)	(784)
Cash paid for interest	(164)	(220)
Capital expenditures	(20,912)	(28,316)
Capital contributions	158	968
Net cash used in capital and related financing activities	(21,623)	(28,352)
Cash flows from investing activities:		
Net decrease in assets whose use is limited	2,138	7,258
Investment income, net	1,309	3,333
Net cash provided by investing activities	3,447	10,591
Increase (decrease) in cash and cash equivalents	21,310	(4,000)
Cash and cash equivalents, beginning of year	104,356	108,356
Cash and cash equivalents, end of year	$ 125,666	104,356
Reconciliation of loss from operations to net cash provided by operating activities:		
Loss from operations	$ (784)	(8,485)
Adjustments to reconcile loss from operations to net cash provided by operating activities:		
Depreciation	42,957	46,181
Provision for uncollectible accounts	37,580	46,135
Net increase in current and other assets	(49,786)	(64,546)
Net increase in current liabilities, except current portion of long-term debt	18,517	2,693
Decrease in unearned revenue and unearned rent	(417)	(301)
Net cash provided by operating activities	$ 48,067	21,677
Supplemental disclosures of cash flow information:		
Decrease in capital assets included in accounts payable	$ (1,321)	(370)
Donation gift in kind	289	5,974
Loss on disposal of capital assets	116	330

See accompanying notes to basic financial statements.

(1) Organization

Harborview Medical Center (Harborview) is a 413 licensed bed hospital operating in Seattle, Washington with extensive ambulatory services and is a discretely presented component unit of King County (the County). Harborview is managed by the University of Washington (the University) under a management contract between the Board of Trustees (the Trustees) and the Board of Regents of the University in accordance with policies established by the Trustees as provided for in the management contract. The first management contract originated on July 1, 1967, and has been revised and extended several times. The latest contract version extends through June 30, 2015. The management contract recognizes the Trustees' desire to maintain Harborview as a means of meeting the County government's intent to provide the community with a resource for health services and the University's desire that Harborview be maintained as a continuing resource for education, training, and research. The Trustees members during fiscal year 2014 were:

Lee Ann Prielipp, President
Doug Armintrout
Daniel Church, Ph.D.
David Hadley, Ph.D.
Lisa Jensen
Clayton Lewis
David McDonald
Scott Wallace
Bernadene Dochnahl, Vice President
Patricia Cheadle, M.A., M.P.A., Ph.D.
Santos Contreras
Lisa Jacobs
Jonathan Kil, M.D.
Sharon Maeda
William Fallon, M.D.

The general conditions within the management contract specify that the County will retain title to all real and personal properties acquired for the County with Medical Center capital or operating funds. However, Harborview retains the rights of ownership to these real and personal properties and records these assets on its books. The Trustees determine major institutional policies and retain control of programs and fiscal matters. The County retains ultimate control over capital programs and capital budgets for buildings and renovations. The Trustees agree to secure the University's recommendations on any changes to the above. The Trustees are accountable to the public and the County government for all financial aspects of Harborview's operation and agree to maintain a fiscal policy that keeps the essential operating program and expenditures within the limits of the operating income. In maintaining a balanced budget fiscal policy, the Trustees agree to adopt standards of patient care developed in cooperation with the University. The University provides for the rendering of medical, dental, and other professional services in Harborview and professional and hospital services by the University personnel and overall management services. A special account is maintained with the University to receive reimbursement payments from Harborview's operating account and to pay for the costs of all services and expenditures provided by the University.

The Trustees and the University establish and maintain operational standards for all teaching and patient care designed to meet the requirements of such approval agencies as The Joint Commission. The Trustees control the use of all physical facilities and establish overall space use policies and guidelines in support of Harborview's programs. The University manages Harborview so as to retain its institutional identity in a manner which, to the extent of the funds available to Harborview, will achieve the aims of the Trustees to meet their community obligation and provide services to address the community's needs, as identified in

Harborview's mission statement. Additionally, the management contract requires the University "to provide hospital services, including management under the direction of a hospital administrator for the hospital, to provide for the rendering of medical services in connection with the hospital and to provide for the conduct of teaching and research activities by the University in connection with the hospital."

Harborview is a discretely presented component unit of King County and part of UW Medicine through the management contract that includes: UW Medical Center, Northwest Hospital & Medical Center (Northwest Hospital), Valley Medical Center (VMC), UW Physicians Network dba UW Neighborhood Clinics (UWNC), UW Physicians (UWP), the UW School of Medicine (the School) and Airlift Northwest (Airlift).

(2) Summary of Significant Accounting Policies

(a) Accounting Standards

The accompanying financial statements are prepared in accordance with accounting principles generally accepted in the United States of America using the accrual basis of accounting. Harborview's financial statements and note disclosures are based on all applicable Government Accounting Standards Board (GASB) pronouncements and interpretations. Harborview uses proprietary fund accounting.

(b) Basis of Accounting

Harborview's financial statements have been prepared using the accrual basis of accounting with the economic resources measurement focus. Under this method of accounting, revenues are recognized when earned and expenses are recorded when liabilities are incurred without regard to receipt or disbursement of cash.

(c) Use of Estimates

The preparation of financial statements, in conformity with U.S. generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates in Harborview's financial statements include patient accounts receivable allowances, receivable from contractual agencies, payable to contractual agencies and the fair value of investments.

(d) Cash and Cash Equivalents

Cash and cash equivalents primarily comprise investments held in an external investment pool managed for Harborview by the County. These investments consist of pooled investment funds of money markets, U.S. agency securities, U.S. agency mortgage-backed securities, U.S. treasury, U.S. municipal and collateralized mortgaged obligations, repurchase agreements and are carried at fair value.

The King County Investment Pool is not registered with the Securities and Exchange Commission (SEC) as an investment company. Oversight is provided by the King County Executive Finance Committee (EFC). All investments are subject to written policies and procedures adopted by the EFC. The EFC reviews pool performance monthly.

The King County Investment Pool allocates participants' shares using an amortized cost basis. Monthly income is distributed to participants based on their relative participation during the period. Income is calculated based on: (1) realized investment gains and losses; (2) interest income based on stated rates (both paid and accrued); and (3) the amortization of discounts and premiums on a straight-line basis. Income is reduced by the contractually agreed upon investment fee.

Harborview has unrestricted access to these investments at its discretion and without limitation, and as such, these investments are considered cash equivalents. Harborview has cash equivalents of $125.7 million and $104.4 million as of June 30, 2014 and 2013, respectively.

(e) Assets Whose Use is Limited

Assets whose use is limited include designated unrestricted assets set aside by the Trustees for future capital and program purposes over which the Trustees retain control and may at their own discretion subsequently use for other purposes; investments restricted for use by creditors, grantors, or contributors external to Harborview; and investments restricted for capital purchases representing unspent bond proceeds, required capital funding by Harborview, and interest earnings thereon by the County. Investments are held in an external investment pool, managed for Harborview by the County, and are carried at fair market value.

Disclosure requirements related to investment risk, credit risk, interest rate risk, foreign currency risk, and deposit risk are applicable to the primary government which, as it relates to Harborview, is the County.

(f) Inventories

Inventories consist primarily of surgical, medical, and pharmaceutical supplies in organized stores at various locations across the Harborview. Inventories are recorded at the lower of cost (first-in, first-out (FIFO) or market.

