Office of the Washington State Auditor

Pat McCarthy

Financial Statements and Federal Single Audit Report

Harborview Medical Center

King County

For the period July 1, 2014 through June 30, 2016

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Office of the Washington State Auditor
Pat McCarthy

June 29, 2017

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,

Pat McCarthy

State Auditor

Olympia, WA

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Harborview Medical Center
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SECTION I – SUMMARY OF AUDITOR'S RESULTS

The results of our audit of the Harborview Medical Center are summarized below in accordance with Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Financial Statements

We issued an unmodified opinion on the fair presentation of the basic financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP).

Internal Control over Financial Reporting:

- *Significant Deficiencies:* We reported 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 in accordance with 2 CFR 200.516(a).

Identification of Major Federal Programs:

The following programs were selected as major programs in our audit of compliance in accordance with the Uniform Guidance.

CFDA No.	Program or Cluster Title
93.224	Health Center Program (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)
14.267	Continuum of Care Program
93.153	Coordinated Services and Access to Research for Women, Infants, Children, and Youth
93.918	Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by the Uniform Guidance, was $750,000.

The Medical Center did not qualify as a low-risk auditee under the Uniform Guidance.

SECTION II – FINANCIAL STATEMENT FINDINGS

See finding 2016-001 and 2016-002.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

See finding 2016-001 and 2016-002.

SCHEDULE OF FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Harborview Medical Center
King County
July 1, 2015 through June 30, 2016

2016-001 The Medical Center did not have adequate internal controls to ensure compliance with requirements over time and effort, program income and reporting.

CFDA Number and Title:	93.153 – Coordinated Services and Access to Research for Women, Infants, Children and Youth (Ryan White HIV/AIDS Part D)
Federal Grantor Name:	Department of Health & Human Services
Federal Award/Contract Number:	H12HA28849-01-00
Pass-through Entity Name:	NA
Pass-through Award/Contract Number:	NA
Questioned Cost Amount:	$0

Description of Condition

In fiscal year 2016, Harborview Medical Center spent $1,002,051 in federal funds under the Ryan White HIV/AIDS Part D program. The program provides high-quality, early intervention services and primary care related to human immunodeficiency virus (HIV) and acquired immune deficiency syndrome (AIDS). Specifically, Part D program funds improve access to primary medical care, research and support services for women and children with HIV and AIDS. The Medical Center used these funds to provide program services at its Madison Clinic (Clinic).

Federal regulations require recipients of federal money to establish and follow internal controls to ensure compliance with program requirements. These controls include knowledge of grant requirements and monitoring of program controls. We found the Medical Center's internal controls were not adequate to ensure compliance with the following requirements:

Program Income

Program income is gross income earned that is generated by activities supported by the Ryan White HIV/AIDS Part D award, which includes service charges and third-party reimbursement payments for services performed. The program regulations require grant recipients to add the income generated by grant activities to the federal award amount. Program income must be used for program purposes and is subject to the same conditions as the federal award.

The Medical Center did not have a process in place to track and monitor income generated from the Ryan White HIV/AIDS Part D program separately from other programs and activities at the Clinic.

We consider this control deficiency a material weakness. This issue was not reported as a finding in the prior audit.

Reporting

Recipients of the Ryan White HIV/AIDS Part D program must report program income to the grantor on quarterly reports and the annual Federal Financial Report (FFR). The Medical Center reported $0 of program income on all quarterly reports for the grant program; however, it generated and reported an annual program income of $714,824 on the annual FFR it submitted to the grantor.

We consider this control deficiency a material weakness. This issue was not reported as a finding in the prior audit.

Time and Effort

The Medical Center used program income to pay for salaries and benefits of Clinic employees. We audited the Medical Center's internal controls over payroll to determine whether salaries and benefits paid with program income were adequately supported by time and effort documentation as federal regulations require. The Medical Center must ensure salaries and benefits charged to the program are based on records that accurately reflect the actual work performed, and must include a review process to verify hours reported are equal to actual hours worked and billed.

A portion of the employees who worked at the Clinic were faculty staff members. Faculty staff time charged to the Clinic is based on schedules, which are programmed into the timekeeping payroll system and automatically charged to the Clinic monthly. There is no process to verify that the amount charged reflects actual time worked by faculty at the Clinic before it is charged, therefore this does not satisfy the federal time and effort requirements The Clinic Manager reviews overall Clinic charges to verify that payroll costs appear accurate; however, this

review is not documented. As a result, our audit identified faculty staff members whose payroll costs were charged to the Clinic, and the Medical Center did not have adequate records to demonstrate a review of payroll costs was completed.

We consider the control deficiency a material weakness. This issue was not reported as a finding in the prior audit.

Schedule of Expenditures of Federal Awards

Medical Center management, the state Legislature, state and federal agencies and bondholders rely on the information included in financial statements and supplemental schedules to make decisions. Every local government in Washington that spends federal funds must prepare a Schedule of Expenditures of Federal Awards (SEFA) as part of its annual financial report. Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards (Uniform Guidance) requires grantees to identify, in their accounts, all Federal program awards received and expended and to report all Federal program awards expended on the SEFA each fiscal year. When program income is spent, it must be reported on the SEFA.

Medical Center management is responsible for designing and following internal controls that provide reasonable assurance regarding the reliability of financial reporting. Our audit identified a significant deficiency in internal controls over financial reporting that affects the Medical Center's ability to produce an accurate SEFA. The Medical Center earned program income of $714,824 during fiscal year 2016 and did not report the program income on its SEFA.

This issue was not reported as a finding in the prior audit.

Cause of Condition

Program Income and Reporting

The Medical Center was unaware of the grant requirement to record program income received by funding source. Instead, the Medical Center used a single cost center to record all program income received and used for operations at the Clinic. The Clinic operates multiple programs from various funding sources; however, the program income and related expenses are not tracked by funding source. The Medical Center's method of tracking program income does not provide an adequate level of detail to identify the source and use of the program income for federally funded activities. Therefore, the Medical Center was not able to determine the amount of program income to include on the quarterly reports and did not report this information to the grantor.

Time and Effort

The Medical Center was unaware that payroll costs paid with program income generated while administering federal programs would be subject to the same federal time and effort requirements as other program expenses reimbursed with federal funds.

Schedule of Federal Awards

The Medical Center was unaware it needed to add program income used during the fiscal year to the SEFA, as the grant agreement required. The Medical Center was unaware of the requirement due to lack of training over program requirements.

Effect of Condition and Questioned Costs

Program Income

Without proper monitoring and tracking of program income, federal grantors cannot be assured that program income is used for allowable grant activities. The Medical Center was unable to identify income specifically generated by each program or expenses paid with the income. As a result of our audit, the Medical Center determined the Ryan White HIV/AIDS Part D program generated $714,824 in program income during fiscal year 2016. The Medical Center provided documentation that demonstrates program income was used for allowable grant activities. As a result, we are not questioning costs.

Reporting

Because the Medical Center does not properly track program income, it did not report program income on the quarterly reports submitted to the grantor. The contract between the Medical Center and the awarding agency states that failure to comply with reporting requirements may result in deferral or additional restrictions of future funding decisions.

Time and Effort

Because the Medical Center was unaware of time and effort documentation requirements for expenditures paid for with program income, it did not have sufficient internal controls to ensure payroll charges are for time actually worked at the Madison Clinic for all employees.

Of all expenditures recorded by the Clinic, we found that 92 percent related to payroll charges. Salary and benefit costs charged to the Clinic represented employee charges for multiple funding sources. Because the Medical Center does not track program income by funding source, it was unable to determine the

payroll costs paid specifically from income generated by Ryan White HIV/AIDS Part D program. We tested payroll line items charged to the Clinic and determined the Medical Center completed time and effort documentation for the employees charged directly to the grant; however, time and effort was not completed for all employees working at the Clinic whose costs were paid for with program income.

Without documenting its review of all payroll charges to the Clinic, the Medical Center cannot demonstrate to the awarding agency that all payroll costs are accurate. However, we were able to obtain patient visit and coordination documentation to demonstrate that the employees tested performed services within the program. As a result, we are not questioning these costs.

Schedule of Expenditures of Federal Awards

During our audit, we found the Medical Center did not include $714,824 in program income expenditures for the Ryan White HIV/AIDS Part D program on the SEFA. The Medical Center subsequently corrected the SEFA.

Inaccurate financial reports limit the ability of Medical Center management, the public, state and federal agencies, and other governments and interested parties to have a clear understanding of the program activities. Inaccurate financial reports can also delay the audit process and increase audit costs.

As a result of this significant misstatement, total program expenditures increased and created a new major program that required an audit. The understatement of expenditures could have caused the Medical Center to not meet the required federal audit coverage.

Recommendations

We recommend the Medical Center train program staff and establish and follow internal control processes to:

- Monitor and track federal program income separately by funding sources to ensure program income is used in accordance with program requirements.
- Accurately report program income to the grantor in all required reports and financial schedules.
- Meet all federal time and effort documentation requirements to support payroll costs charged to grants.
- Ensure employees responsible for preparing and reviewing the SEFA understand reporting requirements outlined in Uniform Guidance.

Medical Center's Response

In August 2016, prior to the state auditors' arrival, the Medical Center implemented a process to monitor and track program income for the Ryan White Part D program as a result of the Health Resources and Services Administration (HRSA) on-site review of the Ryan White Part C and Part D programs. This process will help ensure that the Medical Center is accurately reporting program income to the grantor in all required reports and financial schedules.

The Medical Center will require all staff paid with federal funds, as well as those paid with program income generated while administering federal programs, to complete time and effort certifications to ensure federal time and effort documentation requirements are met.

Lastly, the Medical Center will ensure that employees responsible for preparing and reviewing the SEFA receive proper training so they understand the reporting requirements outlined in the Uniform Guidance.

Auditor's Remarks

We thank the Medical Center for its cooperation and assistance throughout the audit. We will review the status of the Medical Center's corrective action during our next audit.

Applicable Laws and Regulations

Title 45 Code of Federal Regulations, Section 75.302 – Financial management and standards for financial management systems, states:

> (b) The financial management system of each non-Federal entity must provide for the following (see also §§75.361, 75.362, 75.363, 75.364, and 75.365):
>
> > (1) Identification, in its accounts, of all Federal awards received and expended and the Federal programs under which they were received. Federal program and Federal award identification must include, as applicable, the CFDA title and number, Federal award identification number and year, name of the HHS awarding agency, and name of the pass-through entity, if any.
> >
> > (2) Accurate, current, and complete disclosure of the financial results of each Federal award or program in accordance with the reporting requirements set forth in §§75.341 and 75.342. If an HHS awarding agency requires

reporting on an accrual basis from a recipient that maintains its records on other than an accrual basis, the recipient must not be required to establish an accrual accounting system. This recipient may develop accrual data for its reports on the basis of an analysis of the documentation on hand. Similarly, a pass-through entity must not require a subrecipient to establish an accrual accounting system and must allow the subrecipient to develop accrual data for its reports on the basis of an analysis of the documentation on hand.

(3) Records that identify adequately the source and application of funds for federally-funded activities. These records must contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, expenditures, income and interest and be supported by source documentation.

Title 45 Code of Federal Regulations, Section 75.305 – Payment, states in part:

(b)(5) Use of resources before requesting cash advance payments. To the extent available, the non-Federal entity must disburse funds available from program income (including repayments to a revolving fund), rebates, refunds, contract settlements, audit recoveries, and interest earned on such funds before requesting additional cash payments.

Title 45 Code of Federal Regulations, Section 75.307 – Program income, states in part:

(e)(2) *Addition.* With prior approval of the HHS awarding agency (except for IHEs and nonprofit research institutions, as described in paragraph (e) of this section), program income may be added to the Federal award by the Federal agency and the non-Federal entity. The program income must be used for the purposes and under the conditions of the Federal award.

Contract award number H12HA8849-01-00 states the following reporting requirements:

1. Submit an Allocation Report within 60 days after the start of the budget period.

2. Submit an expenditure report

3. The grantee must submit an annual Federal Financial Report (FFR). The report should reflect cumulative reporting within the project period and must be submitted using the Electronic Handbooks (EHBs). The FFR due dates have been aligned with the Payment Management System quarterly report due dates and will be 90, 120 or 150 days after the budget period end date.