(g) Capital Assets

Capital assets, defined as purchases with a per item cost of $2,000 or greater and a useful life of at least two years, are stated at cost at acquisition or if acquired by gift, at fair market value at the date of the gift. Additions, replacements, major repairs, and renovations are capitalized. Maintenance and repairs are expensed. The cost of the capital assets sold or retired and the related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recorded.

The provision for depreciation is determined by the straight-line method, which allocates the cost of tangible property ratably over its estimated useful life. The estimated useful lives used by Harborview are as follows:

Land improvements	25 years
Buildings, renovations, and furnishings	5–50 years
Fixed equipment	5–25 years
Movable equipment	3–20 years
Leasehold improvements	The shorter of the lease term or useful life

Interest is capitalized on construction projects as a cost of the related project beginning with commencement of construction and ceases when the construction period ends and the related asset is placed in service. No interest was capitalized during 2014 and 2013.

(h) Other Assets

Beginning in July 2013, UW Medicine ITS (a department of the University) began recording enterprise-wide information technology (IT) capital assets that are purchased for use by UW Medicine entities. Previously, these capital assets were recorded at Harborview and UW Medical Center. Harborview provides advance funding to UW Medicine ITS which entitles Harborview access to the enterprise-wide IT software and services. The prepaid portion of this funding is reported within other current assets and other assets in the statements of net position. At June 30, 2014, $5.5 million is recorded in other current assets and $10.9 million is recorded in other assets.

(i) Compensated Absences

Harborview employees earn annual leave at rates based on length of service and sick leave at the rate of one day per month. Annual leave balances, which are limited to 240 hours, can be converted to monetary compensation upon employment termination. Sick leave balances, which are unlimited, can be converted to monetary compensation annually at 25% of the employees' normal compensation rate for any balance that exceeds 480 hours or for any balance upon retirement or death. Harborview recognizes annual and sick leave liabilities when earned.

Annual leave accrued at June 30, 2014 and 2013 is $21.6 million and $21.9 million, respectively. Sick leave accrued as of June 30, 2014 and 2013 is $1.5 million and $1.8 million, respectively. Compensated absences are reported within the accrued salaries, wages and employee benefits of the statements of net position.

(j) Receivable from/Payable to Contractual Agencies

Harborview is reimbursed for Medicare inpatient, outpatient, psychiatric, and rehabilitation services, and for capital and medical education costs during the year either prospectively or at an interim rate. The difference between interim payments and the reimbursement computed based on the Medicare filed cost report results in an estimated receivable from or payable to Medicare at the end of each year. The Medicare program's administrative procedures preclude final determination of amounts receivable from or payable to Harborview until after the cost reports have been audited or otherwise reviewed and settled by Medicare.

Public hospitals located in the state of Washington designated by the Washington State legislature are reimbursed at the "full cost" of Medicaid inpatient covered services under the public hospital CPE payment method. See note 3(a) for discussion regarding this program.

The estimated settlement amounts for Medicare cost report and CPE payments that are not considered final are included in receivable from/payable to contractual agencies in the accompanying statements of net position.

(k) Classification of Revenues and Expenses

Harborview's statements of revenues, expenses, and changes in net position distinguish between operating and nonoperating revenues and expenses. Operating revenues, such as patient service revenue, result from exchange transactions associated with providing healthcare services – Harborview's primary business. Exchange transactions are those in which each party to the transaction receives and gives up essentially equal values.

Operating expenses are all expenses, other than financing costs, incurred by Harborview to provide healthcare services to patients.

Nonoperating revenues and expenses are recorded for certain exchange and nonexchange transactions. This activity includes investment income, interest expense, intergovernmental transfer expense, and strategic funding of the UW Physicians Network dba UW Neighborhood Clinics (UWNC).

(l) Net Patient Service Revenues

Harborview has agreements with third-party payers that provide for payments to Harborview at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenues are reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers.

Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. A summary of the payment arrangements with major third-party payers is as follows:

Medicare

Acute inpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge based on Medicare severity diagnosis-related groupings (MS-DRGs), as well as reimbursements related to capital costs. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Payments for Medicare outpatient services are provided based upon a prospective payment system known as ambulatory payment classifications (APCs). APC payments are prospectively established and may be greater than or less than the primary government's actual charges for its services. The Medicare program utilizes the prospective payment system known as case mix group (CMGs) for rehabilitation services reimbursement. As with MS-DRGs, CMG payments are prospectively established and may be greater than or less than Harborview's actual charges for its services. Geropsychiatric services are also paid prospectively using a federal per diem payment rate adjusted for comorbidity and various adjustment factors. Third-party settlements are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Medicaid

Inpatient services rendered to Medicaid program beneficiaries are provided at prospectively determined rates per discharge. Outpatient services rendered are provided based upon the APC prospective payment system. See note 3(a) for discussion surrounding the Medicaid certified public reimbursement program.

Commercial

Harborview also has entered into payment agreements with certain commercial insurance carriers and preferred provider organizations. The basis for payment to Harborview under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Exchange (HIX)

Washington State health exchange (HIX) entered into agreements with certain commercial insurance plans to provide patients access to health care services. The basis for payment to Harborview under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

(m) Charity Care

Harborview provides care without charge or at amounts less than established rates to patients who meet certain criteria under its charity care policy. Harborview maintains records to identify and monitor the level of charity care it provides. These records include charges foregone for services and supplies furnished under its charity care policy to the uninsured and the underinsured. Because Harborview does not pursue collection of amounts determined to qualify as charity care, these are not reported as net patient service revenue. The charges associated with charity care provided by the Hospital are approximately $167.7 million and $219.1 million, respectively, for the years ended June 30, 2014 and 2013.

Harborview estimates the cost of charity care using its Medicaid cost to charge ratio of 42.8% and 43.4% for the fiscal years ended June 30, 2014 and 2013, respectively. Applying Harborview's Medicaid cost to charge ratio of 42.8% to total charity of $167.7 million results in an estimated cost of charity care and uncompensated care of $71.8 million for the fiscal year ended June 30, 2014. Applying Harborview's Medicaid cost to charge ratio of 43.4% to total charity of $219.1 million results in an estimated cost of charity care and uncompensated care of $95.1 million for the fiscal year ended June 30, 2013.

(n) Federal Income Taxes

Harborview, as a component of the State of Washington, is not subject to federal income taxes under Section 115 of the Internal Revenue Code, except for unrelated business income tax.

(o) Reclassifications

Certain 2013 account balances have been reclassified to conform to the 2014 presentation format.

(p) New Accounting Pronouncements

On July 1, 2013, Harborview adopted GASB Statement No. 65 (GASB 65), "*Items Previously Reported as Assets and Liabilities.*" This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as expenses or revenues, certain items that were previously reported as assets and liabilities. There was no material impact to the financial statements of Harborview as a result of implementing this statement.

On July 1, 2013, Harborview adopted GASB Statement No. 70, "*Accounting and Financial Reporting for Nonexchange Financial Guarantees.*" This statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. This statement specifies the information required to be disclosed by governments that extend nonexchange financial guarantees. In addition, this statement requires new information to be disclosed by governments that receive nonexchange financial guarantees. Harborview has not extended or received any nonexchange financial guarantees for the years then ended June 30, 2014 and 2013, therefore there is no impact to the Harborview financial statements.

In June 2012, GASB issued Statement No. 68, "*Accounting and Financial Reporting for Pensions*," which is effective for the fiscal year beginning July 1, 2014. It requires governments providing defined benefit pensions to their employees to recognize the net pension liability for pension benefits on their statements of net position. Net position liability is measured as total pension liability, less the amount of the plan's fiduciary net position. Currently, Harborview does not record an obligation for its net pension liability. Currently management is evaluating the impact of this statement.

In November 2013, GASB issued Statement No. 71, "*Pension Transition for Contributions Made Subsequent to the Measurement Date*," an amendment of GASB Statement No. 68. The purpose of this statement is to address an issue regarding application of the transition provisions of GASB Statement No. 68, "*Accounting and Financial Reporting for Pensions*." The statement relates to amounts associated with contributions, if any, made by a state or local government employer, or nonemployer contributing entity, to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The University and Harborview are currently analyzing the impact of this statement.

(3) Net Patient Service Revenues

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. In 2014 and 2013, net patient service revenue includes approximately $6.6 million and $7.7 million of revenue, respectively, relating to prior years' net Medicare and Medicaid cost report settlements and revised estimates, including DSH reimbursement and the CPE Program.

The following are the components of net patient service revenues for the year ended June 30 (in thousands):

		2014	2013
Gross patient service revenues	$	1,916,945	1,785,910
Less adjustments to patient service revenues:			
Charity care		(167,681)	(219,080)
Contractual discounts		(963,800)	(796,397)
Provision for uncollectible accounts		(37,580)	(46,135)
Total adjustments to patient service revenues		(1,169,061)	(1,061,612)
Net patient service revenues	$	747,884	724,298

Harborview grants credit without collateral to its patients, most of whom are local residents and insured under third-party payer agreements. The mix of gross patient charges and receivables from significant third-party payers for the years ended June 30, 2014 and 2013 is as follows:

	Patient service charges	Accounts receivable
2014:		
Medicare	29%	25%
Medicaid	30	30
Commercial and other	33	39
Self-pay	7	5
Exchange (HIX)	1	1
Total	100%	100%
2013:		
Medicare	28%	26%
Medicaid	24	23
Commercial and other	36	41
Self-pay	12	10
Total	100%	100%

(a) Medicaid Certified Public Expenditure Reimbursement

Public hospitals located in the state of Washington designated by the Washington State legislature are reimbursed at the "full cost" of Medicaid inpatient covered services under the public hospital CPE payment method.

"Full cost" payments are determined using the respective hospital's Medicaid ratio of cost to charges to determine the cost for covered medically necessary services. The costs will be certified as actual expenditures by the hospital and the State claims federal match on the amount of the related certified public expenditures. Per Centers for Medicare and Medicaid Services (CMS) approved Medicaid State Plan, participating hospitals receive only the federal match portion of the allowable costs. Harborview received $76.0 million and $66.8 million in claims payments under this program for the years ended June 30, 2014 and 2013, respectively.

In addition, Harborview receives the federal match portion of Disproportionate Share (DSH) payments, which are the lesser of qualifying uncompensated care cost or the hospital's specific limit. Harborview received $42.4 million and $44.6 million in DSH funding under this program for the years ended June 30, 2014 and 2013, respectively.

Since the inception of the program, the Washington State Legislature (the State) has provided through an annual budget proviso, a "hold harmless" provision for hospitals participating in the CPE

program. Through this proviso, hospitals participating in the CPE program, will receive no less in combined state and federal payments than they would have received under the previous payment methodology. In addition, the hold harmless provision ensures that participating hospitals receive DSH payments as specified in the legislation.

In the event of a shortfall between CPE program payments and the amount determined under the hold harmless provision, the difference is paid to the hospitals as a grant from state-only funds. Harborview received $9.2 million and $7.0 million in state grants for the years ended June 30, 2014 and 2013, respectively. Claims payments, DSH payments, and state grant funds are included in net patient service revenues in the statements of revenues, expenses, and changes in net position.

CPE payments are subject to retrospective determination of actual costs once Harborview's Medicare Cost Report is audited. CPE program payments are not considered final until retrospective cost reconciliation is complete, after Harborview receives its Medicare Notice of Program Reimbursements (NPR) for the corresponding cost reporting year. To date, the 2006 CPE program year has had a final settlement.

Interim state grant payments are retrospectively reconciled to "hold harmless" after actual claims are repriced using the applicable DRG payment methodology. This process takes place approximately 12 months after the end of the fiscal year and results in either a payable to, or receivable from, the state Medicaid Program. Harborview has estimated the expected final settlement amounts based on the difference between CPE payments received and the estimated hold harmless amount.

Harborview has estimated the expected final settlement amounts based on the difference between CPE payments received and the estimated hold harmless amount. For the years ended June 30, 2014 and 2013, net patient service revenue includes approximately $4.5 million and $(2.4) million, respectively, of increases (decreases) relating to the prior year's estimate.

As of June 30, 2014, Harborview has an estimated payable of $18.9 million and an estimated receivable of $1.6 million for the CPE program, which are included in payable to contractual agencies and receivable from contractual agencies, respectively on the statements of net position. As of June 30, 2013, Harborview had an estimated payable of $14.6 million and an estimated receivable of $8.7 million for the CPE program, which is included in payable to contractual agencies and receivable from contractual agencies, respectively in the statements of net position.

(b) Professional Services Supplemental Payment (PSSP) Program

The professional services supplemental payment (PSSP) program is a program managed by the Washington State Health Care Authority (WSHCA) benefiting certain public hospitals. Under the program, UW Medical Center, Harborview, VMC, UWP, and Children's University Medical Group (CUMG) receive supplemental Medicaid payments for the physician and other professional services for which they bill. These supplemental payments equal the difference between the standard Medicaid reimbursement and the upper payment limit allowable by federal law. UW Medical Center and Harborview provide the nonfederal share of the supplemental payments that are used to obtain the matching federal funds.

Harborview recorded $4.2 million and $6.8 million for the years ended June 30, 2014 and 2013, respectively in intergovernmental transfers (IGT) to WSHCA related to professional claims paid in those fiscal years, which is included as a nonoperating expense in the statements of revenue, expenses, and changes in net position.

WSHCA uses the federal match funds to make professional services supplemental payments to UW Medicine entities. Harborview recognized $0.2 million and $2.0 million in supplemental payments for the years ended June 30, 2014 and 2013, respectively. These payments are included in net patient service revenues in the statements of revenue, expenses, and changes in net position.

There is no requirement that UWP and CUMG PSSP payments be returned to Harborview and UW Medical Center as a condition for making the IGT's. PSSP funds are combined with other revenues used by the School for the central support of faculty costs. Thus, the School requires less funding from Harborview. The faculty support is reduced by $7.9 million and $9.5 million in fiscal years 2014 and 2013, respectively. This reduction is included as an offset to purchased services in the statements of revenue, expenses, and changes in net position.

In July 2013, WSHCA submitted a state plan amendment (SPA) to the Center for Medicare and Medicaid Services (CMS) to create a Provide Access Payment (PAP) program. PAP will create supplemental professional payments similar to PSSP for services provided to Medicaid managed care enrollees. WSHCA could not make PAP payments until CMS approved the SPA. CMS approved the SPA in August 2014 for services on and after July 1, 2014.