Title 2 Code of Federal Regulations, Section 200.516 – Audit findings, states in part:

> (a) Audit findings reported. The auditor must report the following as audit findings in a schedule of findings and questioned costs:
>
> (1) Significant deficiencies and material weaknesses in internal control over major programs and significant instances of abuse relating to major programs. The auditor's determination of whether a deficiency in internal control is a significant deficiency or material weakness for the purpose of reporting an audit finding is in relation to a type of compliance requirement for a major program identified in the Compliance Supplement.
>
> (2) Material noncompliance with the provisions of Federal statutes, regulations, or the terms and conditions of Federal awards related to a major program. The auditor's determination of whether a noncompliance with the provisions of Federal statutes, regulations, or the terms and conditions of Federal awards is material for the purpose of reporting an audit finding is in relation to a type of compliance requirement for a major program identified in the compliance supplement.

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

> 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 Accounts defines significant deficiencies and material weaknesses in its Codification of Statements on Auditing Standards section 265 as follows:

> Material weakness. A deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A reasonably possibility exists when the likelihood of an event occurring is either reasonably possible or probably as defined as follows:
>
> > Reasonably possible. The chance of the future event or events occurring is more than remote but less than likely.
> >
> > Probable. The future event or events are likely to occur.
>
> Significant deficiency. A deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

Title 2 Code of Federal Regulations, Section 200.502 – Basis for determining Federal awards expended, states in part:

> (a) *Determining Federal awards expended.* The determination of when a Federal award is expended must be based on when the activity related to the Federal award occurs. Generally, the activity pertains to events that require the non-Federal entity to comply with Federal statutes, regulations, and the terms and conditions of Federal awards, such as: expenditure/expense transactions associated with awards including grants, cost-reimbursement contracts under the FAR, compacts with Indian Tribes, cooperative agreements, and direct

> appropriations; the disbursement of funds to subrecipients; the use of loan proceeds under loan and loan guarantee programs; the receipt of property; the receipt of surplus property; the receipt or use of program income; the distribution or use of food commodities; the disbursement of amounts entitling the non-Federal entity to an interest subsidy; and the period when insurance is in force.

Title 2 Code of Federal Regulations, Section 200.510 – Financial statements, states in part:

> (b) *Schedule of expenditures of Federal awards.* The auditee must also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements which must include the total Federal awards expended as determined in accordance with §200.502 Basis for determining Federal awards expended. While not required, the auditee may choose to provide information requested by Federal awarding agencies and pass-through entities to make the schedule easier to use. For example, when a Federal program has multiple Federal award years, the auditee may list the amount of Federal awards expended for each Federal award year separately.

SCHEDULE OF FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Harborview Medical Center
King County
July 1, 2015 through June 30, 2016

2016-002 The Medical Center did not have adequate internal controls to ensure compliance with requirements over time and effort, program income and reporting.

CFDA Number and Title:	93.918 – Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease (Ryan White HIV/AIDS Part C)
Federal Grantor Name:	Department of Health & Human Services
Federal Award/Contract Number:	H76HA00198-23-00 H76HA00198-24-00
Pass-through Entity Name:	NA
Pass-through Award/Contract Number:	NA
Questioned Cost Amount:	$0

Description of Condition

In fiscal year 2016, Harborview Medical Center spent about $1.66 million in federal funds under the Ryan White HIV/AIDS Part C program. The program provides high-quality, early intervention services and primary care related to human immunodeficiency virus (HIV) and acquired immune deficiency syndrome (AIDS). Specifically, Part C funds provide a continuum of HIV prevention for at-risk individuals, and care for individuals who are HIV-infected. The Medical Center uses these funds to provide program services at its Madison Clinic (Clinic).

Federal regulations require recipients of federal money to establish and follow internal controls to ensure compliance with program requirements. These controls include knowledge of grant requirements and monitoring of program controls. We found the Medical Center's internal controls were not adequate to ensure compliance with the following requirements:

Program Income

Program income is gross income earned that is generated by activities supported by the Ryan White HIV/AIDS Part C award, which includes service charges and third-party reimbursement payments for services performed. The program regulations require grant recipients to add the income generated by grant activities to the federal award amount. Program income must be used for program purposes and is subject to the same conditions as the federal award.

The Medical Center did not have a process in place to track and monitor income generated from the Ryan White HIV/AIDS Part C program separately from other programs and activities at the Clinic.

We consider this control deficiency a material weakness. This issue was not reported as a finding in the prior audit.

Reporting

Recipients of the Ryan White HIV/AIDS Part C program must report program income to the grantor on quarterly reports and the annual Federal Financial Report (FFR). The Medical Center reported $0 of program income on all quarterly reports for the grant program; however, it generated an annual program income of about $1.2 million. In the annual FFR submitted to the grantor, the Medical Center reported program income of $2.1 million, representing program income for the Madison Clinic as a whole.

We consider this control deficiency a material weakness. This issue was not reported as a finding in the prior audit.

Time and Effort

The Medical Center used program income to pay for salaries and benefits of Clinic employees. We audited the Medical Center's internal controls over payroll to determine whether salaries and benefits paid with program income were adequately supported by time and effort documentation as federal regulations require. The Medical Center must ensure salaries and benefits charged to the program are based on records that accurately reflect the actual work performed, and must include a review process to verify hours reported are equal to actual hours worked and billed.

A portion of the employees who worked at the Clinic were faculty staff members. Faculty staff time charged to the Clinic is based on schedules, which are programmed into the timekeeping payroll system and automatically charged to the Clinic monthly. There is no process to verify that the amount charged reflects actual time worked by faculty at the Clinic before it is charged, therefore this does

not satisfy the federal time and effort requirements The Clinic Manager reviews overall Clinic charges to verify that payroll costs appear accurate: however, this review is not documented. As a result, our audit identified faculty staff whose payroll costs were charged to the Clinic, and the Medical Center did not have adequate records to demonstrate a review of payroll costs was completed.

We consider the control deficiency a material weakness. This issue was not reported as a finding in the prior audit.

Schedule of Expenditures of Federal Awards

Medical Center management, the state Legislature, state and federal agencies and bondholders rely on the information included in financial statements and supplemental schedules to make decisions. Every local government in Washington that spends federal funds must prepare a Schedule of Expenditures of Federal Awards (SEFA) as part of its annual financial report. Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards (Uniform Guidance) requires grantees to identify, in their accounts, all federal program awards received and expended and to report all federal program awards expended on the SEFA each fiscal year. When program income is spent, it must be reported on the SEFA.

Medical Center management is responsible for designing and following internal controls that provide reasonable assurance regarding the reliability of financial reporting. Our audit identified a significant deficiency in internal controls over financial reporting that affects the Medical Center's ability to produce an accurate SEFA. The Medical Center earned program income of about $1.2 million during fiscal year 2016 and did not report it on its SEFA.

This issue was not reported as a finding in the prior audit.

Cause of Condition

Program Income and Reporting

The Medical Center was unaware of the grant requirement to record program income received by funding source. Instead, the Medical Center used a single cost center to record all program income received and used for Clinic operations. The Clinic operates multiple programs from various funding sources; however, the program income and related expenses are not tracked by funding source. The Medical Center's method of tracking program income does not provide an adequate level of detail to identify the program income's source and use for federally funded activities. Therefore, the Medical Center was not able to

determine the amount of program income to include on the quarterly reports and did not report this information to the grantor.

Time and Effort

The Medical Center was unaware that payroll costs paid with program income generated while administering federal programs would be subject to the same federal time and effort requirements as other program expenses reimbursed with federal funds.

Schedule of Expenditures of Federal Awards

The Medical Center was unaware it needed to add program income used during the fiscal year to the SEFA, as the grant agreement required. The Medical Center was unaware of the requirement due to lack of training over program requirements.

Effect of Condition and Questioned Costs

Program Income

Without proper monitoring and tracking of program income, federal grantors cannot be assured that program income is used for allowable grant activities. The Medical Center was unable to identify income specifically generated by each program or expenses paid with the income. As a result of our audit, the Medical Center determined the Ryan White HIV/AIDS Part C program generated about $1.2 million in program income during fiscal year 2016. The Medical Center provided documentation that demonstrates program income was used for allowable grant activities. As a result, we are not questioning costs.

Reporting

Because the Medical Center does not properly track program income, it did not report program income on the quarterly reports and reported more program income than earned on the annual report submitted to the grantor. The contracts between the Medical Center and the awarding agency state that failure to comply with reporting requirements may result in deferral or additional restrictions of future funding decisions.

Time and Effort

Because the Medical Center was unaware of the time and effort documentation requirements for expenditures paid for with program income, it did not have sufficient internal controls to ensure payroll charges are for time actually worked at the Clinic for all employees.

Of all expenditures recorded by the Clinic, we found that 92 percent related to payroll charges. Salary and benefit costs charged to the Clinic represented employee charges for multiple funding sources. Because the Medical Center does not track program income by funding source, it was unable to determine the payroll costs paid specifically from income generated by Ryan White HIV/AIDS Part C program. We tested payroll line items charged to the Clinic and determined the Medical Center completed time and effort documentation for the employees charged directly to the grant; however, time and effort documentation was not completed for all employees working at the Clinic whose costs were paid for with program income.

Without documenting its review of all payroll charges to the Clinic, the Medical Center cannot demonstrate to the awarding agency that all payroll costs are accurate. However, we were able to obtain patient visit and coordination documentation to demonstrate the employees tested performed services within the program. As a result, we are not questioning these costs.

Schedule of Expenditures of Federal Awards

During our audit, we found the Medical Center did not include $1.2 million in program income expenditures for the Ryan White HIV/AIDS Part C program on the SEFA. The Medical Center subsequently corrected the SEFA.

Inaccurate financial reports limit the ability of Medical Center management, the public, state and federal agencies, and other governments and interested parties to have a clear understanding of the program activities. Inaccurate financial reports can also delay the audit process and increase audit costs.

As a result of this significant misstatement, total program expenditures increased and created a new major program that required an audit. The understatement of expenditures could have caused the Medical Center to not meet the required federal audit coverage.

Recommendations

We recommend the Medical Center train program staff and establish and follow internal control processes to:

- Monitor and track federal program income separately by funding sources to ensure program income is used in accordance with program requirements.
- Accurately report program income to the grantor in all required reports and financial schedules.

- Meet all federal time and effort documentation requirements to support payroll costs charged to grants.

- Ensure employees responsible for preparing and reviewing the SEFA understand reporting requirements outlined in Uniform Guidance.

Medical Center's Response

In August 2016, prior to the state auditors' arrival, the Medical Center implemented a process to monitor and track program income for the Ryan White Part D program as a result of the Health Resources and Services Administration (HRSA) on-site review of the Ryan White Part C and Part D programs. This process will help ensure that the Medical Center is accurately reporting program income to the grantor in all required reports and financial schedules.

The Medical Center will require all staff paid with federal funds, as well as those paid with program income generated while administering federal programs, to complete time and effort certifications to ensure federal time and effort documentation requirements are met.

Lastly, the Medical Center will ensure that employees responsible for preparing and reviewing the SEFA receive proper training so they understand the reporting requirements outlined in the Uniform Guidance.

Auditor's Remarks

We thank the Medical Center for its cooperation and assistance throughout the audit. We will review the status of the Medical Center's corrective action during our next audit.

Applicable Laws and Regulations

Title 45 Code of Federal Regulations, Section 75.302 – Financial management and standards for financial management systems, states in part:

> (b) The financial management system of each non-Federal entity must provide for the following (see also §§75.361, 75.362, 75.363, 75.364, and 75.365):
>
> > (1) Identification, in its accounts, of all Federal awards received and expended and the Federal programs under which they were received. Federal program and Federal award identification must include, as applicable, the CFDA title and number, Federal award identification number and

year, name of the HHS awarding agency, and name of the pass-through entity, if any.

(2) Accurate, current, and complete disclosure of the financial results of each Federal award or program in accordance with the reporting requirements set forth in §§75.341 and 75.342. If an HHS awarding agency requires reporting on an accrual basis from a recipient that maintains its records on other than an accrual basis, the recipient must not be required to establish an accrual accounting system. This recipient may develop accrual data for its reports on the basis of an analysis of the documentation on hand. Similarly, a pass-through entity must not require a subrecipient to establish an accrual accounting system and must allow the subrecipient to develop accrual data for its reports on the basis of an analysis of the documentation on hand.

(3) Records that identify adequately the source and application of funds for federally-funded activities. These records must contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, expenditures, income and interest and be supported by source documentation.