(c) Hospital Safety Net Program

The Hospital Safety Net Assessment Act (HSNA) uses local funds obtained through an assessment levied on Prospective Payment System (PPS) hospitals and federal matching funds to increase Medicaid payments to hospitals. Under this program, PPS program hospitals are assessed a fee on all non-Medicare patient days. Under the original HSNA program, HSNA funds were used to prevent the significant budget cuts proposed during the 2009 session of the state legislature. The original legislation expired on June 30, 2013.

In its 2013 session, the Washington State legislature passed a new assessment program that was similar to the original program as they will use federal matching funds to increase Medicaid hospital payments. Under the new HSNA program, PPS hospitals receive supplemental Medicaid payments, Critical Access Hospitals receive disproportionate share payments, and CPE hospitals receive state grants. The safety net assessment was subject to approval by the Center for Medicare and Medicaid Services before it took effect. CMS approved this program in 2014. The program has an expiration date of June 30, 2017.

Harborview is exempt from the assessment as the hospital is operated by an agency of the state government and also participates in the CPE program.

Harborview recognized grant funding of $7.6 million for the year ended June 30, 2014, which is recorded in other operating revenue in the statements of revenues, expenses, and changes in net

position. Under the original program, Harborview recognized increased reimbursement of $11.7 million under this program for the year ended June 30, 2013, which is included in net patient service revenues in the statements of revenues, expenses, and changes in net position.

(d) Meaningful Use Incentives

The American Recovery and Reinvestment Act of 2009 (ARRA) established incentive payments to eligible professionals and hospitals participating in Medicare and Medicaid programs that adopt certified electronic health records (EHRs) but only if the technology is being used in a "meaningful" way that supports the ultimate goals of improving quality, safety, and efficiency of care. "Meaningful use" is defined with specific quality performance metrics for eligible healthcare professionals and hospitals and certain thresholds must be met and maintained to receive payment.

Harborview recognized meaningful use incentives of $6.0 million and $4.9 million for the years ended June 30, 2014 and 2013, which are included in other operating revenues in the statements of revenue, expenses, and changes in net position. Harborview has a related receivable of $0.3 million and $1.0 million as of June 30, 2014 and 2013, respectively, recorded within other receivables on the statements of net position. These amounts may be subject to future audits.

(e) Other Federal and State Funding

As a regional trauma center, Harborview is eligible for additional State funding in both 2014 and 2013 through the Trauma Enhancement program. Participating hospitals receive a pro-rata share of the pool appropriated for this program based on their portion of total inpatient and outpatient Medicaid claims submitted. Harborview received $5.8 million and $9.4 million for the years ended June 30, 2014 and 2013. In addition to the funding received through the Trauma Enhancement program, Harborview received State sponsored trauma grants in the amount of $1.9 million and $1.5 million for the years ended June 30, 2014 and 2013, respectively. Funds from both programs are included in net patient service revenues in the statements of revenues, expenses, and changes in net position.

(4) State Appropriation

An appropriation is made by the State to the University on a biennial basis. Harborview is designated as a division of the major program "hospitals" included within the total appropriation. This appropriation is specifically designated by the State for the training of future healthcare professionals and to upgrade the skills of current practitioners. Due to the nature of the designation, these amounts are included in operating revenues in the accompanying statements of revenues, expenses, and changes in net position. Harborview recognized $6.1 million and $6.0 million for the years ended June 30, 2014 and 2013, respectively.

(5) Capital Assets

The activity in Harborview's capital asset and related accumulated depreciation accounts for the years ended June 30, 2014 and 2013 is set forth below (in thousands):

	Balance June 30, 2013	Additions	Transfers	Retirements	Balance June 30, 2014
Capital assets, not being depreciated:					
Land	$ 1,586	—	—	—	1,586
Construction in process	13,344	13,502	(11,986)	—	14,860
Total capital assets, not being depreciated	14,930	13,502	(11,986)	—	16,446
Capital assets, being depreciated:					
Land improvements	5,338	—	181	—	5,519
Buildings, renovations and furnishings	400,699	—	6,390	—	407,089
Fixed equipment	143,105	—	246	—	143,351
Movable equipment	265,915	6,089	4,770	(2,236)	274,538
Leasehold improvements	9,156	—	399	—	9,555
Total capital assets, being depreciated	824,213	6,089	11,986	(2,236)	840,052
Total capital assets at historical cost	839,143	19,591	—	(2,236)	856,498
Less accumulated depreciation for:					
Land improvements	(1,997)	(315)	—	—	(2,312)
Buildings, renovations and furnishings	(161,522)	(13,377)	—	—	(174,899)
Fixed equipment	(114,152)	(5,436)	—	—	(119,588)
Movable equipment	(203,646)	(23,199)	—	2,120	(224,725)
Leasehold improvements	(2,985)	(630)	—	—	(3,615)
Total accumulated depreciation	(484,302)	(42,957)	—	2,120	(525,139)
Total capital assets, net	$ 354,841	(23,366)	—	(116)	331,359

	Balance June 30, 2012	Additions	Transfers	Retirements	Balance June 30, 2013
Capital assets, not being depreciated:					
Land	$ 1,586	—	—	—	1,586
Construction in process	8,746	12,467	(7,869)	—	13,344
Total capital assets, not being depreciated	10,332	12,467	(7,869)	—	14,930
Capital assets, being depreciated:					
Land improvements	5,083	—	255	—	5,338
Buildings, renovations and furnishings	394,126	—	6,573	—	400,699
Fixed equipment	143,115	—	33	(43)	143,105
Movable equipment	253,280	15,479	960	(3,804)	265,915
Leasehold improvements	9,108	—	48	—	9,156
Total capital assets, being depreciated	804,712	15,479	7,869	(3,847)	824,213
Total capital assets at historical cost	815,044	27,946	—	(3,847)	839,143
Less accumulated depreciation for:					
Land improvements	(1,682)	(315)	—	—	(1,997)
Buildings, renovations and furnishings	(147,956)	(13,566)	—	—	(161,522)
Fixed equipment	(108,396)	(5,756)	—	—	(114,152)
Movable equipment	(181,223)	(25,940)	—	3,517	(203,646)
Leasehold improvements	(2,381)	(604)	—	—	(2,985)
Total accumulated depreciation	(441,638)	(46,181)	—	3,517	(484,302)
Total capital assets, net	$ 373,406	(18,235)	—	(330)	354,841

Capital assets, net include intangible assets, net of accumulated depreciation of $5.8 million and $10.6 million as of June 30, 2014 and 2013, respectively.

(6) Board-Designated and Restricted Assets

(a) Assets Whose Use is Limited

Assets whose use is limited consist of the following, as of June 30 (in thousands):

		2014	2013
Board-designated assets:			
Pooled investments managed by King County	$	89,846	87,518
Receivables and other		170	181
Property held for future use, at cost, less accumulated depreciation		2,718	2,718
Total board-designated assets		92,734	90,417
Restricted cash and investments:			
Investments restricted for capital by King County		11,686	14,037
Investments restricted by donor		8,683	9,426
Total restricted assets		20,369	23,463
Total assets whose use is limited	$	113,103	113,880

(b) Board-Designated Assets

Certain assets listed above have been designated by the Trustees for specific purposes. These assets comprise cash, cash equivalents, and other. The assets by designated purpose are as follows as of June 30 (in thousands):

		2014	2013
Commuter service fund	$	10,632	9,886
Self-insurance fund		1,181	1,164
Walter scott brown property		2,718	2,718
Equipment fund		16,665	28,686
Building repair and replacement fund		21,142	18,276
Planned capital and program reserves		40,396	29,687
Total	$	92,734	90,417

(c) Investments Restricted for Capital and by Donor

Investments restricted for capital comprise investments held in an external investment pool, managed for Harborview by the County and are $11.6 million and $14.0 million for the years ended June 30, 2014 and 2013, respectively. These investments represent unspent bond proceeds, required capital funding, and accumulated interest earnings. Access to these investments is restricted by the County for designated capital projects.