Title 45 Code of Federal Regulations, Section 75.305 – Payment, states in part:

(b)(5) Use of resources before requesting cash advance payments. To the extent available, the non-Federal entity must disburse funds available from program income (including repayments to a revolving fund), rebates, refunds, contract settlements, audit recoveries, and interest earned on such funds before requesting additional cash payments.

Title 45 Code of Federal Regulations, Section 75.307 – Program income, states in part:

(e)(2) *Addition.* With prior approval of the HHS awarding agency (except for IHEs and nonprofit research institutions, as described in paragraph (e) of this section), program income may be added to the Federal award by the Federal agency and the non-Federal entity. The program income must be used for the purposes and under the conditions of the Federal award.

Contract award numbers 6H76HA00198-23-01 and 6H76HA00198-24-01 state the following reporting requirements:

> 4. Submit a Ryan White HIV/AID Program Expenditure Report
>
> 5. Submit the Ryan White Services Report (RSR) which consists of recipient, service provider, and patient level reports for the calendar year via the EHBs
>
> 6. The grantee must submit an annual Federal Financial Report (FFR). The report should reflect cumulative reporting within the project period and must be submitted using the Electronic Handbooks (EHBs). The FFR due dates have been aligned with the Payment Management System quarterly report due dates and will be 90, 120 or 150 days after the budget period end date.

Title 2 Code of Federal Regulations, Section 200.516 – Audit findings, states in part:

> (b) Audit findings reported. The auditor must report the following as audit findings in a schedule of findings and questioned costs:
>
> (1) Significant deficiencies and material weaknesses in internal control over major programs and significant instances of abuse relating to major programs. The auditor's determination of whether a deficiency in internal control is a significant deficiency or material weakness for the purpose of reporting an audit finding is in relation to a type of compliance requirement for a major program identified in the Compliance Supplement.
>
> (2) Material noncompliance with the provisions of Federal statutes, regulations, or the terms and conditions of Federal awards related to a major program. The auditor's determination of whether a noncompliance with the provisions of Federal statutes, regulations, or the terms and conditions of Federal awards is material for the purpose of reporting an audit finding is in relation to a type of compliance requirement for a major program identified in the compliance supplement.

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

> 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 Accounts defines significant deficiencies and material weaknesses in its Codification of Statements on Auditing Standards section 265 as follows:

> Material weakness. A deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A reasonably possibility exists when the likelihood of an event occurring is either reasonably possible or probably as defined as follows:
>
> > Reasonably possible. The chance of the future event or events occurring is more than remote but less than likely.
> >
> > Probable. The future event or events are likely to occur.
> >
> > Significant deficiency. A deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

Title 2 Code of Federal Regulations, Section 200.502 – Basis for determining Federal awards expended, states in part:

(a) *Determining Federal awards expended.* The determination of when a Federal award is expended must be based on when the activity related to the Federal award occurs. Generally, the activity pertains to events that require the non-Federal entity to comply with Federal statutes, regulations, and the terms and conditions of Federal awards, such as: expenditure/expense transactions associated with awards including grants, cost-reimbursement contracts under the FAR, compacts with Indian Tribes, cooperative agreements, and direct appropriations; the disbursement of funds to subrecipients; the use of loan proceeds under loan and loan guarantee programs; the receipt of property; the receipt of surplus property; the receipt or use of program income; the distribution or use of food commodities; the disbursement of amounts entitling the non-Federal entity to an interest subsidy; and the period when insurance is in force.

Title 2 Code of Federal Regulations, Section 200.510 – Financial statements, states in part:

(b) *Schedule of expenditures of Federal awards.* The auditee must also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements which must include the total Federal awards expended as determined in accordance with §200.502 Basis for determining Federal awards expended. While not required, the auditee may choose to provide information requested by Federal awarding agencies and pass-through entities to make the schedule easier to use. For example, when a Federal program has multiple Federal award years, the auditee may list the amount of Federal awards e

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Harborview Medical Center
King County
July 1, 2015 through June 30, 2016

This schedule presents the status of federal findings reported in prior audit periods. The status listed below is the representation of the Harborview Medical Center. The State Auditor's Office has reviewed the status as presented by the Medical Center.

Audit Period:	**Report Ref. No:**	**Finding Ref. No:**	**CFDA Number(s):**
7/1/14 – 6/30/15	1016384	2015-001	93.778

Federal Program Name and Granting Agency:	**Pass-Through Agency Name:**
Medical Assistance Program, Department of Health and Human Services	Seattle Human Services Department, Washington State Health Care Authority, Washington State Department of Social and Health Services

Finding Caption:

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

Background:

In fiscal year 2015, the Medical Center received $1,336,959 in federal funds for its Medical Assistance Program. Of this amount, $1,330,067 funded the Interpreter Services Program which provides interpreter services to limited English proficiency Medicaid clients. The Medical Center contracted with eight interpreting agencies to provide services for approximately $417,000. The Medical Center must follow federal procurement requirements when selecting the service agency.

We reported a finding in the prior audit related to the Medical Center's noncompliance with federal procurement requirements. After our audit report was issued, the Medical Center implemented procedures to comply with federal procurement requirements; however, the interpreter services contracts in place during the 2015 audit period were entered into in 2011, before the prior year's audit recommendation.

Status of Corrective Action:

☒ Fully Corrected ☐ Partially Corrected ☐ Not Corrected ☐ Finding is considered no longer valid

Corrective Action Taken:

As mentioned in the auditor's finding, the Medical Center was made aware of the noncompliance with federal procurement requirements in March 2015 of the prior year's audit. Procedures to comply with these requirements were implemented immediately following the notification; however, the interpreter services contracts reviewed in the FY15 audit were entered into before the recommendation was made and the Medical Assistance Program that provided federal funds ended in April 2015. In addition, the Medical Center will be reviewing all existing federal grants that include funding for goods and services to ensure compliance with federal procurement requirements.

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
July 1, 2014 through June 30, 2016

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, 2016 and 2015, 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 June 19, 2017.

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.

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

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. We consider the deficiencies described in the accompanying Schedule of Federal Awards Findings and Questioned Costs as Findings 2016-001 and 2016-002 to be significant deficiencies.

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*.

MEDICAL CENTER'S RESPONSE TO FINDINGS

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

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

Pat McCarthy

State Auditor

Olympia, WA

June 19, 2017

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE UNIFORM GUIDANCE

Harborview Medical Center
King County
July 1, 2015 through June 30, 2016

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) Compliance Supplement* that could have a direct and material effect on each of the Medical Center's major federal programs for the year ended June 30, 2016. The Medical Center's major federal programs are identified in the accompanying Schedule of Federal Awards Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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, 2016.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Federal Award Findings and Questioned Costs as Findings 2016-001 and 2016-002. 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 Award 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 the Uniform Guidance, 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.

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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section 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. We identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Federal Award Findings and Questioned Costs as Findings 2016-001 and 2016-002 to be material weaknesses.

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 Award 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 the Uniform Guidance. 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.

Pat McCarthy

State Auditor

Olympia, WA

June 19, 2017

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Harborview Medical Center
King County
July 1, 2014 through June 30, 2016

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, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Medical Center's basic financial statements as listed on page 38.

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

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

considers internal control relevant to the 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 opinions.

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, 2016 and 2015, 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.

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 39 through 49 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 opinions 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 Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). 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 June 19, 2017 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.

Pat McCarthy

State Auditor

Olympia, WA

June 19, 2017

FINANCIAL SECTION

Harborview Medical Center
King County
July 1, 2014 through June 30, 2016

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2016 and 2015

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2016 and 2015
Statement of Revenues, Expenses and Changes in Net Position – 2016 and 2015
Statement of Cash Flows – 2016 and 2015
Notes to Financial Statements – 2016 and 2015

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards and Notes – 2016 and 2015

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

Management's Discussion and Analysis

June 30, 2016 and 2015

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, 2016 and 2015. 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 owned by King County, governed by a county-appointed board of trustees and managed by the University of Washington (the University) through a Hospital Services Agreement. Harborview is part of UW Medicine, which also includes: University of Washington Medical Center (UW Medical Center), Northwest Hospital & Medical Center (Northwest Hospital), Valley Medical Center (VMC), UW Neighborhood Clinics (UWNC), UW Physicians (UWP), the UW School of Medicine (the School), and Airlift Northwest (Airlift).

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 and funding to affiliates. These statements provide meaningful information on where Harborview's cash was generated and what it was used for.

Results of Operations for Fiscal Year 2016

Harborview reported operating income of $49.3 million and an increase in net position of $21.4 million for the year ended June 30, 2016 compared to operating income of $61.2 million and increase in net position of $35.2 million for the year ended June 30, 2015. The positive net income in 2016 can primarily be attributed to higher inpatient acuity, trauma volume and increased outpatient volumes in the operating room, specialty clinics, and pharmacy. Other factors contributing to the positive financial results in both fiscal years 2016 and 2015 includes a focus on expenses and successful process improvement initiatives in the areas of revenue cycle and supply chain management.

For the year ended June 30, 2015, Harborview reported operating income of $61.2 million and increase in net position of $35.2 million compared to the reported operating loss of $0.8 million and a decrease in net position of $6.8 million for the year ended June 30, 2014. The positive net income in 2015 can primarily be attributed to higher volume of inpatient surgical cases, outpatient pharmacy revenue, higher acuity, and additional reimbursement that resulted from previously uninsured patients being eligible for Medicaid under Medicaid expansion.

	2016	2015	2014
		(In thousands)	
Total operating revenues	$ 964,313	929,889	814,652
Total operating expenses	915,047	868,697	815,436
Income (loss) from operations	49,266	61,192	(784)
Investment income, net	2,715	1,823	2,670
Other, net	(35,029)	(26,509)	(9,016)
Nonoperating expenses	(32,314)	(24,686)	(6,346)
Income (loss) before capital contributions and other	16,952	36,506	(7,130)
Other changes in net position	4,451	(1,257)	328
Increase (decrease) in net position	21,403	35,249	(6,802)
Net position, beginning of year	650,916	615,667	622,469
Net position, end of year	$ 672,319	650,916	615,667

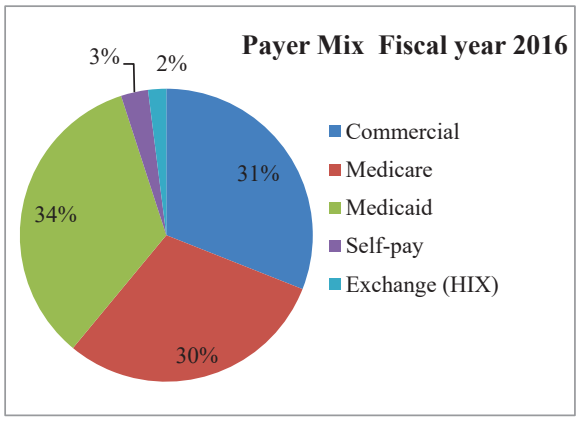
The following table presents Harborview's key performance indicators for June 30, 2016, 2015, and 2014:

	2016	2015	2014
Available beds	413	413	413
Admissions	16,969	17,362	17,176
Patient days	144,140	138,214	132,284
Average length of stay	8.5	8.0	7.7
Occupancy	96%	92%	88%
Case mix index (CMI)	2.228	2.150	2.100
Surgery cases	16,291	16,280	15,938
Emergency room visits	59,776	62,217	64,512
Primary care clinic visits	84,374	81,968	83,148
Specialty care clinic visits	168,061	165,647	164,201
Full-time equivalents (FTEs)	4,401	4,476	4,475
Trauma cases	6,412	6,190	5,888

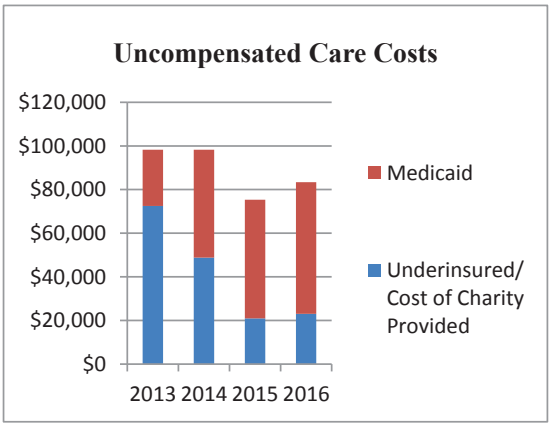
Total Operating Revenues

Total operating revenues consists primarily of net patient service revenues, state appropriations, 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 revenue. Other operating revenues comprise hospital-related revenues such as grant, contract pharmacy revenue, as well as parking and cafeteria revenues.



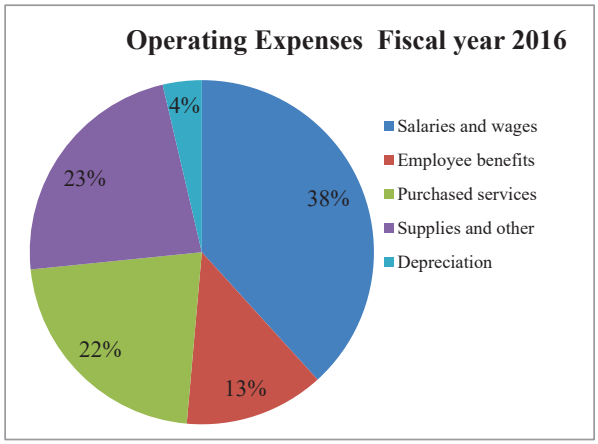
Harborview's payer mix is a key factor in the overall financial operating results. The chart to the left illustrates payer mix for 2016. For the years ended June 30, 2016 and 2015, Medicaid revenue represented 34% and 33%, Commercial revenue represented 31% and 33%, and Exchange revenue represented 2% and 1%, respectively. Medicare and self-pay revenue represented 30% and 3%, respectively, for both fiscal years.



As a result of the Affordable Care Act, Harborview experienced a decrease in uninsured patients after January 1, 2014 as many patients who were previously self-pay now qualify for Medicaid coverage. However, Harborview has seen a corresponding increase in uncompensated costs related to providing care to Medicaid patients. The table to the right shows the shift in uncompensated care costs from charity care to Medicaid.

Reimbursement from governmental payers is generally below commercial rates and reimbursement rules are complex and subject to both interpretation and settlements. Harborview has higher government revenues which are subject to settlements as a result of Medicaid being the largest payer.

For the years ended June 30, 2016, 2015, and 2014, Harborview's total operating revenues were $964.3 million, $929.9 million, and $814.7 million, which was composed of $887.5 million, $858.8 million, and $747.9 million in net patient service revenues and $76.8 million, $71.0 million, and $66.8 million of other operating revenues, respectively. The increase in operating revenues for fiscal year 2016 was driven by higher case acuity, and an increase in contract pharmacy and safety net revenue. The increase in fiscal year 2015 was driven by an increase in net patient service revenues as a result of higher case acuity, greater volumes, and favorable payer mix.



Total Operating Expenses

Total operating expenses were $915.0 million for fiscal year 2016 compared to $868.7 million for fiscal year 2015 and $815.4 million for fiscal year 2014. The composition of fiscal year 2016 operating expenses is illustrated in the chart to the left.

Salaries and wages increased $6.6 million from $343.5 million in fiscal year 2015 to $350.1 million in fiscal year 2016. The increase in salaries and wages in the current year is primarily attributed to patient care labor associated with higher than anticipated occupancy and employee merit increases.

Salaries and wages increased $16.4 million from $327.1 million in fiscal year 2014 to $343.5 million in fiscal year 2015. The increase in salaries and wages in fiscal year 2015 is primarily attributed to patient care labor associated with higher than anticipated occupancy, employee merit increases, and compensated absence accruals.

Employee benefits increased $19.1 million from $101.1 million in fiscal year 2015 to $120.2 million in fiscal year 2016 and decreased $2.1 million from $103.2 million in fiscal year 2014 to $101.1 million in fiscal year 2015. In 2016, the State of Washington (the State) increased the funding of employee healthcare and pension costs, which caused the University to increase the benefit load rate for classified employees and professional staff by 16.6% and 9.1%, respectively. Employee benefit expense decreased in fiscal year 2015 as a result of an overall decrease in the University benefit load rate.

Purchased services, which consist of professional and consulting fees, increased $25.6 million from $175.7 million in fiscal year 2015 to $201.3 million in fiscal year 2016, and increased $7.1 million from $168.6 million in fiscal year 2014 to $175.7 million in fiscal year 2015. In 2016, UW Medicine adopted a purchase service model for shared services such as accounting, payroll, supply chain, and other shared service departments. The increase in purchased services between fiscal year 2016 and 2015 is attributed to the allocation of these shared service costs to Harborview which are recorded in purchased services. The increase in purchased services between fiscal year 2015 and 2014 was attributed to an increase in the allocation of IT expenses to Harborview as a result of an increase in salaries and wages at UW Medicine ITS.

Supplies and other expense include medical and surgical supplies, pharmaceutical supplies, insurance, taxes, and other expenses. In total, these expenses increased $1.4 million from $208.5 million in fiscal year 2015 to

$209.9 million in fiscal year 2016 and increased $34.9 million from $173.6 million in fiscal year 2014 to $208.5 million in fiscal year 2015. The increase in supplies and other between 2016 and 2015 is a result of higher medical supplies expense offset by favorable other expenses, including a reduction in rental expense at the Ninth & Jefferson building.

The increase in supplies and other between 2015 and 2014 was due to Harborview dispensing a new and specialized pharmaceutical drug for the treatment of hepatitis C in their outpatient pharmacy.

Depreciation expense decreased $6.4 million from $39.9 million in fiscal year 2015 to $33.5 million in fiscal year 2016 and decreased $3.1 million from $43.0 million in fiscal year 2014 to $39.9 million in fiscal year 2015. The decrease in fiscal years 2016 and 2015 was attributed to capital spending reductions and previously recorded IT assets recorded on Harborview's statements of net position becoming fully depreciated.

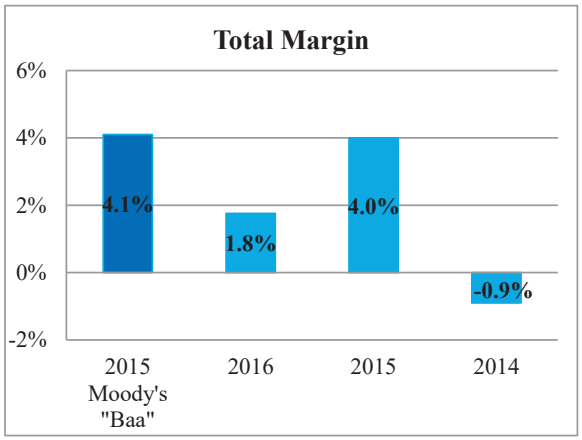
Nonoperating Revenues (Expenses)

Nonoperating revenues (expenses) consist primarily of investment income, net, interest expense, donations, intergovernmental transfer expense, strategic funding to UW Medicine entities, and mission support to King County. In 2016, net nonoperating expenses increased $7.6 million from $24.7 million for the year ended June 30, 2015 to $32.3 million at June 30, 2016. In 2016, nonoperating expenses increased as a result of strategic funding to affiliates, primarily UWNC and a $5.0 million mission support expense to King County as a result of new provision in the hospital services agreement.

Net nonoperating expense increased $18.3 million from $6.4 million at June 30, 2014 to $24.7 million at June 30, 2015. The increase in net nonoperating expenses was primarily due to intergovernmental transfers related to Harborview's participation in Washington State Provider Access Payment (PAP) program and increased strategic funding to affiliates.

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 2016, 2015, and 2014 compared to industry median is illustrated in the chart to the right.



Financial Analysis

Net Position

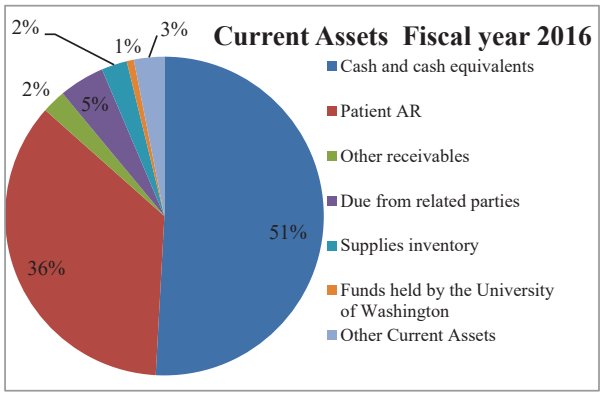
The table below is a presentation of certain condensed financial information derived from Harborview's net position as of the fiscal years ended June 30, 2016, 2015, and 2014:

	2016	2015	2014
		(In thousands)	
Current assets	$ 408,516	376,705	285,596
Noncurrent assets:			
Capital assets, net	300,364	307,259	331,359
Funds held by the University of Washington	600	600	600
Assets whose use is limited	107,462	121,677	113,103
Other assets	17,208	14,025	10,865
Total assets	834,150	820,266	741,523
Current liabilities	148,880	154,851	108,860
Noncurrent liabilities	12,951	14,499	16,996
Total liabilities	161,831	169,350	125,856
Net position	672,319	650,916	615,667
Total liabilities and net position	$ 834,150	820,266	741,523

Total assets were $834.2 million at June 30, 2016 compared to $820.3 million at June 30, 2015, an increase of $13.9 million. Significant events within total assets during fiscal year 2016 include an increase in cash and cash equivalents due to positive cash flows from operating activities and patient accounts receivable, offset by a decrease in capital assets, and assets whose use is limited.

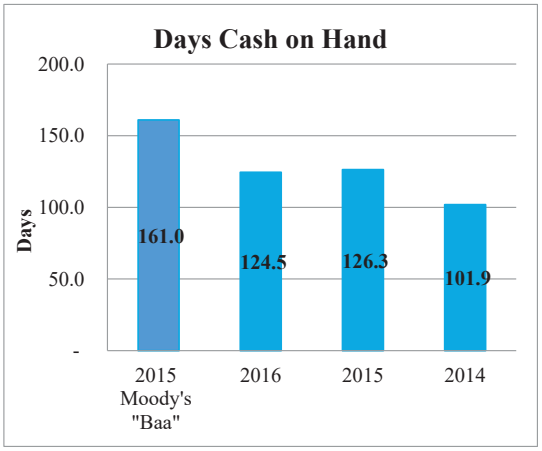
Total assets were $820.3 million at June 30, 2015 compared to $741.5 million at June 30, 2014, an increase of $78.8 million. Significant events within total assets during fiscal year 2015 included an increase in cash and cash equivalents due to positive cash flows from operating activities.

Current Assets



Current assets consist of cash and cash equivalents, patient accounts receivable, and other current assets that are expected to be converted to cash within a year. Total current assets were $408.5 million, $376.7 million, and $285.6 million at fiscal years 2016, 2015, and 2014, respectively. Fiscal year 2016 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 (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 $27.3 million in 2016 from $180.5 million at June 30, 2015 to $207.8 million at June 30, 2016 and $54.8 million in 2015 from $125.7 million at June 30, 2014 to $180.5 million at June 30, 2015.

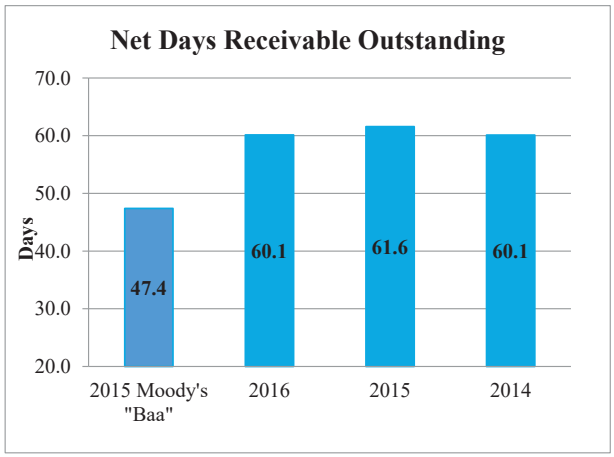


Days cash on hand is utilized to evaluate an organization's continuing ability to meet its short-term operating needs. Days cash on hand, include board- and management-designated assets, as of June 30, 2016, 2015, and 2014 and comparison to Moody's rating are illustrated in the graph to the right.

Harborview's total days cash on hand decreased 1.8 days from 126.3 days at June 30, 2015 to 124.5 days at June 30, 2016 and increased 24.4 days from 101.9 days at June 30, 2014 to 126.3 days at June 30, 2015. The decrease of 1.8 days between 2016 and 2015 is due to increases in operating expenses and repayments of a CPE hold harmless estimate to the State.