Investments restricted by donor represent assets whose use is restricted by grantors, or contributors external to Harborview and are $8.7 million and $9.4 million as of June 30, 2014 and 2013, respectively. These investments consist of pooled investment funds of money markets, U.S. agency securities, U.S. agency mortgage-backed securities, U.S. treasury, U.S. municipal and collateralized mortgaged obligations, and are carried at market value.

(7) Noncurrent Liabilities

Long-term debt, reported as part of noncurrent liabilities, consists of the following as of June 30 (in thousands):

		2014	2013
2006A Limited Tax General Obligation Refunding Bonds of King County, 5.0%; annual principal payments ranging from $610 to $695 through 2017, including premium of $10 as of June 30, 2014	$	2,002	2,592
2010A Limited Tax General Obligation Refunding Bonds of King County, 3.0% to 5.0%, annual principal payments ranging from $145 to $170 through 2021		1,080	1,210
Total long-term debt		3,082	3,802
Less current portion		(755)	(705)
Total long-term debt, net of current portion	$	2,327	3,097

(a) Long-term Debt Overview

King County issues debt on behalf of Harborview to meet capital needs. The County is the obligor of the debt and is responsible for meeting the associated debt covenant requirements. Harborview carries its obligation to the County as long-term debt on its statements of net position and makes payments to the County to cover debt service costs. The following is a summary of current outstanding obligations issued on behalf of Harborview.

Series 2006 Bond Issue

The 2006A Limited Tax General Obligation (LTGO) Refunding Bonds were issued on December 14, 2006 for the purpose of advance refunding and defeasing the Limited Tax General Obligation Refunding Bonds, 1996A and 1997G. The net proceeds were used to purchase U.S. government securities that were deposited with an escrow agent to provide for all future debt service payments on the refunded bonds. The bonds were deemed defeased upon deposit with the escrow agent.

Series 2010 Bond Issue

The 2010A Limited Tax General Obligation (LTGO) Refunding Bonds were issued on October 18, 2010 for the purpose of advance refunding and defeasing the Limited Tax General Obligation Refunding Bonds, 2001. The net proceeds were used to purchase U.S. government securities that were deposited with an escrow agent to provide for all future debt service payments on the refunded bonds. The bonds were deemed defeased upon deposit with the escrow agent.

(b) Long-Term Debt Maturities

The following schedule shows debt service requirements for the next five years and thereafter, as of June 30, 2014, using the fixed interest rates, for both principal and interest (in thousands):

	Principal	Interest	Total
2015	$ 755	136	891
2016	805	98	903
2017	840	65	905
2018	150	26	176
2019	155	20	175
2020–2022	336	21	357
Total payments	3,041	366	3,407
Less current portion	(755)	(136)	(891)
Add unamortized premiums and loss on refunding, net	41	—	41
Long-term debt, net of current portions	$ 2,327	230	2,557

(c) Changes in Noncurrent Liabilities

Changes in noncurrent liabilities during the fiscal years ended June 30, 2014 and 2013 are summarized below (in thousands):

	Balance June 30, 2013	Increases	Decreases	Balance June 30, 2014	Due within one year
2006A LTGO Bonds	$ 2,592	—	(590)	2,002	610
2010A LTGO Bonds	1,210	—	(130)	1,080	145
Unearned rent and other	15,790	287	(704)	15,373	704
Total noncurrent liabilities	$ 19,592	287	(1,424)	18,455	1,459

	Balance June 30, 2012	Increases	Decreases	Balance June 30, 2013	Due within one year
2009D LTGO Bonds	116	—	(116)	—	—
2006A LTGO Bonds	3,147	—	(555)	2,592	575
2010A LTGO Bonds	1,335	—	(125)	1,210	130
Unearned rent and other	16,091	407	(708)	15,790	704
Total noncurrent liabilities	$ 20,689	407	(1,504)	19,592	1,409

(8) Risk Management

Harborview is exposed to risk of loss related to professional and general liability, employee medical, dental and pharmaceutical claims, and injuries to employees. Harborview participates in risk pools managed by the University to mitigate risk of loss related to these exposures.

(a) Professional and General Liability

The University's professional liability program currently includes self-insured and commercial reinsurance coverage components. Harborview's annual funding to the professional liability program is determined by the University administration using information from an annual actuarial study. The actuary used a discount rate of 5.5% for both 2014 and 2013 in recognition of the expected earnings of the self-insurance fund and other factors. In addition to the University, the participants in the professional liability program include Harborview, UWP, CUMG, UWNC, School of Dentistry, Airlift, Northwest Hospital, and UW Medical Center. The various participants in the program contribute to the self-insurance fund and share in the expenses of the Health Sciences Risk Management Office.

Harborview's contribution to the professional liability program was $3.2 million and $2.9 million in 2014 and 2013, respectively, recorded in supplies and other expense on the statements of revenues, expenses, and changes in net position.

(b) Employee Medical and Workers' Compensation

The University pools employee benefit costs, including employee medical and workers' compensation, for all University employees. Departments, divisions, and affiliated organizations with employees covered under the University benefit programs are charged a single benefit rate, based on employee salary class.

Harborview, as an affiliated organization with employees covered under the University benefit programs, participates in the benefit pool. See further discussion in note 9.

(9) Benefit costs

Benefit costs are pooled centrally for all University employees. Annually the University reviews total employee benefit costs and prepares standard benefit load rates by employment classification. Departments, divisions, agencies, component units, and affiliated parties of the University that have University employees qualifying for employee benefit coverage are charged a cost allocation using the determined benefit load rate and budgeted salary dollars by employment classification. All funding of obligations are on a pay-as-you-go basis. At the end of the reporting period, the cost allocation is compared to actual benefit costs and differences between actual and budgeted costs are included as a component of the benefit load rates charged in the following year.

Employee benefits covered under the benefit pool include the following:

- Workers' compensation
- Unemployment compensation
- Employee medical, dental and vision
- Retirement and other postretirement benefit plans
- Social security
- Medicare
- Separation leave

During the fiscal years ended June 30, 2014 and 2013, Harborview incurred and paid $103.1 million and $115.7 million to the University for the employee benefits listed above, which is recorded as employee benefits in the statements of revenues, expenses, and changes in net position.

Retirement and Other Postretirement Benefit Plans

Harborview personnel are employees of the University. All of the employees of the University participate in the following state and University sponsored retirement and other postretirement benefit plans:

Washington Public Employees Retirement System (PERS) – PERS is a cost sharing, multiple-employer, defined-benefit pension plan administered by the state of Washington Department of Retirement Systems. There are three separate plans covered under PERS. PERS Plan 1 provides retirement and disability benefits and minimum benefit increases beginning at age 66 to eligible nonacademic plan members hired prior to October 1, 1977. PERS Plans 2 and 3 provide retirement and disability benefits and a cost-of-living allowance to eligible nonacademic plan members hired on or after October 1, 1977. In addition, PERS Plan 3 has a defined-contribution component, which is fully funded by employee contributions. The authority to establish and amend benefit provisions resides with the legislature. The Department of Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for PERS. The report may be obtained by writing to the Department of Retirement

Systems, P.O. Box 48380, Olympia, WA 98504-8380, or visiting httyp://www.drs.wa.gov/administration/.