The increase in 2015 was driven by Medicaid expansion and positive cash flow from operating activities. In addition, days cash on hand increased due to receipt of CPE funds that will be settled and paid to the State in subsequent years.

Net patient accounts receivable was $145.8 million as of June 30, 2016 compared to $144.9 million at June 30, 2015 and $123.2 million at June 30, 2014. Net patient accounts receivable increased $0.9 million and $21.7 million in fiscal year 2016 and 2015, respectively. In 2016, Harborview net patient accounts receivable increased as a result of delay in administrative days payments from payers. In June 2015, Harborview experienced high revenue month, which accounted for the increase in net patient accounts receivable.



Days receivable outstanding indicates an organization's ability to convert net patient service revenue to cash. Days receivable outstanding as of June 30, 2016, 2015, and 2014 and comparison to Moody's rating are provided in the graph included to the left.

Harborview's net days receivable outstanding decreased 1.5 days from 61.6 days at June 30, 2015 to 60.1 days at June 30, 2016 and increased 1.5 days from 60.1 days at June 30, 2014 to 61.6 days at June 30, 2015. Net days receivable outstanding improved in 2016 as a result of Medicaid and Medicaid managed care plans paying more quickly than in fiscal year 2015. The increase in net days receivable outstanding during fiscal year 2015 is driven in part by the reduction of charity write-offs and the shift to managed care Medicaid payer plans, which has historically paid slower.

As of June 30, 2016 and 2015, 34% and 39% of the gross patient accounts receivable balance is due from commercial payers, 60% and 56% is due from governmental payers Medicare and Medicaid, 3% and 3% is due from self-pay patients, and 3% and 2% from the Washington Health Benefit Exchange, respectively.

Due from related parties consists of amounts due for services provided by Harborview to UW Medicine entities, including the School. Due from related parties increased $3.0 million from $15.9 million at June 30, 2015 to $18.9 million at June 30, 2016 and increased $10.7 million from $5.2 million at June 30, 2014 to $15.9 million at June 30, 2015. The increase in 2016 relates to the timing of payments between Harborview and other UW Medicine entities. In 2015, the increase in due from related parties is the result of Provider Access Payment funding to the School which reduced the faculty funding requirement from Harborview.

Noncurrent Assets

Capital assets net of accumulated depreciation, decreased $6.9 million during fiscal year 2016 from $307.3 million at June 30, 2015 to $300.4 million at June 30, 2016 and decreased $24.1 million during fiscal year 2015 from $331.4 million at June 30, 2014 to $307.3 million at June 30, 2015. 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, management-designated, and restricted investments. These investments include cash, long-term investments, and property held for future use and are used by Harborview to fund strategic initiatives, capital improvements, and to purchase equipment.

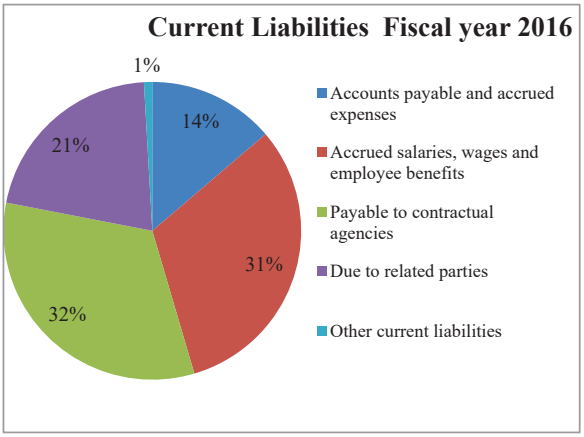
At June 30, 2016, total assets whose use is limited was $107.5 million, compared to $121.7 million at June 30, 2015, a decrease of $14.2 million between years. The decrease in AWUL is due to an $11.2 million repayment of CPE hold harmless to the State in 2016. At June 30, 2015, assets whose use is limited is $121.7 million, compared to $113.1 million at June 30, 2014, an increase of $8.6 million, which was attributed to reduced capital expenditures and an increase in the funds set aside for the CPE hold harmless repayment to the State.

Other assets consist of long-term prepaid expenses. The long-term prepaid expense reflected in other assets of $17.2 million, $14.0 million, and $10.9 million at June 30, 2016, 2015, and 2014, respectively, entitles Harborview access to the enterprise-wide IT software and services. The increase in the balance is a result of new IT capital projects.

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 $148.9 million, $154.9 million, and $108.9 million at June 30, 2016, 2015, and 2014, respectively. Fiscal year 2016 composition of current liabilities is illustrated in the chart below.

Accounts payable and accrued expenses decreased $10.4 million from $30.9 million at June 30, 2015 to $20.5 million at June 30, 2016 and increased $11.1 million from $19.8 million at June 30, 2014 to $30.9 million at June 30, 2015. Changes in accounts payable and accrued expenses are primarily driven by timing of payments to vendors.



Accrued salaries, wages, and employee benefits decreased $0.6 million from $47.8 million at June 30, 2015 to $47.2 million at June 30, 2016 and increased $5.6 million from $42.2 million at June 30, 2014 to $47.8 million at June 30, 2015. Changes in accrued salaries, wages, and employee benefits are primarily driven by the number of employees, employee merit increases, and compensated absences accrual.

Payable to contractual agencies consists of estimated reserves for Medicare cost reports and Medicaid CPE settlements. Payable to contractual agencies increased $0.1 million from $48.4 million at June 30, 2015 to $48.5 million at June 30, 2016 and increased $22.1 million from $26.4 million at June 30, 2014 to $48.5 million at June 30, 2015. The increase in fiscal year 2016 and 2015 was driven by the development in open Medicare cost reports and Medicaid CPE hold harmless estimates.

Due to related parties consists of amounts due for services provided to Harborview from UW Medicine shared services, information technology support, the School, and strategic funding to affiliates. Amounts due to related parties increased $5.1 million from $26.3 million at June 30, 2015 to $31.4 million at June 30, 2016 and increased $7.3 million from $19.0 million at June 30, 2014 to $26.3 million at June 30, 2015. In 2016, as a result of a new provision in the hospital services agreement, Harborview recorded a payable to King County in the amount of $5.0 million related to mission support expense. The increase in 2015 was a result of timing in payments between Harborview, the University, and Northwest Hospital.

Factors Affecting the Future

UW Medicine Accountable Care Network

In 2014, UW Medicine formed an Accountable Care Network (ACN) with other selected healthcare organizations and healthcare professionals in Western Washington to form a care delivery network to assume responsibility for the healthcare of contracted populations of patients to achieve the Triple Aim: improved healthcare experience for the individual, improved health of the population, and more affordable care.

- The ACN has contracted with the Washington Health Care Authority (HCA) to participate in its new Puget Sound Accountable Care Program (ACP) as a healthcare benefit option for Public Employees Benefits Board (PEBB) members. The ACP is offered to all PEBB members who reside in Snohomish, King, Kitsap, Pierce, and Thurston Counties, with possible expansion into a number of additional counties planned in 2017. This contract with HCA to cover PEBB members began January 1, 2016.
- A subset of the network members have also agreed to participate with the ACN in a contract with Premera as part of its new Accountable Health System (AHS) product. As an AHS, the UW Medicine ACN will share in accountability for the quality and cost of healthcare for Premera members who select this plan. This product was sold both on and off the Washington Health Exchange in select counties with coverage that began January 1, 2016 and must have 5,000 planwide members per product, per region to share in financial savings and risk.
- The UW Medicine ACN also entered into an agreement to provide healthcare services to Nonunion employees of a large local employer with coverage that began January 1, 2015.

These arrangements provide an opportunity for shared savings between the ACN and the contracted entity based on achieving quality and financial benchmarks. If certain financial benchmarks are not attained, UW Medicine, along with its network members, are at risk for reductions in payment levels from the contracted entity based on the agreement.

Employee Costs

Rising benefit costs, particularly for pensions and healthcare, continue to impact the University and Harborview. Employer pension funding rates for the Public Employees' Retirement System (PERS) pension plans increased 19.0% during fiscal year 2016, from 9.2% to 11.0% of covered salary, and will be increasing to 11.18% of covered salary for fiscal year 2017. Likewise, the monthly employer base rate paid by the University and Harborview for employee healthcare increased 27.0% during fiscal year 2016, from $662 to $840 per active employee, and will be

increasing to $888 per active employee during fiscal year 2017. Both rates are likely to continue increasing over the next few years.

Government Accounting Standards Board (GASB) issued Statement No. 68, *Accounting and Financial Reporting for Pensions* which 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. GASB Statement No. 68 is applicable to the University as well as to the UW Medicine entities that are part of the financial reporting entity of the University. Management evaluated the requirements of this statement and determined that the GASB Statement No. 68 is not applicable to Harborview as Harborview is not part of the University's financial reporting entity and Harborview does not directly fund the employer contribution to the Department of Retirement System. Harborview funds its share of contribution expense through the University benefit load rate, Harborview does not record a net pension liability on its financial statements. The portion of the University's net pension liability at June 30, 2016 that relates to University employees deployed at Harborview is approximately $233.0 million.

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

Statements of Net Position

June 30, 2016 and 2015

(Dollar amounts in thousands)

Assets		2016	2015
Current assets:			
Cash and cash equivalents	$	207,818	180,469
Funds held by the University of Washington		2,949	3,577
Patient accounts receivable, less allowance for uncollectible accounts of $33,897 in 2016 and $30,777 in 2015		145,818	144,875
Other receivables		9,829	12,459
Due from related parties		18,876	15,928
Supplies inventory		10,625	8,604
Other current assets		12,601	10,793
Total current assets		408,516	376,705
Noncurrent assets:			
Capital assets, net of accumulated depreciation		300,364	307,259
Fund held by the University of Washington		600	600
Assets whose use is limited		107,462	121,677
Other assets		17,208	14,025
Total noncurrent assets		425,634	443,561
Total assets	$	834,150	820,266
Liabilities and Net Position			
Current liabilities:			
Accounts payable and accrued expenses	$	20,482	30,857
Accrued salaries, wages, and employee benefits		47,163	47,754
Due to related parties		31,350	26,277
Payable to contractual agencies		48,544	48,454
Current portion of unearned rent		686	704
Current portion of long-term debt		655	805
Total current liabilities		148,880	154,851
Noncurrent liabilities:			
Unearned rent and other		12,828	13,698
Long-term debt, net of current portion		123	801
Total liabilities		161,831	169,350
Net position:			
Net investment in capital assets		299,586	305,653
Expendable, restricted		10,150	9,983
Nonexpendable, restricted		2,534	2,527
Unrestricted		360,049	332,753
Total net position		672,319	650,916
Total liabilities and net position	$	834,150	820,266

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, 2016 and 2015

(Dollar amounts in thousands)

	2016	2015
Operating revenues:		
Net patient service revenues (net of provision for uncollectible accounts of $28,494 in 2016 and $26,741 in 2015)	$ 887,533	858,845
Other operating revenues	76,780	71,044
Total operating revenues	964,313	929,889
Operating expenses:		
Salaries and wages	350,126	343,507
Employee benefits	120,227	101,072
Purchased services	201,313	175,669
Supplies and other	209,860	208,523
Depreciation	33,521	39,926
Total operating expenses	915,047	868,697
Income from operations	49,266	61,192
Nonoperating revenues (expenses):		
Investment income, net	2,715	1,823
Interest expense	(56)	(212)
Donations	1,723	979
Funding to affiliates	(30,676)	(26,473)
Funding to King County	(5,000)	—
Other, net	(1,020)	(803)
Nonoperating expenses	(32,314)	(24,686)
Income before capital contributions, additions to permanent endowments, and other	16,952	36,506
Capital contributions, additions to permanent endowments, and other:		
Additions to permanent endowments	8	—
Other transfers	4,443	(1,257)
Total capital contributions, additions to permanent endowments, and other	4,451	(1,257)
Increase in net position	21,403	35,249
Net position – beginning of year	650,916	615,667
Net position – end of year	$ 672,319	650,916

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, 2016 and 2015

(Dollar amounts in thousands)

		2016	2015
Cash flows from operating activities:			
Cash received for patient service revenues and other	$	886,680	859,394
Cash received for other services		80,037	71,010
Cash paid to employees		(466,574)	(439,031)
Cash paid to suppliers and others		(434,003)	(393,673)
Net cash provided by operating activities		66,140	97,700
Cash flows from noncapital financing activities:			
Donations and other income received		1,723	979
Funding to affiliates		(29,733)	(18,313)
Additions to permanent endowments		8	—
Other		(692)	(798)
Net cash used in noncapital financing activities		(28,694)	(18,132)
Cash flows from capital and related financing activities:			
Principal payments on long-term debt		(810)	(1,460)
Cash paid for interest		(61)	(215)
Capital expenditures		(26,229)	(15,082)
Net cash used in capital and related financing activities		(27,100)	(16,757)
Cash flows from investing activities:			
Net decrease (increase) in assets whose use is limited		14,683	(9,657)
Investment income, net		2,320	1,649
Net cash provided by (used in) investing activities		17,003	(8,008)
Increase in cash and cash equivalents		27,349	54,803
Cash and cash equivalents, beginning of year		180,469	125,666
Cash and cash equivalents, end of year	$	207,818	180,469
Reconciliation of income from operations to net cash provided by operating activities:			
Income from operations	$	49,266	61,192
Adjustments to reconcile income from operations to net cash provided by operating activities:			
Depreciation		33,521	39,926
Provision for uncollectible accounts		28,494	26,741
Net increase in current and other assets		(36,140)	(66,207)
Net (decrease) increase in current liabilities, except current portion of long-term debt		(8,113)	37,019
Decrease in unearned rent		(888)	(971)
Net cash provided by operating activities	$	66,140	97,700
Supplemental disclosures of cash flow information:			
Increase in accounts payable for capital assets	$	738	762
Donation gift in kind		3	245
Loss on disposal of capital assets		(341)	(18)

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, Washington (the County). Harborview is managed and operated by UW Medicine under a Hospital Services Agreement between the County and the Board of Regents of the University of Washington (the University), in accordance with policies established by the Harborview Board of Trustees (the Trustees). Harborview is a Level 1 adult and pediatric trauma medical center that serves a four state region with centers of emphasis for areas of care.

The first management contract for the University to operate and manage Harborview was effective on July 1, 1967, and was revised and extended several times. In January 2016, the County Council approved a new Hospital Services Agreement effective February 25, 2016. The Agreement has a ten-year term, and may be renewed by the parties for two successive ten-year terms.

The Agreement recognizes the shared goal of UW Medicine and the County to provide the Harborview mission population with access to primary, secondary, tertiary, and quaternary services and UW Medicine's mission to improve the health of the public through its clinical, research, and teaching activities.

The general conditions within the Hospital Services Agreement provide that the County retains title to all real and personal properties acquired for the County with Harborview 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 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. The Trustees agree to adopt operational standards of patient care as developed and recommended by UW Medicine. All such standards must comply with the requirements of applicable agencies such as The Joint Commission.

One significant provision under the new Agreement requires that for each year of the Agreement, the Trustees will allocate and disburse to the County $5.0 million from Harborview revenues or reserves to support Mission Population programs and services that are currently being provided by the County. The annual allocation and disbursement may be reduced by an amount agreed to by the parties based upon reductions in costs incurred by the County or new funding sources that would not otherwise be received by the County.

UW Medicine staffs, manages, and provides all medical, dental, and other professional services to Harborview patients through University employees and University School of Medicine faculty. UW Medicine conducts research and teaching activities at Harborview, consistent with University policies. The University retains authority over all personnel and employment matters involving University employees who work at Harborview. UW Medicine continues to be responsible for management of the facilities, and development of the six-year Capital Improvement Plan for review and approval by the Trustees and King County. UW Medicine 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 obligations and provide services to address the community's needs as identified in Harborview's mission statement.

(Continued)

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.

Harborview is owned by the County, governed by a county-appointed board of trustees and managed by the University of Washington. Harborview is an entity of UW Medicine which also includes: UW Medical Center, Northwest Hospital & Medical Center (Northwest Hospital), Valley Medical Center (VMC), 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 securities, Corporate bonds, and 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.

(Continued)

The EFC reviews pool performance monthly. The King County Investment Pool was invested as follows at June 30:

	2016
Cash and cash equivalents	9.0%
U.S. Treasuries and agencies	68.6
Washington State Local Government Investment Pool	8.4
Corporate and other fixed income	14.0
Total	100.0%

Concentrations of credit risk consist of pooled investments held on behalf of the Harborview at the County.

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 $207.8 million and $180.5 million as of June 30, 2016 and 2015, respectively.

(e) Assets Whose Use is Limited

Assets whose use is limited include board and management designated unrestricted assets set aside for future capital and program purposes over which the Trustees and management 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 the King County Investment Pool, managed for Harborview by the County, and are carried at fair market value. Harborview has assets whose use is limited of $107.5 million and $121.7 million as of June 30, 2016 and 2015, respectively.

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.

(Continued)

(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 2016 and 2015.

For the year ended June 30, 2016 and 2015, supplies and other expense includes approximately $0 and $9.2 million for the write-off of certain capital assets and restricted investments for which management determined carrying amounts were not recoverable.

(h) Other Assets

UW Medicine ITS (a department of the University) records enterprise-wide information technology (IT) capital assets that are purchased for use by UW Medicine entities. 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, 2016 and 2015, $10.4 million and $8.6 million, respectively, is recorded in other current assets and $17.2 and $14.0 million is recorded in other assets, respectively.

(i) Compensated Absences

University employed staff at Harborview 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

(Continued)

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, 2016 and 2015 is $23.3 million and $23.8 million, respectively. Sick leave accrued as of June 30, 2016 and 2015 is $3.5 million and $4.6 million, respectively. Compensated absences are reported within the accrued salaries, wages, and employee benefits in the statements of net position.

(j) 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 Certified Public Expenditures (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 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, net, interest expense, intergovernmental transfer expense, funding to King County and strategic funding to affiliates of UW Medicine.

(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

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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 (APC). 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 (CMG) 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. Psychiatric 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 expenditure 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 healthcare 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.

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(m) Accountable Care Network

UW Medicine has formed an accountable care network (ACN) with other healthcare organizations and healthcare professionals to share financial and clinical responsibility for the healthcare of particular populations of patients. Harborview, as part of UW Medicine is a network member of the UW Medicine ACN and as such shares in any risk contract surplus or deficits based on agreed-upon contractual terms. Since its inception, the ACN has entered into various contracts, which include provisions for shared risk as well as shared savings based on achieving certain quality and financial benchmarks. Harborview, as part of UW Medicine and the other network members share in the financial risk or savings. At June 30, 2016 and 2015, Harborview has recorded a liability of $667,000 and $109,000, respectively for its portion of the estimated liability related to these risk-sharing arrangements, which is reflected in due to related parties in the accompanying statements of net position.

(n) 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 $63.5 million and $60.0 million, respectively, for the years ended June 30, 2016 and 2015.

Harborview estimates the cost of charity care using its Medicaid cost to charge ratio of 41% for the fiscal years ended June 30, 2016 and 2015. Applying Harborview's Medicaid cost to charge ratio of 41% to total charity of $63.5 million results in an estimated cost of charity care and uncompensated care of $26.0 million for the fiscal year ended June 30, 2016. Applying Harborview's Medicaid cost to charge ratio of 41.0% to total charity of $60.0 million results in an estimated cost of charity care and uncompensated care of $24.6 million for the fiscal year ended June 30, 2015.

(o) 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.

(p) Recently Adopted and New Accounting Pronouncements

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. Management evaluated the impact of this statement and determined that it is not applicable to Harborview as Harborview does not directly fund the employer contribution to the Department of Retirement System (DRS), which is funded by the University. Harborview is not

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part of the financial reporting entity of the University, thus, Harborview does not record a net pension liability on its financial statements.

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*, which is effective for the fiscal year ending June 30, 2016. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. It also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. This statement establishes a three level hierarchy of inputs to valuation techniques used to measure fair value and requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. As Harborview is part of an investment pool, this standard does not apply to its financial statements.

In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The guidance for plans not within No. 68's scope will be effective for the fiscal year ending June 30, 2017. This statement is intended to improve financial reporting of governments whose employees are provided pensions that are not within the scope of No. 68 and improve the usefulness of information associated with governments that hold assets accumulated for purposes of providing defined benefit pensions not within the scope of Statement No. 68. Harborview is currently analyzing the impact of this statement.

In June 2015, the GASB issued Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which is effective for the fiscal year ending June 30, 2018. This statement establishes standards of accounting and financial reporting for defined benefit OPEB and defined contribution OPEB that are provided to the employees of state and local governmental employers through OPEB plans that are administered through trusts or equivalent arrangements. This statement also establishes standards of accounting and financial reporting for OPEB plans that are not administered through trusts or equivalent arrangements. Harborview is currently analyzing the impact of this statement.

In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which is effective for the fiscal year ending June 30, 2016. The objective of this Statement is to identify the hierarchy of generally accepted accounting principles (GAAP). This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. There was no impact to the financial statements of Harborview as a result of implementing this statement.

(q) Reclassifications

Certain reclassifications have been made to prior year amounts to conform to the current year presentation.

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(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 2016 and 2015, net patient service revenue includes approximately $7.2 million and $7.8 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):

		2016	2015
Gross patient service revenues	$	2,226,302	2,099,327
Less adjustments to patient service revenues:			
Charity care		(63,479)	(59,964)
Contractual discounts		(1,246,796)	(1,153,777)
Provision for uncollectible accounts		(28,494)	(26,741)
Total adjustments to patient service revenues		(1,338,769)	(1,240,482)
Net patient service revenues	$	887,533	858,845

(Continued)

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, 2016 and 2015 is as follows:

	Patient service charges	Accounts receivable
2016:		
Medicare	30%	22%
Medicaid	34	38
Commercial and other	31	34
Self-pay	3	3
Exchange (HIX)	2	3
Total	100%	100%
2015:		
Medicare	30%	25%
Medicaid	33	31
Commercial and other	33	39
Self-pay	3	3
Exchange (HIX)	1	2
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 the 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 $58.5 million and $71.1 million in claims payments under this program for the years ended June 30, 2016 and 2015, 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 $40.0 million and $40.9 million in DSH funding under this program for the years ended June 30, 2016 and 2015, respectively.

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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 $14.7 million and $13.5 million in state grants for the years ended June 30, 2016 and 2015, 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 2007 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. For the years ended June 30, 2016 and 2015, net patient service revenue includes approximately $2.7 million and $(0.3) million, respectively, of increases (decreases) relating to the prior year's estimate and settlements.

As of June 30, 2016, for fiscal years 2008–2016, Harborview has an estimated payable of $44.2 million for the CPE program, which is included in payable to contractual agencies in the statements of net position. As of June 30, 2015, Harborview had an estimated payable of $42.1 million for the CPE program, which is included in payable to contractual agencies in the statements of net position.

(b) Professional Services Supplemental Payment (PSSP) and Provider Access Payment (PAP) Program

The professional services supplemental payment (PSSP) and provider access payment (PAP) program are programs managed by the Washington State Health Care Authority (WSHCA) benefiting certain public hospitals. CMS approved the PAP program in August 2014 for services on and after July 1, 2014.

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

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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 $11.9 million for the years ended June 30, 2016 and 2015 in intergovernmental transfers (IGT) to WSHCA related to professional claims paid in those fiscal years, which is recorded 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 for PSSP and through the Medicaid managed care plans for PAP. Harborview recognized $5.9 million and $2.0 million in supplemental payments for the years ended June 30, 2016 and 2015, 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 and PAP payments be returned to Harborview and UW Medical Center as a condition for making the IGT's. PSSP and PAP 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 and UW Medical Center. The faculty support was reduced by $25.7 million and $20.7 million in fiscal years 2016 and 2015, respectively. This reduction is included as an offset to purchased services in the statements of revenue, expenses, and changes in net position.

(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 it uses 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 $10.3 million and $7.6 million for the years ended June 30, 2016 and 2015, respectively, which is recorded in other operating revenues in the statements of revenues, expenses, and changes in net position.

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(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, provided 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 for the years ended June 30, 2016 and 2015, which are included in other operating revenues in the statements of revenue, expenses, and changes in net position.