The Office of the State Actuary, using funding methods prescribed by statute, determines actuarially required contribution rates for PERS. Funding obligations are measured at the University level and the University allocates expense to departments, divisions, agencies, and component units through the benefit load.

Based on the University's benefit load apportionment Harborview incurred and paid $22.6 million and $20.2 million in fiscal years 2014 and 2013, respectively, related to annual PERS funding, which is recorded in employee benefits on the statements of revenues, expenses, and changes in net position.

University of Washington Retirement Plan (UWRP) – UWRP is a defined contribution plan administered by the University. All faculty and professional staff are eligible to participate in the plan. Contributions to UWRP are invested by participants in annuity contracts or mutual fund accounts offered by one or more fund sponsors. Employees have at all times a 100% vested interest in their accumulations. Benefits from fund sponsors are available upon separation or retirement at the member's option. RCW 28B.10.400 et. Seq. assigns the authority to the University of Washington Board of Regents to establish and amend benefit provisions.

Funding is determined by employee age and ranges from 5% to 10% of employee salary. Funding obligations are calculated at the University level and the University allocates expense to department, divisions, agencies, and component units through the benefit load.

Based on the University's benefit load apportionment Harborview incurred and paid $4.5 million and $5.5 million in fiscal years 2014 and 2013, respectively, related to annual UWRP funding, which is recorded in employee benefits on the statements of revenues, expenses, and changes in net position.

University of Washington Supplemental Retirement Plan (the 401(a) Plan) – The 401(a) Plan provides for a supplemental payment component which guarantees a minimum retirement benefit based upon a one-time calculation at each eligible participant's retirement date. The University makes direct payment to qualifying retirees when the retirement benefits provided by UWRP do not meet the benefit goals.

The University receives an independent actuarial valuation to determine funding needs for the supplemental payment component of UWRP. The funding obligation is determined at the University level and the University allocates expense to departments, divisions, agencies, and component units through the benefit load.

Based on the University's benefit load apportionment Harborview incurred and paid $1.6 million and $2.6 million in fiscal years 2014 and 2013, respectively, related to annual 401(a) Plan funding, which is recorded in employee benefits on the statements of revenues, expenses, and changes in net position.

Other Post-Employment Benefits (OPEB) – All University employees, including medical center employees, are eligible for participation in health care and life insurance programs administered by the WSHCA. Harborview retirees may elect coverage through state health and life insurance plans, for which they pay less than the full cost of the benefits based on their age and other demographic factors.

The Office of the State Actuary determines total OPEB obligations at the State level using individual state employee data, including age, retirement eligibility and length of service. Information to support actuarial calculations at the division, department or component unit level is not available. The State is ultimately responsible for the obligation; therefore, the annual required contribution (ARC) is not recorded at the University or its departments, divisions, agencies or component units.

(10) Related Parties

Harborview has engaged in a number of transactions with related parties. These transactions are recorded by Harborview as either revenue or expense transactions because economic benefits are either provided or received by Harborview. Harborview records cash transfers between Harborview and related parties that are not the result of economic benefits and are presented as nonoperating expenses within the statements of revenues, expenses, and changes in net position.

(a) University of Washington

University divisions provide various levels of support to Harborview. The following is a summary of services purchased.

UW School of Medicine

Harborview purchases a variety of clinical and administrative services from the School. For example, Harborview purchases laboratory services from the School and Harborview pays a portion of residents and faculty salaries for clinical and administrative support at Harborview. Harborview also transfers a portion of its Medicare reimbursement for medical education to the School in support of teaching costs. The amounts paid for these services are shown below (see (c)).

Chief Health System Officer/Vice President of Medical Affairs

The office of the Chief Health System Officer/Vice President of Medical Affairs (VPMA) provides services to Harborview such as news and community relations staffing, medical staff oversight, marketing, information systems and other administrative services. The amounts paid by Harborview for these services are shown below (see (c)).

University of Washington Consolidated Laundry

The University of Washington Consolidated Laundry (the Laundry) provides laundry services to Harborview, UW Medical Center, the Veteran's Administration, Swedish Edmonds, Skagit Valley Hospital, UW, Northwest Hospital, and UWNC.

Harborview purchases laundry services from the Laundry and the amounts purchased are shown below (see (c)).

UW Physicians Network dba UW Neighborhood Clinics

Under an annual agreement between the involved UW Medicine entities, Harborview provides strategic support of approximately 20% and 15% of the Clinic's annual operating loss and capital funding needs for fiscal years 2014 and 2013, respectively. Funding from Harborview to UWNC was $4.4 million and $3.0 million for fiscal years 2014 and 2013, respectively, and is recorded as a nonoperating expense in the statements of revenues, expenses, and changes in net position.

Other Divisions of the University

In addition to the divisions and transactions identified above, Harborview purchases information technology services, general and professional liability insurance, printing, accounting, temporary staffing, and other administrative and operational services. The amounts for these transactions are shown below (see (c)).

(b) King County

The County holds all investment funds on behalf of Harborview. The County also processes all payments to vendors outside of the University divisions. Additional detail describing Harborview's position within the County is provided in note 1.

Harborview has agreed to provide space and services on behalf of the County for certain grants and contracts, for which they receive rental income and grant revenue from the County. Additionally, Harborview has long-term debt contracts with the County in the form of General Obligation Bonds. The terms of these agreements are described in more detail in note 7.

(c) Summary of Related-Party Transactions (in thousands):

Revenue (expense) transactions		2014	2013
Services and supplies purchased from to the University and its departments and affiliates:			
The School	$	(52,898)	(49,467)
VPMA		(8,737)	(8,577)
The Laundry		(3,072)	(3,161)
UW Medical Center		(1,564)	(2,601)
UWP		(1,026)	(266)
Other University divisions and departments		(53,373)	(41,674)
Services provided to the University and its departments and affiliates:			
The School		7,195	7,011
UW Medical Center		1,731	2,127
Services provided to King County		11,461	11,581

Harborview had net amounts (due to) due from related parties for various transactions, which are included in funds held by the University, patient accounts receivable, other receivables, other current assets, accrued salaries, wages and employee benefits, payable to the University, and long-term debt in the accompanying statements of net position. The net amounts (due to) due from related parties as of June 30, 2014 and 2013, respectively are as follows (in thousands):

Net receivable (payable)	2014	2013
The University and its departments and affiliates:		
The School	$ (976)	535
UWP	1,334	235
UW Medical Center	359	480
Airlift	2,061	1,906
Other University divisions and departments	(35,156)	(24,313)
King County	86	109

(11) Commitments and Contingencies

(a) Operating Leases

Harborview leases certain medical office space and equipment under operating lease arrangements. Total rental expense in years ended June 30, 2014 and 2013 for all operating leases was $17.8 million and $17.9 million, respectively.