(e) Other Federal and State Funding

As a regional trauma center, Harborview is eligible for additional State funding in both 2016 and 2015 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 $7.5 million and $8.5 million for the years ended June 30, 2016 and 2015, respectively. In addition to the funding received through the Trauma Enhancement program, Harborview received State sponsored trauma grants in the amount of $1.5 million and $1.7 million for the years ended June 30, 2016 and 2015, 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, specifically designated by the state for training of future healthcare professionals and to upgrade the skills of current practitioners. Harborview is designated as a division of the major program "hospitals" included within the total appropriation. Due to the nature of the designation, these amounts are included in other operating revenues in the accompanying statements of revenues, expenses, and changes in net position. Harborview recognized $6.3 million and $6.2 million for the years ended June 30, 2016 and 2015, respectively.

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(5) Capital Assets

The activity in Harborview's capital asset and related accumulated depreciation accounts for the years ended June 30, 2016 and 2015 is set forth below (in thousands):

	Balance June 30, 2015	Additions	Transfers	Retirements	Balance June 30, 2016
Capital assets, not being depreciated:					
Land	$ 1,586	846	—	—	2,432
Construction in process	12,653	17,189	(17,258)	—	12,584
Total capital assets, not being depreciated	14,239	18,035	(17,258)	—	15,016
Capital assets, being depreciated:					
Land improvements	5,584	—	14	—	5,598
Buildings, renovations, and furnishings	413,590	—	6,110	—	419,700
Fixed equipment	143,893	—	86	(166)	143,813
Movable equipment	284,282	8,932	10,103	(8,864)	294,453
Leasehold improvements	9,555	—	945	—	10,500
Total capital assets, being depreciated	856,904	8,932	17,258	(9,030)	874,064
Total capital assets at historical cost	871,143	26,967	—	(9,030)	889,080
Less accumulated depreciation for:					
Land improvements	(2,628)	(313)	—	—	(2,941)
Buildings, renovations, and furnishings	(188,400)	(13,577)	—	—	(201,977)
Fixed equipment	(124,727)	(4,898)	—	163	(129,462)
Movable equipment	(243,963)	(14,139)	—	8,526	(249,576)
Leasehold improvements	(4,166)	(594)	—	—	(4,760)
Total accumulated depreciation	(563,884)	(33,521)	—	8,689	(588,716)
Total capital assets, net	$ 307,259	(6,554)	—	(341)	300,364

(Continued)

	Balance June 30, 2014	Additions	Transfers	Retirements	Balance June 30, 2015
Capital assets, not being depreciated:					
Land	$ 1,586	—	—	—	1,586
Construction in process	14,860	7,440	(9,647)	—	12,653
Total capital assets, not being depreciated	16,446	7,440	(9,647)	—	14,239
Capital assets, being depreciated:					
Land improvements	5,519	—	65	—	5,584
Buildings, renovations, and furnishings	407,089	—	6,501	—	413,590
Fixed equipment	143,351	—	542	—	143,893
Movable equipment	274,538	8,404	2,539	(1,199)	284,282
Leasehold improvements	9,555	—	—	—	9,555
Total capital assets, being depreciated	840,052	8,404	9,647	(1,199)	856,904
Total capital assets at historical cost	856,498	15,844	—	(1,199)	871,143
Less accumulated depreciation for:					
Land improvements	(2,312)	(316)	—	—	(2,628)
Buildings, renovations, and furnishings	—	—	—	—	—
Fixed equipment	(174,899)	(13,501)	—	—	(188,400)
Movable equipment	(119,588)	(5,139)	—	—	(124,727)
Leasehold improvements	(224,725)	(20,419)	—	1,181	(243,963)
Total accumulated depreciation	(3,615)	(551)	—	—	(4,166)
Total capital assets, net	(525,139)	(39,926)	—	1,181	(563,884)
	$ 331,359	(24,082)	—	(18)	307,259

Capital assets, net, include intangible assets, net of accumulated depreciation of $0.4 million and $0.7 million as of June 30, 2016 and 2015, respectively.

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(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):

		2016	2015
Board-designated assets:			
Pooled investments managed by King County	$	66,178	80,851
Receivables and other		188	191
Property held for future use, at cost, less accumulated depreciation		2,718	2,718
Total board-designated assets		69,084	83,760
Management-designated assets		25,784	25,574
Restricted cash and investments:			
Investments restricted for capital by King County		4,737	5,590
Investments restricted by donor		7,857	6,753
Total restricted assets		12,594	12,343
Total assets whose use is limited	$	107,462	121,677

(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):

		2016	2015
Commuter service fund	$	13,266	12,148
Self-insurance fund		1,198	1,188
Walter Scott Brown property		2,718	2,718
Equipment fund		1,525	8,365
Building repair and replacement fund		22,712	25,645
Planned capital and program reserves		27,665	33,696
Total	$	69,084	83,760

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(c) Investments Restricted for Capital and by Donor

Investments restricted for capital is comprised of investments held in the King County Investment Pool, managed for Harborview by the County and are $4.7 million and $5.6 million for the years ended June 30, 2016 and 2015, respectively. These investments represent unspent bond proceeds, required capital funding, and accumulated interest earnings. Use of 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 $7.9 million and $6.8 million as of June 30, 2016 and 2015, 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) Unearned Rent and Other

Changes in unearned rent and other during the fiscal years ended June 30, 2016 and 2015 are summarized below (in thousands):

	Beginning balance	Increases	Decreases	Ending balance	Due within one year
Fiscal year ending:					
June 30, 2016	$ 14,402	—	(888)	13,514	686
June 30, 2015	15,373	—	(971)	14,402	704

(8) Risk Management

Harborview is exposed to risk of loss related to professional and general liability, property loss, 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 2016 and 2015 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.

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Harborview's contribution to the professional liability program was $3.4 million in 2016 and 2015, recorded in supplies and other expense on the statements of revenues, expenses, and changes in net position.

(9) Benefit Costs

Harborview personnel are employees of the University. 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. These benefit costs cover employee healthcare costs, workers' compensation, employment taxes, and retirement plans. 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.

Retirement and Other Postretirement Benefit Plans

All 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 http://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 $28.9 million and $25.7 million in fiscal years 2016 and 2015, respectively, related to annual PERS funding, which is recorded in employee benefits on the statements of revenues, expenses, and changes in net position.

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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 $4.6 million and $4.7 million in fiscal years 2016 and 2015, 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. This plan is closed to new participants.

Based on the University's benefit load apportionment, Harborview incurred and paid $0.7 million and $0.8 million in fiscal years 2016 and 2015, 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 Postemployment Benefits (OPEB) – All University employees, including medical center employees, are eligible for participation in healthcare 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.

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(10) Related Parties

Harborview has engaged in a number of transactions with related parties. When economic benefits are either provided or received by Harborview, these transactions are recorded as operating revenues or expenses, respectively, by Harborview. Harborview records cash transfers between Harborview and related parties that are not the result of economic benefits 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 (d)).

UW Medicine Central Budget Costs

UW Medicine provides services to Harborview such as executive compensation, advancement, compliance, telemedicine, community relations staffing, medical staff oversight, marketing, and other administrative services related to UW Medicine. The amounts paid by Harborview for these services are shown below (see (d)).

UW Physicians Network dba UW Neighborhood Clinics

Under an annual agreement between the involved UW Medicine entities, Harborview provided strategic support of approximately 26.6% and 20% of the UWNC's annual operating loss for fiscal years 2016 and 2015, respectively and 20% of capital funding needs. Funding from Harborview to UWNC was $10.7 million and $6.4 million for fiscal years 2016 and 2015, respectively, and is recorded as funding to affiliates in the statements of revenues, expenses, and changes in net position.

UW Medicine Shared Services

UW Medicine Shared Services comprises a number of functions within the University, established for the purpose of providing scalable administrative and information technology support services for UW Medicine. These functions include UW Medicine IT Services, Revenue Cycle, UW Medicine Finance and Accounting, UW Medicine Supply Chain, UW Medicine Contracting, and UW Consolidated Laundry as well as a number of other functions. The amounts for these transactions are shown below (see (d)).

(Continued)

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 (d)).

(b) UW Medicine/Northwest dba Northwest Hospital and Medical Center

Harborview provided strategic support to Northwest Hospital for operating purposes. Funding from Harborview to Northwest Hospital was $8.0 million and $8.2 million for the year ended June 30, 2016 and 2015, respectively and is recorded as funding to affiliates in the statements of revenues, expenses, and changes in net position. At June 30, 2015, Harborview had payable to Northwest in the amount of $7.1 million recorded in the statements of net position.

(c) 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. Harborview has agreed to provide space and services on behalf of the County for certain grants and contracts, for which Harborview receives rental income and grant revenue from the County. Additional detail describing Harborview's position within the County is provided in note 1.

Under the Hospital Services Agreement, the Harborview Board designates $5.0 million annually from Harborview's revenues and reserves for the support of County programs. The annual allocation may be reduce through joint efforts by UW Medicine and the County to obtain permanent reductions in cost or new sources of revenues to the County. At June 30, 2016, Harborview recorded a nonoperating expense of $5.0 million related to King County mission support on the statements of revenues, expenses, and changes in net position and a payable to King County, which is recorded in accounts payable and accrued expenses in the statements of net position.

(Continued)

(d) Summary of Related-Party Transactions for the years ended June 30 (in thousands):

Revenue (expense) transactions		2016	2015
Services and supplies purchased from the University and its departments and affiliates:			
UW Medicine Shared Services	$	(96,508)	(71,274)
The School		(46,133)	(54,390)
Central Costs		(11,518)	(9,888)
UW Medical Center		(2,507)	(2,696)
UWP		(1,646)	(1,156)
Other University divisions and departments		(11,284)	(11,957)
Services provided to the University and its departments and affiliates:			
The School		7,754	8,103
UW Medicine Shared Services		4,784	3,215
UW Medical Center		2,275	2,423
UW Neighborhood Clinics		1,059	796
Services provided to King County		960	708

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, 2016 and 2015 are as follows (in thousands):

Net receivable (payable)		2016	2015
The University and its departments and affiliates:			
The School	$	6,998	1,728
UW Medicine Shared Services		(8,841)	(6,351)
UWP		1,589	1,553
UW Medical Center		1,205	937
Airlift		2,666	2,200
UW Medicine Central Budget		(902)	(205)
Other University divisions and departments		(30,041)	(26,007)
UW Neighborhood Clinics		(590)	596
King County		(2,868)	1,659
Northwest Hospital		64	(7,090)

(Continued)

(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, 2016 and 2015 for all operating leases was $14.4 million and $17.4 million, respectively, which is recorded in supplies and other expenses in the statement of revenues, expenses, and change in net position.

The following schedule shows future minimum lease payments by fiscal year as of June 30, 2016 (in thousands):

2017	$	542
2018		194
2019		47
2020		—
2021		—
Thereafter		—
	$	783

(b) Purchase Commitments

Harborview has current commitments at June 30, 2016 of $35.9 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.

(Continued)

(e) Collective Bargaining Agreements

Harborview has a total of approximately 4,401 employees. Of this total, approximately 77.8% and 78.2% are covered by collective bargaining agreements as of June 30, 2016 and 2015, respectively. Nurses are represented by the Service Employees International Union (SEIU) and other healthcare and support workers are represented by the SEIU and Washington Federation of State Employees (WFSE). All collective bargaining agreements expire on June 30, 2017.

(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 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 (LTGO) debt. The Agreement requires the Trustees to budget funds, annually, to cover the outstanding debt associated with PSB. As the financial obligations of the LTGO debt remain the responsibility of the County, Harborview accounts for these payments as rental expense. Rental expense was approximately $2.8 million for the years ended June 30, 2016 and 2015, respectively.

(g) Ninth and Jefferson Building

The Ninth & Jefferson Building is a 14-story medical office building with approximately 440,000 square feet, and underground parking. The building is primarily occupied by Harborview.

In 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. 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 Agreement requires the Trustees to budget funds, annually, to cover the monthly rent and outstanding debt associated with the Ninth and Jefferson building. As the financial obligations of the lease and outstanding debt remain the responsibility of the County, Harborview accounts for these rental payments as rental expense. In December 2015, the County refunded a portion of the NJB debt for the purpose of realizing debt service savings which reduced rent payments in 2016. Lease expense was approximately $10.4 million and $12.7 million for the years ended June 30, 2016 and 2015, respectively. If Harborview continues to occupy this space, annual lease expense will not differ significantly from the amount recognized in 2016.