The following schedule shows future minimum lease payments by fiscal year as of June 30, 2014 (in thousands):

2015	$ 1,666
2016	1,530
2017	845
2018	741
2019	654
2020–2024	778
	$ 6,214

(b) Purchase Commitments

Harborview has current commitments at June 30, 2014 of $21.7 million related to various construction projects, and equipment purchases. Harborview intends to use its unrestricted funds for these commitments.

(c) Regulatory Environment

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not limited to, matters such as licensure,

accreditation, governmental healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government agencies are actively conducting investigations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs, together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that Harborview is in compliance with the fraud and abuse regulations as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions known or unasserted at this time.

(d) Litigation

Harborview is involved in litigation arising in the normal course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect to Harborview's future financial position or results of operations.

(e) Collective Bargaining Agreements

Harborview has a total of approximately 4,475 employees. Of this total, approximately 78% are covered by collective bargaining agreements as of June 30, 2014 and 2013. Nurses are represented by the Service Employees International Union and other healthcare and support workers are represented by the Service Employees International Union and Washington Federation of State Employees. All Harborview collective bargaining agreements expire on June 30, 2015.

(f) Patricia Bracelin Steel Building

The Patricia Bracelin Steel building (PSB) is a five-story building containing 156,800 square feet of office space with related parking. The building is primarily occupied by Harborview. Prior to December 2012, the County leased PSB from Broadway Office Properties (BOP) and instructed Harborview, through County Ordinance, to budget funds, annually, to make rental payments under the lease. The lease agreement with BOP provided the County an option to terminate the lease agreement and purchase the building for total outstanding principal on monthly rent payments beginning on or after December 1, 2012.

In December 2012, the County exercised its option to purchase the building from BOP. To fund the purchase of the building the County issued Limited Tax General Obligation (LGTO) debt. The County has instructed Harborview to budget funds, annually, to be used to fund payments due under the LGTO debt. As the financial obligations of the LGTO debt remains the responsibility of the County, Harborview accounts for these payments as rental expense. Rental expense was approximately $2.8 million and $3.4 million for the years ended June 30, 2014 and 2013, respectively.

(g) Ninth and Jefferson Building

The Ninth & Jefferson Building, a 14-story medical office building with approximately 440,000 square feet, including 13,300 square feet of retail space, and five levels of underground parking, is located at 908 Jefferson Street in Seattle. The building was completed in January 2010 and several Medical Center departments now occupy the building.

On September 28, 2006, the Trustees passed a resolution in support of the Ninth & Jefferson Building under the 63-20 financing model. The building owner and lessor is Ninth & Jefferson Building Properties; however, the land upon which the building is constructed is owned by the County and leased to Ninth & Jefferson Building Properties under a ground lease, dated November 1, 2006. The County has entered into a lease with Ninth & Jefferson Building Properties for the building with a 30-year term. The lease qualifies for capital lease treatment and as such, the building asset and related lease obligation are recorded by the County based upon the terms of the agreement.

The County Council has directed the Trustees to budget funds, annually, to make the rental payments due under the lease. As the financial obligations of the lease remain the responsibility of the County, Harborview accounts for these rental payments as rental expense. Lease expense was approximately $12.7 million for the years ended June 30, 2014 and 2013. If Harborview continues to occupy this space, annual lease expense will not differ significantly from the amount recognized in 2014.

CORRECTIVE ACTION PLAN FOR FINDINGS REPORTED UNDER OMB CIRCULAR A-133

Harborview Medical Center
King County
July 1, 2013 through June 30, 2014

This schedule presents the corrective action planned by the auditee for findings reported in this report in accordance with OMB Circular A-133. The information in this schedule is the representation of the Harborview Medical Center.

Finding ref number: 2014-001	**Finding caption:** The Medical Center did not have adequate controls in place to ensure compliance with federal procurement requirements.
Name, address, and telephone of auditee contact person: Lillen Namba 325 9th Avenue Seattle, WA 98104 (206) 744-9711	
Corrective action the auditee plans to take in response to the finding: *The Medical Center agrees with the recommendation and will be implementing a process to ensure compliance with federal procurement requirements.* *The Grants and Contract Manager will train clinic personnel to correctly document goods and services purchased with federal funds and notify the Purchasing Department of federally funded contracts at the time contracts are signed. The Purchasing Department will train purchasing personnel on proper procedures for transactions paid through federal grants to ensure they are procured in accordance with federal requirements.* *In addition, Finance will send out periodic reminders that grant departments are required to notate purchases made with federal funding in the HEMM purchasing system.*	
Anticipated date to complete the corrective action: July 1, 2015	

HARBORVIEW MEDICAL CENTER
SCHEDULE OF EXPENIDTURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30,2014

Federal CFDA No.	Federal CFDA Title	Pass-Through Grantor	Contract ID	Contract Period	HMC ID	Program Description	Cost Center	Federal Expenditures	Note
Department of Housing and Urban Development									
14.267	Continnum of Care Program	King County Dept. of Public Health	CHS2968 Amd#1	02/01/13 - 01/31/14	18500	Pioneer Square - Respite Program	7862	397,345.78	3
			CHS3546	02/01/14 - 01/31/15				262,274.35	3
						Department of Housing and Urban Development Total		659,620.13	
Department of Justice									
16.575	Crime Victim Assitance	Washington State Dept. of Commerce	14-31110-130 & Amendment B	07/01/13 - 06/30/14	18700	CRC OCVA Crime Victim Serv. Proj.	7812	112,251.49	
			14-31110-131 & Amendment A	07/01/13 - 09/30/13	18600	CRC Core and Prevention Services	7866	15,563.15	
		Washington State Dept. of Commerce	S14-31119-020 A	07/01/13 - 06/30/14	18705	HCSATS Crime Victim Services Proj.	7828	35,739.00	
			S14-31119-019 A	07/01/13 - 09/30/13	18605	CRC OCVA Crime Victim Serv. Proj.	7520	6,337.00	
16.590	SANE Training and Community Assistance Project	Washington State Dept. of Commerce Office of Crime Victims Advocacy	F13-31105-311	10/01/13 - 09/30/16	18717	HCSATS GTEA SANE	7816	14,519.00	
						Department of Justice Total		184,409.64	
Department of Education									
84.126	Rehabilitation Services Vocational Rehabilitation	Washing State Dept. of Social & Health Services	1213-55779	07/01/12 - 06/30/14	15201	Division of Vocational Rehab (DVR)	7240	116,045.00	
						Department of Education Total		116,045.00	
Department of Health & Human Services									
93.136	Crime Victim Assistance	Washington State Dept. of Commerce	14-31110-131 & Amendment A	07/01/13 - 09/30/13	18600	CRC Core and Prevention Services	7866	6,940.97	
			14-31110-130 & Amendment B	07/01/13 - 06/30/14	18700	HCSATS Core and Prevention Services	7812	32,277.00	
	Injury Prevention and Control Research and State and Community Based Programs		13-31110-603	11/01/12 - 10/31/13	18601	CRC - Sexual Assault Prevention	7520	8,377.62	
	Injury Prevention and Control Research and State and Community Based Programs		14-31110-603	11/01/13 - 10/31/14			7816	17,465.70	
93.153	Coordinated Services and Access to Research for Women, Infants, Children, and Youth	King County Dept. of Public Health	N19733	08/01/12 - 07/31/13	18215	Ryan White Part D - Madison	7621	8,835.36	3
			N19733	08/01/12 - 07/31/13		Ryan White Part D - Social Work	7886	9,223.00	3
			N20210	08/01/13 - 07/31/14		Ryan White Part D - Madison	7621	105,987.16	3
			N20210	08/01/13 - 07/31/14		Ryan White Part D - Social Work	7886	110,807.66	3

HARBORVIEW MEDICAL CENTER
SCHEDULE OF EXPENIDTURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30,2014

Federal CFDA No.	Federal CFDA Title	Pass-Through Grantor	Contract ID	Contract Period	HMC ID	Program Description	Cost Center	Federal Expenditures	Note
93.224	Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, Public Housing Primary Care, and School Based Health Concerns)	King County Dept. of Public Health	CHS2968 Amend. #1	02/01/13 - 01/31/14	18510	Pioneer Square - 2nd Ave. Clinic	7461	44,569.67	3
					18515	Pioneer Square - 3rd Ave. Clinic	7464	153,502.48	3
					18505	Pioneer Square - Healthcare for the Homeless	7856	214,201.35	
					18500	Pioneer Square - Respite Program	7862	337,513.92	3
			CHS3512	02/01/14 - 01/31/15	18510	Pioneer Square - 2nd Ave. Clinic	7461	33,103.15	3
					18515	Pioneer Square - 3rd Ave. Clinic	7464	107,120.01	3
					18505	Pioneer Square - Healthcare for the Homeless	7856	155,161.49	
			CHS3546		18500	Pioneer Square - Respite Program	7862	75,260.61	
93.243	Substance Abuse and Mental Health Services Projects of Regional and National Significance	Downtown Emergency Services Ctr.	18541-1014	10/01/10 - 09/30/14	18541	PSQ DESC - SAMHSA	7468	316,234.72	
						PSQ DESC - CHAMMP	7884	63,785.79	
		King County Dept. of Community and Human Services	5505918 - 1	01/01/13 - 12/31/13	18715	HCSATS MIDD Program	7824	450.00	
93.576	Refugee and Entrant Assistance Discretionary Grants	Washington State Dept. of Social & Health Services	1265-40571-04	08/15/13 - 08/14/14	18157	Refugee Health Screening	7874	92,750.00	
93.604	Assistance for Torture Victims	Lutheran Community Services	90ZT0135/01	09/01/12 - 09-29-14	18160	Survivors of Torture	7849	108,422.97	
93.736	Prevention Public Health Fund 2012: Viral Hepatitis Prevention	King County Dept. of Public Health	PREV2816 Amd 1	09/30/13 - 09/29/14	18545	PSQ HEP C Testing and Linkage	7461	13,499.52	
93.737	Community Transformation Grant	Health Care Without Harm	N/A	04/01/13 - 09/30/13	18401	Health Care Without Harm	8321	3,616.00	
93.767	CHIPRA II Grant	Washington State Dept. of Social & Health Services	1312-91451	04/05/13 - 03/31/18	18115	CHIPRA II DSHS Participation Agreemen	8200	8,539.00	
93.778	Medical Assistance Program	Seattle Human Services Department	DA13-1329	01/01/13 - 12/31/13	15450	ADS Gero-Psych Consultations	7226	3,240.00	
			DA14-1329	01/01/14 - 12/31/14				4,387.50	
		King County Dept. of Community & Human Services	5505927	07/01/13 - 12/31/13	15321	Adult OP - DL	7228	1,993.21	
			CHS2968 Amd. 1	04/01/13 - 01/31/14	18500	Respite Program - Access Match	7862	33,440.37	
			1365-72623	07/01/13 - 06/30/16	18100	Interpreter Services	8220	781,127.84	
93.889	National Bioterrorism Hospital Preparedness Program	Washington State Hospital Assn.	N12500	07/01/13 - 06/30/14	18260	ASPR Bioterrorism Prep. Program	7230	2,099.75	
93.914	HIV Emergency Relief Project Grants	King County Dept. of Public Health	PREV3029 Amendment #1	03/01/13 - 02/28/14	18200	Ryan White Part A - Mental Health	7612	49,960.00	3
						Ryan White Part A - Nutrition Therapy	7620	28,235.14	3
						Ryan White Part A - Ambulatory & Outpatient Medical Care	7620	637,303.42	3
						Ryan White Part A - Case Management	7882	697,945.27	3
						Ryan White Part A - MCM MAI	7883	70,721.87	3
						Ryan White Part A - MCM MAI	7883	38,647.93	3
						Ryan White Part A - Med. Transportatic	7883	1,920.00	3
			PREV3530	03/01/14 - 05/31/14		Ryan White Part A - Case Management	7882	259,656.75	3
						Ryan White Part A - MCM MAI	7883	35,057.46	3

HARBORVIEW MEDICAL CENTER
SCHEDULE OF EXPENIDTURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30,2014

Federal CFDA No.	Federal CFDA Title	Pass-Through Grantor	Contract ID	Contract Period	HMC ID	Program Description	Cost Center	Federal Expenditures	Note
93.918	Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	Direct Award	H76HA00198	09/30/92 - 12/31/14	18210	Ryan White Part C	7619	470,597.57	3
93.940	Prevention Activities Health Department Based	Washington State Dept. of Social & Health Services	PREV2909	01/01/13 - 12/31/13	18230	STD Clinic	7529	801,612.06	
				01/01/13 - 12/31/13	18230	STD Clinic - Partner Services	7617	135,725.42	
			PREV3427 Amd 1	01/01/14 - 06/30/14	18230	STD Clinic - Partner Services	7617	109,675.30	
93.958	Block Grants for Community Mental Health Services	Washington State Dept. of Social & Health Services	1365-88711	10/01/13 - 09/30/14	18765	Trauma-Focused Behavioral Therapy	7816	106,320.00	
93.977	Preventative Health Services - Sexually Transmitted Diseases Control Grants	Washington State Dept. of Social & Health Services	PREV2909	01/01/13 - 12/31/13	18230	Syphillis Elimination	7801	75,772.65	
						Surveillance	7838	65,320.15	
			PREV3427 Amd 1	01/01/14 - 12/31/14		Syphillis Elimination	7801	81,674.52	
						Surveillance	7838	4,829.50	

Department of Health & Human Services Total	6,524,908.83
GRAND TOTAL	7,484,983.60
Total Direct Awards	470,597.57
Total Pass-Through Awards	7,014,386.03
GRAND TOTAL	7,484,983.60

Note 1 - Basis of Accounting

This schedule is prepared on the same basis of accounting as Harborview Medical Center's financial statements. Harborview Medical Center uses the accrual method of accounting.

Note 2 - Program Costs

The amounts shown as current year expenditures represent only the federal grant portion of the programs' costs. Entire program costs, including Harborview Medical Center's portion, may be more than shown.

Note 3 - Program Income

This program generates income to cover expenses.

Note 4 - Program Expenses

Expenditures listed under CFDA #93.778 include expenses associated with a prior year date of service as a result of the timing of determining patient eligibility per the contract term requirements. The timelines for billing compliance per the contract allowas for claims to be submitted no later than twelve (12) months following the end of a quarter for whihc claimable amount is being requested.

ABOUT THE STATE AUDITOR'S OFFICE

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

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

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

The results of our work are widely distributed through a variety of reports, which are available on our website and through our free, electronic subscription service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

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