HARBORVIEW MEDICAL CENTER
SCHEDULE OF EXPENIDTURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30,2016

Federal CFDA No.	Federal CFDA Title	Pass-Through Grantor	Contract ID	Contract Period	HMC ID	Program Description	Cost Center	Federal Expenditures - Direct Awards	Federal Expenditures - Pass Through Awards	Expenditures to Subrecipients	Note
HEALTH CENTERS CLUSTER											
Department of Health & Human Services											
93.224	Health Center Program (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)	King County Dept. of Public Health	CHS3713	02/01/15 - 12/31/15	18510	Pioneer Square - 2nd Ave. Clinic	7461		33,996.20		3
					18515	Pioneer Square - 3rd Ave. Clinic	7464		116,657.76		3
					18505	Pioneer Square - Healthcare for the Homeless	7856		161,889.08		
					18560	Pioneer Square - Palliative Care	7855		69,006.71		
			CHS4094	01/01/16 - 12/31/16	18510	Pioneer Square - 2nd Ave. Clinic	7461		71,609.55		3
					18515	Pioneer Square - 3rd Ave. Clinic	7464		143,419.02		3
					18505	Pioneer Square - Healthcare for the Homeless	7856		217,280.90		
					18560	Pioneer Square - Palliative Care	7855		98,580.35		
			CHS3778	2/01/2015 - 1/31/2016	18500	Pioneer Square - Respite Program	7862		162,632.48		3
			CHS4116	02/01/16 - 12/31/16	18500	Pioneer Square - Respite Program	7862		168,502.05		3
							HEALTH CENTERS CLUSTER TOTAL	-	**1,243,574.10**	-	
MEDICAID CLUSTER											
Department of Health & Human Services											
93.778	Medical Assistance Program	Seattle Human Services Departmen	DA15-1329	01/01/15 - 12/31/15	15450	ADS Gero-Psych Consultations	7226		4,025.00		
			DA16-1329	1/1/16 - 12/31/16					5,425.00		
		King County Department of Public Health	CHS3819	1/1/15 - 12/31/15	18520	Pioneer Square Access Match	7858		58,390.39		
		Washington State Health Care Authority	1365-72623	07/01/13 - 06/30/18	18100	Interpreter Services	8220		328,754.45		
		Washington State Department of Social and Health Services	1565-40433	7/1/15 - 6/30/17	18180	Fircrest	7113		2,437.05		3
							MEDICAID CLUSTER TOTAL	-	**399,031.89**	-	
Department of Housing and Urban Development											
14.241	Housing Opportunities for Persons with AIDS	Seattle Human Services Departmen	DA15-1142	2/1/15-1/31/16	18235	HOPWA Navigator Project	7883		24,118.46		
			DA16-1142	5/16/16-2/28/17		HOPWA Navigator Project	7883		8,102.56		
							CFDA 14.241 Total	-	**32,221.02**	-	
14.267	Continuum of Care Program	King County Dept. of Public Health	CHS3778	02/01/15 - 01/31/16	18500	Pioneer Square - Respite Program	7862		326,884.83		3
			5851627	4/15/16 - 5/31/17	15265	Scattered Sites Supportive Housing	7242		19,132.65		
							CFDA 14.267 Total	-	**346,017.48**	-	
							Department of Housing and Urban Development Total	-	**378,238.50**	-	
Department of Justice											
16.575	Crime Victim Assistance	Washington State Dept. of Commer	16-31310-130	07/01/15 - 06/30/16	18700	CRC OCVA Crime Victim Serv. Proj.	7812		179,889.30		
			516-31119-020	07/01/15 - 06/30/16	18705	HCSATS Crime Victim Services Proj.	7828		9,850.89		
							CFDA 16.575 Total	-	**189,740.19**	-	
16.590	Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program	Washington State Dept. of Commerce Office of Crime Victims Advocacy	F13-31105-311	10/01/13 - 09/30/16	18717	HCSATS GTEA SANE	7816		29,015.96		
							CFDA 16.590 Total	-	**29,015.96**	-	
							Department of Justice Total	-	**218,756.15**	-	
Department of Health & Human Services											
93.136	Injury Prevention and Control Research and State and Community Based Programs	Washington State Dept. of Commer	16-31310-130	07/01/15 - 06/30/16	18700	HCSATS Core and Prevention Services	7812		16,413.99		3
			F16-31310-609	07/01/15 - 01/31/17	18701	HCSATS - OCVA Rape Prevention and Education	7816		76,483.78		3
							CFDA 93.136 Total	-	**92,897.77**	-	
93.153	Coordinated Services and Access to Research for Women, Infants, Children, and Youth	King County Dept. of Public Health	N21584	07/01/15 - 08/31/15		Ryan White Part D - Madison	7621		-		
			N21584	07/01/15 - 08/31/15		Ryan White Part D - Social Work	7886		-		5
		Direct Award - HRSA	H12HA28849-01-00	08/01/15 - 07/31/17	18215	Ryan White Part D - Madison	7621	805,138.91			3,5
			H12HA28849-01-00	08/01/15 - 07/31/17		Ryan White Part D - Social Work	7886	141,923.87			
			H12HA28849-01-00	08/01/15 - 07/31/17		Ryan White Part D - Social Work	7886			54,988.11	6
							CFDA 93.153 Total	**947,062.78**	**-**	**54,988.11**	
93.243	Substance Abuse and Mental Health Services_Projects of Regional and National Significance	Washington State Department of Social and Health Services	1512-47681	8/1/15-7/31/16	18376	SAMHSA Medication Assisted Treatment	7804		140,841.61		3
							CFDA 93.243 Total	-	**140,841.61**	-	
93.576	Refugee and Entrant Assistance_Discretionary Grants	Washington State Dept. of Social & Health Services	1565-27212	01/15/15 - 08/14/15	18157	Refugee Health Screening	7874		15,132.00		3
			1565-45654	8/15/15-8/14/16			7874		50,981.00		
							CFDA 93.576 Total	-	**66,113.00**	-	
93.604	Assistance for Torture Victims	Lutheran Community Services	90ZT0135/03	9/30/14 - 9/29/15	18160	Survivors of Torture	7849		-		
			90ZT0167-01-00	9/30/15 - 9/29/16			7849		98,023.88		3
							CFDA 93.604 Total	-	**98,023.88**	-	
93.610	Health Care Innovation Awards (HCIA)	National Health Care for the Homeless Council	1C1CM331336-01-00 Year 2	9/1/15 - 8/31/16	18501	Pioneer Square - Respite Program	7862		157,757.11		3
							CFDA 93.610 Total	-	**157,757.11**	-	
93.817	Hospital Preparedness Program (HPP) - Ebola Preparedness and Response Activities	Washington State Department of Social and Health Services	U3REP150480-01-00	05/18/15 - 05/17/20	18403	Ebola Response	8712		8,633.00		
							CFDA 93.817 Total	-	**8,633.00**	-	
93.889	National Bioterrorism Hospital Preparedness Program	Washington State Hospital Assn.	N20923	7/1/14 - 6/30/15	18405	ASPR Bioterrorism Prep. Program	7230		862.71		

							CFDA 93.889 Total	-	**862.71**	-
93.918	Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	Direct Award	H76HA00198-23-00	01/01/15 - 12/31/15	18210	Ryan White Part C	7619	826,931.83		3, 5
			H76HA00198-24-00	01/01/16 - 6/30/16		Ryan White Part C	7619	838,150.42		3, 5
							CFDA 93.918 Total	**1,665,082.25**	-	-
93.940	HIV Prevention Activities_Health Department Based	King County Department of Public Health	PREV3808	7/1/2015 - 12/31/15	18230	STD Clinic	7529		205,303.05	
				7/1/2015 - 12/31/15	18230	STD Clinic - Project category C	7617		65,882.34	
			PREV4073	1/1/16 - 6/30/16	18230	STD Clinic	7529		358,189.93	
				1/1/16 - 6/30/16	18230	STD Clinic - Project category C	7617		13,833.31	
							CFDA 93.940 Total	-	**643,208.63**	-
93.958	Block Grants for Community Mental Health Services	Washington State Dept. of Social & Health Services	1465-25343	10/01/14 - 09/30/15	18765	Trauma-Focused Behavioral Therapy	7816		36,501.25	
			1565-48149	10/01/15 - 09/30/16			7816		188,666.25	
							CFDA 93.958 Total	-	**225,167.50**	-
93.977	Preventive Health Services_Sexually Transmitted Diseases Control Grants	King County Department of Public Health	PREV3808	7/1/15 - 12/31/15	18230	SSuN	7529		1,328.45	
						AAPPS	7801		71,823.75	
						NHBSS	7846		40,360.28	
						STD Prevention Assess Supp	7838		61,908.80	
			PREV4073	01/01/16 - 06/30/16		SSuN	7529		996.24	
						AAPPS	7801		99,942.34	
						NHBSS	7846		69,873.38	
						STD Prevention Assess Supp	7838		108,974.30	
							CFDA 93.977 Total	-	**455,207.54**	-
							Department of Health & Human Services Total	**2,612,145.03**	**1,888,712.75**	**54,988.11**
							FEDERAL EXPENDITURES TOTALS BY AWARD TYPE	**2,612,145.03**	**4,128,313.39**	**54,988.11**
									FEDERAL EXPENDITURES GRAND TOTAL	**6,795,446.53**

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 costs covered by state/county/city/private grants, program income, and Harborview Medical Center covered costs, may be more than shown.

Note 3 - Program Income

This program generates income to cover a portion of program expenses. Expenses covered by program income are not included in the reported expenses.
Ryan White Part C and Part D include expenditures covered by program income. In FY16, Ryan White Part C spent $1,224,186.55 in program income. Ryan White Part D spent $665,803.68.

Note 4 - 10% De Minimis Cost Rate

In FY16, no programs used a 10% de minimis cost rate.

Note 5 - Overlap in Contract period

There was a one month overlap in 8/15. Expenses were reported to direct award only.

Note 6 - Pass Through Funding

Amount of grant passed through to another agency.

CORRECTIVE ACTION PLAN FOR FINDINGS REPORTED UNDER UNIFORM GUIDANCE

Harborview Medical Center
King County
July 1, 2015 through June 30, 2016

This schedule presents the corrective action planned by the auditee for findings reported in this report in accordance with Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The information in this schedule is the representation of the Harborview Medical Center.

Finding ref number: 2016-001	**Finding caption:** The Medical Center did not have adequate internal controls to ensure compliance with requirements over time and effort, program income and reporting.
Name, address, and telephone of auditee contact person: Lillen Namba 325 Ninth Avenue (206) 744-9711	
Corrective action the auditee plans to take in response to the finding: *In August 2016, prior to the state auditors' arrival, the Medical Center implemented a process to monitor and track program income for the Ryan White Part D program as a result of the Health Resources and Services Administration (HRSA) on-site review of the Ryan White Part C and Part D programs. This process will help ensure that the Medical Center is accurately reporting program income to the grantor in all required reports and financial schedules.* *The Medical Center will require all staff paid with federal funds, as well as those paid with program income generated while administering federal programs, to complete time and effort certifications to ensure federal time and effort documentation requirements are met.* *Lastly, the Medical Center will ensure that employees responsible for preparing and reviewing the SEFA receive proper training so they understand the reporting requirements outlined in the Uniform Guidance.*	
Anticipated date to complete the corrective action: Implemented/August 2017	

Finding ref number:	**Finding caption:**
2016-002	The Medical Center did not have adequate internal controls to ensure compliance with requirements over time and effort, program income and reporting.

Name, address, and telephone of auditee contact person:

Lillen Namba

325 Ninth Avenue

(206) 744-9711

Corrective action the auditee plans to take in response to the finding:

In August 2016, prior to the state auditors' arrival, the Medical Center implemented a process to monitor and track program income for the Ryan White Part D program as a result of the Health Resources and Services Administration (HRSA) on-site review of the Ryan White Part C and Part D programs. This process will help ensure that the Medical Center is accurately reporting program income to the grantor in all required reports and financial schedules.

The Medical Center will require all staff paid with federal funds, as well as those paid with program income generated while administering federal programs, to complete time and effort certifications to ensure federal time and effort documentation requirements are met.

Lastly, the Medical Center will ensure that employees responsible for preparing and reviewing the SEFA receive proper training so they understand the reporting requirements outlined in the Uniform Guidance.

Anticipated date to complete the corrective action: Implemented/August 2017

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.

Contact information for the State Auditor's Office	
Public Records requests	PublicRecords@sao.wa.gov
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov