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, 2015 through June 30, 2017

Published March 30, 2018

Report No. 1021097

Office of the Washington State Auditor

Pat McCarthy

March 30, 2018

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

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

Federal Awards

Internal Control over Major Programs:

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

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

We reported findings that are required to be disclosed 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
93.153	Coordinated Services and Access to Research for Women, Infants, Children, and Youth
93.521	The Affordable Care Act: Building Epidemiology, Laboratory, and Health Information Systems Capacity in the Epidemiology and Laboratory Capacity for Infectious Disease (ELC) and Emerging Infections Program (EIP) Cooperative Agreements; PPHF
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

None reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

See finding 2017-001.

SCHEDULE OF FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Harborview Medical Center
King County
July 1, 2016 through June 30, 2017

2017-001 The Medical Center did not have adequate internal controls to ensure compliance with requirements for time and effort.

CFDA Number and Title:	93.918 Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease (Ryan White HIV/AIDS Part C) 93.153 - Coordinated Services and Access to Research for Women, Infants, Children, and Youth (Ryan White HIV/AIDS Part D) 93.521 — The Affordable Care Act: Building Epidemiology, Laboratory, and Health Information Systems Capacity in the Epidemiology and Laboratory Capacity for Infectious Disease (ELC) and Emerging Infections Program (EIP) Cooperative Agreements; PPHF
Federal Grantor Name:	Department of Health & Human Services
Federal Award/Contract Number:	H76HA00198-24-00 H76HA00198-25-01 H12HA28849-01-00
Pass-through Entity Name:	Public Health – Seattle & King County
Pass-through Award/Contract Number:	1159 PREV 1589 PREV
Questioned Cost Amount:	$0

Description of Condition

In fiscal year 2017, Harborview Medical Center spent $1.6 million and $1 million in federal funds under the Ryan White HIV/AIDS Part C and Ryan White HIV/AIDS Part D programs, respectively. The programs provide 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, and Part D funds improve access to primary medical care, research and support services for women and children with HIV and AIDS.

Of the $1.6 million spent in Ryan White Part C, $357,067 was program expenditures and the remaining was program income generated from the grant. Of the $1.0 million spent in Ryan White Part D, $357,903 was program expenditures and the remaining was program income generated from the grant.

The Medical Center used these funds to provide program services at its Madison Clinic (Clinic). Employee salaries and benefits totaled $454,196 (99 percent of program expenditures) for Part C and $297,465 (83 percent) for Part D.

The Medical Center also spent $298,950 in federal funds for the Affordable Care Act grant. Employee salaries and benefits totaled $151,951 or 51 percent of program expenditures incurred. The program funds are used to address and reduce emerging infectious disease and other health threats.

The Medical Center requires supervisors to review time-and-effort certifications for accuracy and to sign each certification to indicate it has been approved within 30 days of its submission. This process should be completed before requesting reimbursement from the awarding agency.

We reviewed payroll transactions to determine whether supervisors were meeting the Center's 30-day requirement for performing time-and-effort certifications. We determined supervisors did not meet the requirement, because the time-and-effort certifications we tested were reviewed and signed more than 30 days after they were submitted. In several instances, certifications were not signed until after the Medical Center already received reimbursement for payroll charges.

We consider the control deficiency a material weakness. For the Ryan White Part C and Part D grants, this issue was the result of conditions we reported in our previous audit as Findings 2016-001 and 2016-002. The Medical Center implemented our recommendations and improved the timeliness of supervisory review and approval of time and effort certifications after our report was issued. We subsequently observed improvement over the correction of the prior year condition, with staff supporting payroll charged to the grant.

Cause of Condition

Medical Center supervisors did not review time-and-effort documentation for payroll costs on time.

Because the Ryan White Parts C and D conditions were reported in June 2017, the Medical Center was unable to implement recommendations and improve timeliness of supervisory review and approval of time-and-effort certifications within the audit period.

The change in clinic management of the Affordable Care Act grant resulted in time-and-effort certifications not being reviewed and approved timely.

Effect of Condition and Questioned Costs

Without timely review and approval of the certifications, the Medical Center cannot ensure reimbursements for payroll costs are appropriate or accurate before the federal money is spent. Further, federal grantors and pass-through agencies cannot be assured salaries and benefits charged to the program are accurate and valid.

We reviewed 20 monthly time-and-effort certifications for payroll costs charged to the Ryan White Part C grant and determined the following:

- All 20 certifications we tested were not approved within 30 days after the reporting period, as required.
- Of these 20 certifications, eight (40 percent) were approved after the Medical Center had already received reimbursement from the grant for the related payroll charges.

We reviewed 19 monthly time-and-effort certifications for payroll costs charged to the Ryan White Part D grant and determined the following:

- Seventeen of the 19 certifications (89 percent) we tested were not approved within 30 days after the reporting period.
- Of these 17 certifications, 10 (53 percent) were approved after the Medical Center had already received reimbursement from the grant for the related payroll charges.

We reviewed 18 monthly time-and-effort certifications for payroll costs charged to the Affordable Care Act grant and determined the following:

- Twelve of the 18 certifications (67 percent) we tested were not approved within 30 days after the reporting period. Further, these 12 certifications

were approved after the Medical Center had already received reimbursement from the grant for the related payroll charges.

The employees and payroll costs the Medical Center charged to the program were appropriate. Therefore, we did not question the costs associated with these reimbursements.

Recommendations

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

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

Ensure time-and-effort documentation is signed off as reviewed within 30 days of the reporting period, and before the federal money is spent.

Medical Center's Response

As mentioned in the auditor's finding, the Medical Center was made aware of the noncompliance with Ryan White Parts C and D time-and-effort certifications in June 2017 as part of the prior year's audit. Procedures to comply with these requirements were subsequently implemented following the notification; however as the changes were made at the end of the fiscal year, the FY17 audit period was prior to when our new procedures were implemented.

For the Affordable Care Act, there was a change in clinic management that resulted in the late review and approvals of time-and-effort certifications. The Medical Center will re-train clinic staff on time-and-effort documentation requirements to ensure federal requirements are being met.

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

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its *Codification of Statements on Auditing Standards*, section 935, Compliance Audits, paragraph 11.

Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*

(Uniform Guidance), section 516, Audit findings, establishes reporting requirements for audit findings.

Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), section 303, Internal controls, establishes requirements for management of Federal awards to non-Federal entities.

Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), section 430, Internal controls, establishes standards for documentation of personnel expenses.

Statement on Harborview Medical Center Effort Certification Report states to "Complete within 30 days after the end of the reporting period."

UW Medicine
HARBORVIEW MEDICAL CENTER

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Harborview Medical Center
King County
July 1, 2016 through June 30, 2017

This schedule presents the status of federal findings reported in prior audit periods.

Audit Period:	**Report Ref. No.:**	**Finding Ref. No.:**	**CFDA Number(s):**
7/1/15 – 6/30/16	1019396	2016-001	95.153
Federal Program Name and Granting Agency: Coordinated Services and Access to Research for Women, Infants, Children and Youth (Ryan White HIV/AIDS Part D), Department of Health & Human Services		**Pass-Through Agency Name:** N/A	
Finding Caption: The Medical Center did not have adequate internal controls to ensure compliance with requirements over time and effort, program income and reporting.			

Background:

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).

We found the Medical Center's internal controls were not adequate to ensure compliance with the following requirements:

Program Income

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.

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.

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.

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.

Status of Corrective Action: (check one)			
☒ Fully Corrected	☐ Partially Corrected	☐ Not Corrected	☐ Finding is considered no longer valid

Corrective Action Taken:

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 in March 2016. This 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.

Audit Period: 7/1/15 - 6/30/16	**Report Reference No.:** 1019396	**Finding Ref. No.:** 2016-002	**CFDA Number(s):** 93.918
Federal Program Name and Granting Agency: Department of Health & Human Services		**Pass-Through Agency Name:** N/A	

Finding Caption:

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

Background:

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.

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.

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.

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.

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.

Status of Corrective Action: (check one)

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

Corrective Action Taken:

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 C 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 in March 2016. This 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.

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, 2015 through June 30, 2017

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, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Medical Center's basic financial statements, and have issued our report thereon dated March 30, 2018.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audits of the financial statements, we considered the Medical Center's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Medical Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Medical Center's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Medical Center's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination

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

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

COMPLIANCE AND OTHER MATTERS

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

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain matters that we have reported to the management of the Medical Center in a separate special investigation letter dated February 16, 2018.

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

March 30, 2018

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, 2016 through June 30, 2017

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, 2017. The Medical Center's major federal programs are identified in the accompanying Schedule of 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, 2017.

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 Finding 2017-001 to be a material weakness.

Medical Center's Response to Findings

The Medical Center's response to the internal control over compliance findings identified in our audit is described in the accompanying Schedule of Federal 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

March 30, 2018

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Harborview Medical Center
King County
July 1, 2015 through June 30, 2017

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, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Medical Center's basic financial statements as listed on page 25.

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, 2017 and 2016, 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 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 March 30, 2018 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

March 30, 2018

FINANCIAL SECTION

Harborview Medical Center
King County
July 1, 2015 through June 30, 2017

REQUIRED SUPPLEMENTARY INFORMATION

BASIC FINANCIAL STATEMENTS

SUPPLEMENTARY AND OTHER INFORMATION

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

Management's Discussion and Analysis (Unaudited)

June 30, 2017 and 2016

(Dollar amounts in thousands)

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, 2017 and 2016. 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 through a Hospital Services Agreement effective February 25, 2016, between the University of Washington (the University) and King County. Harborview is part of UW Medicine, which also includes: University of Washington Medical Center (UW Medical Center), UW Medicine/Northwest dba Northwest Hospital & Medical Center (Northwest Hospital), Valley Medical Center (VMC), UW Neighborhood Clinics (UWNC), UW Physicians (UWP), 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 report 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 2017

Harborview reported operating income of $23,792 and an increase in net position of $6,808 for the year ended June 30, 2017 compared to operating income of $38,926 and increase in net position of $21,403 for the year ended June 30, 2016. The positive net income in 2017 can primarily be attributed to higher inpatient acuity and increased outpatient volumes in the operating rooms and specialty clinics. Other factors contributing to the positive financial results include favorable third party settlements, grant revenue and contract pharmacy, as well as focused management of expenses.

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For the year ended June 30, 2016, Harborview reported operating income of $38,926 and an increase in net position of $21,403 compared to the reported operating income of $55,050 and an increase in net position of $35,249 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.

		2017	2016	2015
Operating revenues	$	998,430	964,313	929,889
Operating expenses		974,638	925,387	874,839
Income from operations		23,792	38,926	55,050
Investment income, net		2,985	2,715	1,823
Other, net		(20,196)	(24,689)	(20,367)
Nonoperating expenses		(17,211)	(21,974)	(18,544)
Income before other changes in net position		6,581	16,952	36,506
Other changes in net position		227	4,451	(1,257)
Increase in net position		6,808	21,403	35,249
Net position, beginning of year		672,319	650,916	615,667
Net position, end of year	$	679,127	672,319	650,916

The following table presents Harborview's key performance indicators for June 30, 2017, 2016, and 2015:

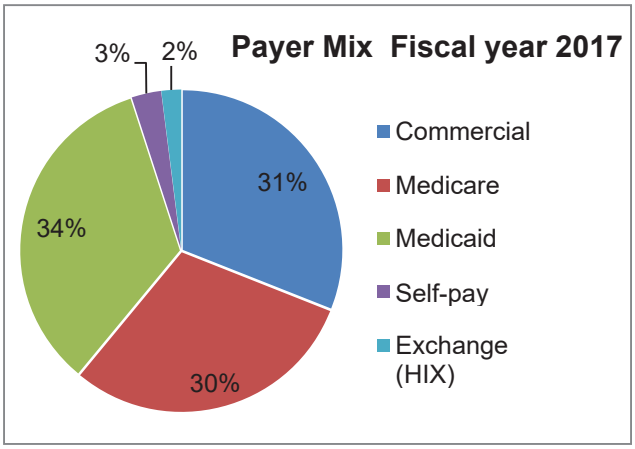
	2017	2016	2015
Available beds	413	413	413
Admissions	17,158	16,969	17,362
Patient days	146,805	144,140	138,214
Average length of stay	8.6	8.5	8.0
Occupancy	97 %	96 %	92 %
Case mix index (CMI)	2.28	2.23	2.15
Surgery cases	16,412	16,291	16,280
Emergency room visits	58,847	59,776	62,217
Primary care clinic visits	86,180	84,374	81,968
Specialty care clinic visits	172,486	168,061	165,647
Full-time equivalents (FTEs)	4,438	4,401	4,476
Trauma cases	6,399	6,412	6,190

Harborview has experienced a three year reduction in emergency room visits and a corresponding increase in primary care visits attributable to the Affordable Care Act (ACA), which increased the number of patients with coverage.

Operating Revenues

Operating revenues consist 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 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.

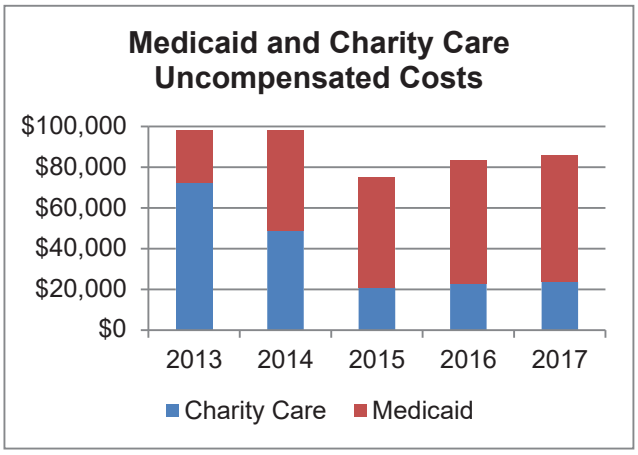
Net patient service revenues comprise both inpatient and outpatient revenue. Outpatient revenue consists of hospital-based clinic and professional fee revenue. Other operating revenues comprise of hospital-related revenues such as grant and contract pharmacy revenue, as well as parking and cafeteria revenues.



Harborview's payer mix is a key factor in the overall financial operating results. The chart to the left illustrates payer mix for 2017. For the years ended June 30, 2017 and 2016, Medicaid revenue represented 34%, Medicare revenue represented 30%, Commercial revenue represented 31%, Exchange revenue represented 2% and self-pay revenue represented 3%, for both fiscal years.

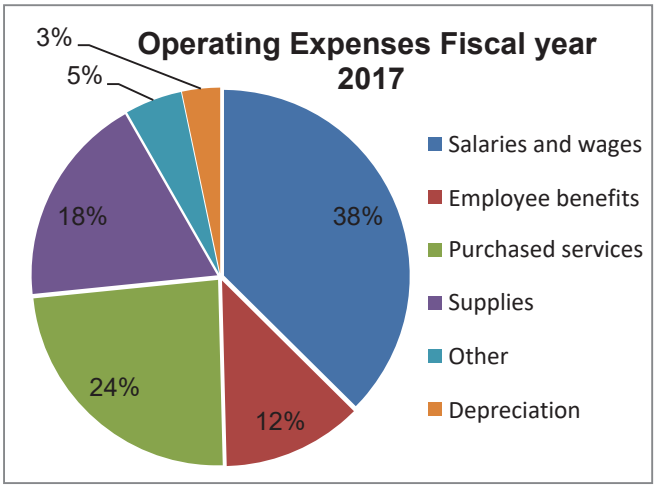
As a result of the Affordable Care Act, Harborview experienced a decrease in uninsured patients after January 1, 2014 as many patients who previously qualified for self-pay or charity care now qualify for Medicaid coverage. However, Harborview has seen a corresponding increase in uncompensated care costs

related to providing care to Medicaid patients. Uncompensated care costs as illustrated in the chart to the right represent costs in excess of payments for Medicaid and charity care patients. This chart does not include all uncompensated costs such as providing care to Medicare patients.



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

For the years ended June 30, 2017, 2016, and 2015, Harborview's total operating revenues were $998,430, $964,313 and $929,889, which was composed of $918,904, $887,533, and $858,845 in net patient service revenues and $79,526, $76,780, and $71,044 of other operating revenues, respectively. The increase in operating revenues for fiscal year 2017 was driven by higher case acuity, volumes, and an increase in contract pharmacy activity. The increase in fiscal year 2016 was driven by higher case acuity, and an increase in contract pharmacy and safety net revenue.



Operating Expenses

Operating expenses were $974,638 for fiscal year 2017 compared to $925,387 for fiscal year 2016 and $874,839 for fiscal year 2015. The composition of fiscal year 2017 operating expenses is illustrated in the chart to the left.

Salaries and wages increased $17,368 from $350,126 in fiscal year 2016 to $367,494 in fiscal year 2017. The increase in salaries and wages in the current year is primarily attributed employee merit increases and higher contract labor.

Salaries and wages increased $6,619 from $343,507 in fiscal year 2015 to $350,126 in fiscal year 2016. The increase in salaries and wages in fiscal year 2016 is primarily attributed to patient care labor associated with higher than anticipated occupancy and employee merit increases.

Employee benefits decreased $808 from $120,227 in fiscal year 2016 to $119,419 in fiscal year 2017 and increased $19,155 from $101,072 in fiscal year 2015 to $120,227 in fiscal year 2016. Between fiscal year 2016 and fiscal year 2017, the University benefit load rate for classified employees decreased by 1.5% which held benefit expenses flat. The benefit load rate increased by 2.2% for classified employees in fiscal year 2018.

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, which led to the increase in benefits expense.

Purchased services, which consist of professional and consulting fees, increased $22,193 from $211,653 in fiscal year 2016 to $233,846 in fiscal year 2017, and increased $29,842 from $181,811 in fiscal year 2015 to $211,653 in fiscal year 2016. The increase in purchased services in fiscal year 2017 is attributed to higher faculty funding and shared services expense.

In 2016, UW Medicine moved new departments such as accounting, payroll, supply chain, and other shared service departments into the purchased service model. The increase in purchased services expense between fiscal year 2016 and 2015 was attributed to the allocation of these shared service costs to Harborview.

Supplies expense includes medical, surgical supplies, and pharmaceutical supplies. In total, these expenses increased $9,141 from $170,911 in fiscal year 2016 to $180,052 in fiscal year 2017 and increased $13,828 from $157,083 in fiscal year 2015 to $170,911 in fiscal year 2016. The increase in supplies expense between 2017 and 2016 is a result of higher prosthesis, pharmaceuticals, and patient chargeable expense driven by greater volumes and supply cost inflation.

The increase in supplies expense between 2016 and 2015 was a result of higher pharmaceutical expense.

Other expense includes insurance, taxes, rent and other expenses. Other expense increased $2,496 from $38,949 in fiscal year 2016 to $41,445 in fiscal year 2017 and decreased $12,491 from $51,440 in fiscal year 2015 to $38,949 in fiscal year 2016. The increase in other expense between 2017 and 2016 is attributed to higher electricity and other miscellaneous expense.

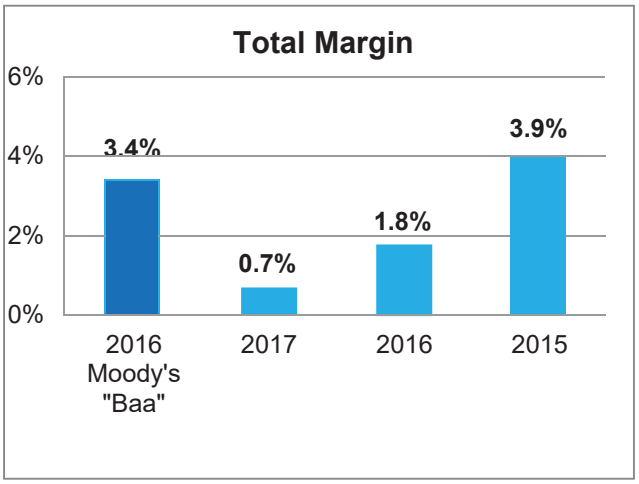
The decrease in other expense between 2016 and 2015 was due to a reduction in rental expense at the Ninth & Jefferson building. Additionally, Harborview wrote-off certain capital assets and restricted investments for which management determined carrying amounts were not recoverable, contributing to a decrease of $9,200 in other expense between 2016 and 2015.

Depreciation expense decreased $1,139 from $33,521 in fiscal year 2016 to $32,382 in fiscal year 2017 and decreased $6,405 from $39,926 in fiscal year 2015 to $33,521 in fiscal year 2016. The decrease in fiscal years 2017 and 2016 was attributed to capital spending reductions and previously recorded information technology (IT) assets recorded on Harborview's statements of net position becoming fully depreciated. With the migration of IT into a shared service, future investment in IT capital projects will be recorded within shared services.

Nonoperating Revenues (Expenses)

Nonoperating revenues (expenses) consist primarily of investment income, interest expense, donations, intergovernmental transfer expense, strategic funding to UW Medicine entities, and mission support to King County. In 2017, net nonoperating expenses decreased $4,763 from $21,974 for the year ended June 30, 2016 to $17,211 at June 30, 2017. In 2017, nonoperating expenses decreased as a result of a reduction in strategic funding to affiliates, primarily Northwest Hospital and lower donation income than the previous year.

Net nonoperating expenses increased $3,430 from $18,544 at June 30, 2015 to $21,974 at June 30, 2016. In 2016, the increase in net nonoperating expenses was attributed to a $5,000 mission support expense to King County as a result of a new provision in the hospital services agreement.



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 2017, 2016, and 2015 compared to industry median is illustrated in the chart to the left.

(Dollar amounts in thousands)

Financial Analysis

Net Position

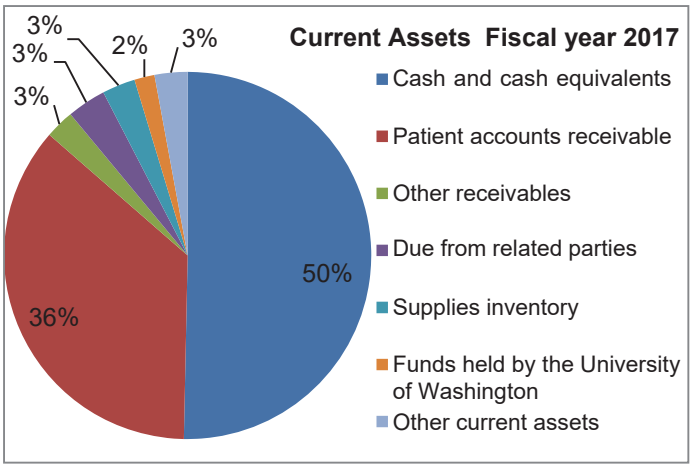
The table below is a presentation of certain condensed financial information derived from Harborview's net position as of the fiscal years ended June 30, 2017, 2016, and 2015:

		2017	2016	2015
Current assets	$	410,904	408,516	376,705
Noncurrent assets:				
Capital assets, net		290,177	300,364	307,259
Funds held by the University of Washington		600	600	600
Assets whose use is limited		102,118	107,462	121,677
Other assets		20,757	17,208	14,025
Total assets		824,556	834,150	820,266
Current liabilities		133,442	148,880	154,851
Noncurrent liabilities		11,987	12,951	14,499
Total liabilities		145,429	161,831	169,350
Net position		679,127	672,319	650,916
Total liabilities and net position	$	824,556	834,150	820,266

Total assets were $824,556 at June 30, 2017 compared to $834,150 at June 30, 2016, a decrease of $9,594. Significant events within total assets during fiscal year 2017 include a decrease in assets whose use is limited as a result of Medicaid Certified Public Expenditure (CPE) interim settlements and a decrease in capital assets attributed to moderate capital spending.

Total assets were $834,150 at June 30, 2016 compared to $820,266 at June 30, 2015, an increase of $13,884. 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.

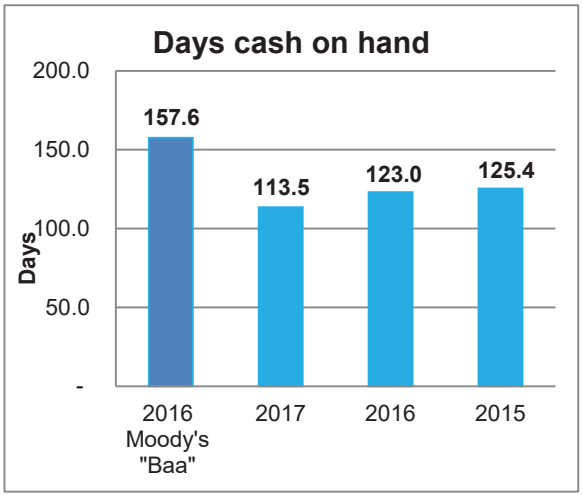
Current Assets



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 $410,904, $408,516, and $376,705 at fiscal years 2017, 2016, and 2015, respectively. Fiscal year 2017 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 decreased $1,041 in 2017 from $207,818 at June 30, 2016 to $206,777 at June 30, 2017 and increased $27,349 in 2016 from $180,469 at June 30, 2015 to $207,818 at June 30, 2016.

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, 2017, 2016, and 2015 and comparison to Moody's rating are illustrated in the graph to the right.

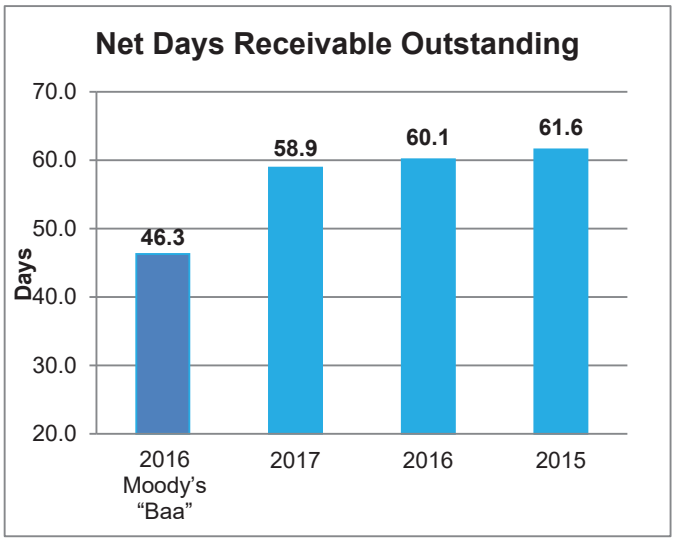


Harborview's total days cash on hand decreased 9.5 days from 123.0 days at June 30, 2016 to 113.5 days at June 30, 2017 and decreased 2.4 days from 125.4 days at June 30, 2015 to 123.0 days at June 30, 2016. The decrease of 9.5 days between 2017 and 2016 is due to increases in operating expenses and repayments of Medicaid CPE interim settlements to the State.

The decrease in 2016 was driven by increases in operating expense and repayments of a CPE hold harmless estimate to the State.

Net patient accounts receivable was $148,279 as of June 30, 2017 compared to $145,818 at June 30, 2016 and $144,875 at June 30, 2015. Net patient accounts receivable increased $2,461 and $943 in fiscal year 2017 and 2016, respectively. In 2017, net patient accounts receivable increased as a result of greater occupancy and

overall favorable volumes as compared to 2016. In 2016, net patient accounts receivable increased as a result of delay in administrative days payments from payers.



Days receivable outstanding indicates an organization's ability to convert net patient service revenue to cash. Days receivable outstanding as of June 30, 2017, 2016, and 2015 and comparison to Moody's rating are provided in the graph included to the left.

Harborview's net days receivable outstanding decreased 1.2 days from 60.1 days at June 30, 2016 to 58.9 days at June 30, 2017 and decreased 1.5 days from 61.6 days at June 30, 2015 to 60.1 days at June 30, 2016. Net days receivable outstanding improved in 2017 and is driven by a continued focus on revenue cycle initiatives that improved billing and collection activities. The decrease in net days receivable outstanding during fiscal year 2016 was driven by Medicaid and Medicaid managed care plans paying more quickly than in fiscal year 2015.

As of June 30, 2017 and 2016, 39% and 34% of the gross patient accounts receivable balance are due from commercial payers, 58% and 60% are due from governmental payers Medicare and Medicaid, 2% and 3% are due from self-pay patients, and 1% and 3% 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 decreased $4,732 from $18,876 at June 30, 2016 to $14,144 at June 30, 2017 and increased $2,948 from $15,928 at June 30, 2015 to $18,876 at June 30, 2016. The decrease in 2017 and increase in 2016 relates to the timing of payments between Harborview and other UW Medicine entities.

Noncurrent Assets

Capital assets net of accumulated depreciation decreased $10,187 during fiscal year 2017 from $300,364 at June 30, 2016 to $290,177 at June 30, 2017 and decreased $6,895 during fiscal year 2016 from $307,259 at June 30, 2015 to $300,364 at June 30, 2016. The decrease in both years was primarily due to continued depreciation of depreciable assets offset by moderate capital spending in recent years while Harborview and King County evaluate a revised master plan for the facility.

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

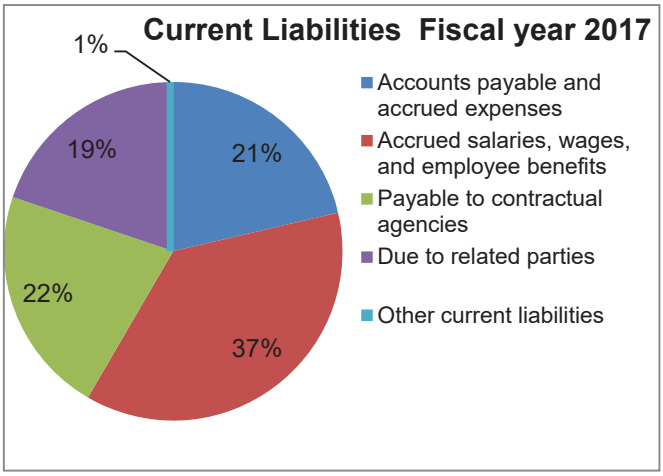
Assets whose use is limited (AWUL) includes board-designated, management-designated, and restricted investments. These investments include cash, long-term investments, and property held for future use and are used by Harborview to fund strategic initiatives, capital improvements, and to purchase equipment.

At June 30, 2017, total assets whose use is limited was $102,118, compared to $107,462 at June 30, 2016, a decrease of $5,344 between years. At June 30, 2016, assets whose use is limited is $107,462 compared to $121,677 at June 30, 2015, a decrease of $14,215. The decrease in AWUL in both fiscal years is attributed to CPE hold harmless repayments to the State, of which approximately $24,771 was paid in 2017.

Other assets consist of long-term prepaid expenses. The long-term prepaid expense reflected in other assets of $20,757, $17,208, and $14,025 at June 30, 2017, 2016, and 2015, 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, offset by allocated user fees.

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 $133,442, $148,880, and $154,851 at June 30, 2017, 2016, and 2015, respectively. Fiscal year 2017 composition of current liabilities is illustrated in the chart to the right.



Accounts payable and accrued expenses increased $7,996 from $20,482 at June 30, 2016 to $28,478 at June 30, 2017 and decreased $10,375 from $30,857 at June 30, 2015 to $20,482 at June 30, 2016. Changes in accounts payable and accrued expenses are primarily driven by timing of payments to vendors.

Accrued salaries, wages, and employee benefits increased $2,299 from $47,163 at June 30, 2016 to $49,462 at June 30, 2017 and decreased $591 from $47,754 at June 30, 2015 to $47,163 at June 30, 2016. 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 decreased $19,485 from $48,544 at June 30, 2016 to $29,059 at June 30, 2017 and increased $90 from $48,454 at June 30, 2015 to $48,544 at June 30, 2016. The decrease in fiscal year 2017 was driven by a $24,771 repayment of Medicaid CPE hold harmless to the State. The slight increase in fiscal year 2016 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, including information technology, the School, and funding to King County. Amounts due to related parties decreased $5,708 from $31,350 at June 30, 2016 to $25,642 at June 30, 2017 and increased $5,073 from $26,277 at June 30, 2015 to $31,350 at June 30, 2016. In 2017, the decrease in due to related parties is primarily driven by timing of payments to related parties. The increase in 2016 resulted from a new provision in the hospital services agreement whereby, Harborview recorded a payable to King County in the amount of $5,000 related to mission support expense.

Factors Affecting the Future

Economic Uncertainty Facing the Healthcare Industry

The healthcare industry, in general, and the acute care hospital business, in particular, are experiencing significant regulatory uncertainty based, in large part, on legislative efforts to significantly modify or repeal and potentially replace the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act of 2010 (Affordable Care Act or ACA). It is difficult to predict the full impact of these actions on Harborview's future revenues and operations. Changes to the ACA are likely to significantly impact Harborview.

However, we believe that our ultimate success in increasing profitability depends in part on our success in executing our strategies. In general, these strategies are intended to improve financial performance through the reduction of costs and streamlining of how we provide clinical care, as well as mitigating the recent negative reimbursement trends being experienced within the market. With a continued focus on patient volumes shifting from inpatient to outpatient settings due to technological advancements and demand for care that is more convenient, affordable and accessible as well as industry-wide migration to value-based payment models as government and private payers shift risk to providers, Harborview's success at managing costs and care efficiently is paramount.

UW Medicine/MultiCare Alliance

In July 2017, UW Medicine and MultiCare Health System (MultiCare) announced the formation of a new alliance that will expand access to high-quality healthcare and allow the two organizations to engage in joint activities to further the mission of each organization. Through the alliance, UW Medicine and MultiCare will provide cost-effective and clinically integrated healthcare in communities throughout the Puget Sound region, while supporting the education of the next generation of clinicians and advancing research. The parties joint activities will be guided by four core principles: the provision of high-quality, patient-centered care; a commitment to teaching and research; ensuring strong financial stewardship to deliver value to the payers of healthcare services; and a focus on improving the health of populations served by the alliance.

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 patient populations 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 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. This contract with HCA covering 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 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. The AHS must have 5,000 planwide members per product, per region for UW Medicine ACN to share in financial savings and risk. The ACN is not at risk for the AHS product in 2016 and 2017.
- 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 as a result of University employees deployed at Harborview. Employer pension funding rates for the Public Employees Retirement System (PERS) pension plans were mostly unchanged in fiscal year 2017 at 11.2% of covered salary, but will be increasing to 12.5% of covered salary in fiscal year 2018. The monthly employer base rate paid by the University and Harborview for employee healthcare, however, increased 5.7% during fiscal year 2017, from $840 to $888 per active employee, and will be increasing to $913 per active employee during fiscal year 2018. 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 required 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 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. Although, 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, 2017 and June 30, 2016 that relates to University employees deployed at Harborview was approximately $284,000 and $233,000, respectively.

The University has a financial responsibility for the supplemental payment component associated with the University of Washington Supplemental Retirement Plan (UWSRP) defined-benefit plan (note 9), which includes those University employees deployed at Harborview. In 2017, the University was required to implement GASB 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*, which requires the University to recognize the remaining unamortized pension liability for UWSRP, together with any deferred inflows and outflows of resources. GASB Statement No. 73 is applicable to the University as well as to UW Medicine entities that are part of the financial reporting entity of the University. Total pension liability and the respective deferred outflow and inflow of resources are determined by the actuarial report for the amounts recorded by the University. Management evaluated the requirements of this statement and determined that the GASB Statement No. 73 is not applicable to Harborview as Harborview is not part of the University's financial reporting entity and Harborview has no legal responsibility for benefit payments of the plan. Harborview funds its share of contribution expense through the University benefit load rate, but does not record total pension liability on its financial statements. The portion of the University's total pension liability at June 30, 2017 that relates to University employees deployed at Harborview was approximately $18,500.

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

Statements of Net Position

June 30, 2017 and 2016

(Dollar amounts in thousands)

Assets		2017	2016
Current assets:			
Cash and cash equivalents	$	206,777	207,818
Funds held by the University of Washington		7,345	2,949
Patient accounts receivable, less allowance for uncollectible accounts of $32,857 in 2017 and $33,897 in 2016		148,279	145,818
Other receivables		10,535	9,829
Due from related parties		14,144	18,876
Supplies inventory		11,909	10,625
Other current assets		11,915	12,601
Total current assets		410,904	408,516
Noncurrent assets:			
Capital assets, net of accumulated depreciation		290,177	300,364
Fund held by the University of Washington		600	600
Assets whose use is limited		102,118	107,462
Other assets		20,757	17,208
Total noncurrent assets		413,652	425,634
Total assets	$	824,556	834,150
Liabilities and Net Position			
Current liabilities:			
Accounts payable and accrued expenses	$	28,478	20,482
Accrued salaries, wages, and employee benefits		49,462	47,163
Due to related parties		25,642	31,350
Payable to contractual agencies		29,059	48,544
Current portion of unearned rent		686	686
Current portion of long-term debt		115	655
Total current liabilities		133,442	148,880
Noncurrent liabilities:			
Unearned rent and other		11,987	12,828
Long-term debt, net of current portion		—	123
Total liabilities		145,429	161,831
Net position:			
Net investment in capital assets		290,062	299,586
Expendable, restricted		10,234	10,150
Nonexpendable, restricted		2,632	2,534
Unrestricted		376,199	360,049
Total net position		679,127	672,319
Total liabilities and net position	$	824,556	834,150

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, 2017 and 2016

(Dollar amounts in thousands)

	2017	2016
Operating revenues:		
Net patient service revenues (net of provision for uncollectible accounts of $23,000 in 2017 and $28,494 in 2016)	$ 918,904	887,533
Other operating revenues	79,526	76,780
Total operating revenues	998,430	964,313
Operating expenses:		
Salaries and wages	367,494	350,126
Employee benefits	119,419	120,227
Purchased services	233,846	211,653
Supplies	180,052	170,911
Other	41,445	38,949
Depreciation	32,382	33,521
Total operating expenses	974,638	925,387
Income from operations	23,792	38,926
Nonoperating revenues (expenses):		
Investment income, net	2,985	2,715
Interest expense	(28)	(56)
Donations	665	1,723
Funding to affiliates	(14,189)	(20,336)
Funding to King County	(5,000)	(5,000)
Other, net	(1,644)	(1,020)
Nonoperating expenses	(17,211)	(21,974)
Income before capital contributions, additions to permanent endowments, and other	6,581	16,952
Capital contributions, additions to permanent endowments, and other:		
Additions to permanent endowments	98	8
Capital contributions and other transfers	129	4,443
Total capital contributions, additions to permanent endowments, and other	227	4,451
Increase in net position	6,808	21,403
Net position – beginning of year	672,319	650,916
Net position – end of year	$ 679,127	672,319

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, 2017 and 2016

(Dollar amounts in thousands)

	2017	2016
Cash flows from operating activities:		
Cash received for patient service revenues and other	$ 897,060	886,680
Cash received for other services	74,424	80,038
Cash paid to employees	(484,614)	(466,574)
Cash paid to suppliers and others	(454,929)	(443,400)
Net cash provided by operating activities	31,941	56,744
Cash flows from noncapital financing activities:		
Donations and other income received	665	1,723
Funding to affiliates	(14,291)	(20,336)
Funding to King County	(5,000)	—
Additions to permanent endowments	98	8
Other	(940)	(693)
Net cash used in noncapital financing activities	(19,468)	(19,298)
Cash flows from capital and related financing activities:		
Principal payments on long-term debt	(655)	(810)
Cash paid for interest	(30)	(61)
Capital expenditures	(21,288)	(26,229)
Capital contributions	129	—
Net cash used in capital and related financing activities	(21,844)	(27,100)
Cash flows from investing activities:		
Net decrease in assets whose use is limited	4,852	14,683
Investment income, net	3,478	2,320
Net cash provided by investing activities	8,330	17,003
(Decrease) increase in cash and cash equivalents	(1,041)	27,349
Cash and cash equivalents, beginning of year	207,818	180,469
Cash and cash equivalents, end of year	$ 206,777	207,818
Reconciliation of income from operations to net cash provided by operating activities:		
Income from operations	$ 23,792	38,926
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation	32,382	33,521
Provision for uncollectible accounts	23,000	28,494
Net increase in current and other assets	(29,978)	(36,140)
Net decrease in current liabilities, except current portion of long-term debt	(16,414)	(7,169)
Decrease in unearned rent and other	(841)	(888)
Net cash provided by operating activities	$ 31,941	56,744
Supplemental disclosures of cash flow information:		
Increase in accounts payable for capital assets	$ 1,118	738
Donation gift in kind	—	3
Loss on disposal of capital assets	(264)	(341)

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 (King County). Harborview is managed and operated by UW Medicine under a Hospital Services Agreement between King 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 King County Council approved a new Hospital Services Agreement (the 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 King 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 King County retains title to all real and personal properties acquired for King 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 King 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 King County $5,000 from Harborview revenue or reserves to support Mission Population programs and services that are currently being provided by King County. The annual allocation and disbursement may be reduced by an amount agreed to by the parties based upon reductions in costs incurred by King County or new funding sources that would not otherwise be received by King County. During fiscal year 2017, the annual allocation was not reduced and Harborview paid $5,000 to King 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.

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 an entity of UW Medicine which also includes: UW Medical Center, UW Medicine/Northwest dba Northwest Hospital & Medical Center (Northwest Hospital), Valley Medical Center (VMC), UW Neighborhood Clinics (UWNC), UW Physicians (UWP), 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 Governmental 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 and payable to contractual agencies.

(d) Cash and Cash Equivalents

Cash and cash equivalents primarily comprise investments held in an external investment pool managed for Harborview by King 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 amortized cost.

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

(Dollar amounts in thousands)

Committee (EFC). All investments are subject to written policies and procedures adopted by the EFC. The EFC reviews pool performance monthly. The King County Investment Pool was invested as follows at June 30:

	2017	2016
Cash and cash equivalents	5.5 %	9.0 %
U.S. Treasuries and agencies	67.7	68.6
Washington State Local Government Investment Pool	11.2	8.4
Corporate and other fixed income	15.6	14.0
Total	100.0 %	100.0 %

Concentrations of credit risk consist of pooled investments held on behalf of Harborview at King 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 $206,777 and $207,818 as of June 30, 2017 and 2016, respectively.

(e) Assets Whose Use is Limited

Assets whose use is limited include board and management designated 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 King County. Investments are held in the King County Investment Pool, managed for Harborview by King County, and are carried at amortized cost. Harborview has assets whose use is limited of $102,118 and $107,462 as of June 30, 2017 and 2016, 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 King County.

(Dollar amounts in thousands)

(f) Inventories

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

(g) Capital Assets

Capital assets, defined as purchases with a per item cost of $5 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 large 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 2017 and 2016.

(h) Other Assets

UW Medicine IT Services (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, 2017 and 2016, $9,500 and $10,400, respectively, is recorded in other current assets and $20,757 and $17,208 is recorded in other assets, respectively.

(i) Compensated Absences

The 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 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, 2017 and 2016 is $23,988 and $23,296, respectively. Sick leave accrued as of June 30, 2017 and 2016 is $4,224 and $3,473, 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 revenue and expenses. Operating revenue, 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 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 expenditures 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.

(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, 2017 and 2016, Harborview has recorded a liability of $1,865 and $667, 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 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 $75,084 and $63,479, respectively, for the years ended June 30, 2017 and 2016.

Harborview estimates the cost of charity care using its Medicaid cost to charge ratio of 40% and 41% for the fiscal years ended June 30, 2017 and 2016, respectively. Applying Harborview's Medicaid cost to charge ratio of 40% to total charity of $75,084 results in an estimated cost of charity care of $30,034 for the fiscal year ended June 30, 2017. Applying Harborview's Medicaid cost to charge ratio of 41% to total charity of $63,479 results in an estimated cost of charity care of $26,026 for the fiscal year ended June 30, 2016.

(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

On July 1, 2016, the University adopted GASB 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* pertaining to pension plans not within the scope of Statement No. 68. The guidance is intended to improve the financial reporting of governments whose employees are provided with pensions that are not within the scope of Statement 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. The University of Washington Supplemental Retirement Plan (UWSRP, note 9) does not

currently fall within the scope of GASB Statement No. 68 since the assets set aside to pay retiree benefits have not been segregated and restricted in a trust or equivalent arrangement. The implementation of this statement required the University to recognize the remaining unamortized pension plan liability for the UWSRP, together with any associated deferred inflows and deferred outflows of resources, and to restate net position for all periods presented. Management evaluated the requirements of this statement and determined that it is not applicable to Harborview as Harborview is not part of the financial reporting group of the University nor is legally obligated to pay the benefit payments. Thus, Harborview does not record a total pension liability on its financial statements.

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (OPEB), which will be 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. The University participates in OPEB, which is described in note 9, and currently does not impact the University's financial statements. As a result of implementing this Statement, the University will be required to recognize its proportionate share of the state's actuarially determined OPEB liability and associated deferred inflows and outflows of resources, benefit expense related to the plan, and to restate net position for all periods presented. The July 2017 actuarial valuation prepared in accordance with GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, reports an actuarial accrued liability for the state of Washington at $5,500,000 and of that the UW's estimated proportionate share is $1,200,000. The plan has no assets, therefore, the University has estimated the impact to their financial statements to be recognition of the OPEB liability equal to the University's proportionate share, with a similar reduction in unrestricted net position. The University is unable to estimate the deferrals and OPEB expense at this time. Harborview is currently analyzing the impact of this statement.

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations,* which will be effective for the fiscal year ending June 30, 2019. An Asset Retirement Obligation (ARO) is a legally enforceable liability associated with the retirement of a tangible capital asset. Governments that have legal obligations to perform future tangible asset retirement activities will need to recognize a liability and offsetting deferred outflow of resources when incurred and reasonably estimable. The basis of the estimate is the current value of the future outlays expected to be incurred and adjusted annually for inflation and any changes of relevant factors. The deferral is to be recognized as an expense in a systematic and rational manner over the life of the tangible capital asset. The liability is derecognized as retirement costs are paid. The standard requires disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. Harborview is currently analyzing the impact of this statement.

In June 2017, the GASB issued Statement No. 87, *Leases*, which will be effective for the fiscal year ending June 30, 2021. This statement establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Lessees will be

(Dollar amounts in thousands)

required to recognize a lease liability and an intangible right-to-use lease asset, and lessors will be required to recognize a lease receivable and a deferred inflow of resources. Contracts that convey the right to use a nonfinancial asset in an exchange or exchange-like transaction for a term exceeding 12 months are defined by the GASB as a lease. Harborview is currently analyzing the impact of this statement.

(q) Reclassifications

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

(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 2017 and 2016, net patient service revenue includes approximately $6,505 and $7,208 of revenue, respectively, relating to prior years' net Medicare and Medicaid cost report settlements and revised estimates, including Disproportionate Share Hospital (DSH) reimbursement and the CPE Program.

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

		2017	2016
Gross patient service revenues	$	2,354,013	2,226,302
Less adjustments to patient service revenues:			
Charity care		(75,084)	(63,479)
Contractual discounts		(1,337,025)	(1,246,796)
Provision for uncollectible accounts		(23,000)	(28,494)
Total adjustments to patient service revenues		(1,435,109)	(1,338,769)
Net patient service revenues	$	918,904	887,533

(Dollar amounts in thousands)

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, 2017 and 2016 is as follows:

	Patient service charges	Accounts receivable
2017:		
Medicare	30 %	25 %
Medicaid	34	33
Commercial and other	31	39
Self-pay	3	2
Exchange (HIX)	2	1
Total	100 %	100 %
2016:		
Medicare	30 %	22 %
Medicaid	34	38
Commercial and other	31	34
Self-pay	3	3
Exchange (HIX)	2	3
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 $48,413 and $58,526 in claims payments under this program for the years ended June 30, 2017 and 2016, respectively.

In addition, Harborview receives the federal match portion of DSH payments, which are the lesser of qualifying uncompensated care cost or the hospital's specific limit. Harborview received $41,637 and $39,975 in DSH funding under this program for the years ended June 30, 2017 and 2016, respectively.

Since the inception of the program, the Washington State Legislature (the State) has provided, through an annual budget proviso, a "hold harmless" provision for hospitals participating in the CPE program. Through this proviso, hospitals participating in the CPE program will receive no less in combined state and federal payments than they would have received under the previous payment methodology. In addition, the hold harmless provision ensures that participating hospitals receive DSH payments as specified in the legislation.

In the event of a shortfall between CPE program payments and the amount determined under the hold harmless provision, the difference is paid to the hospitals as a grant from state-only funds. Harborview received $4,578 and $14,669 in state grants for the years ended June 30, 2017 and 2016, 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. 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, 2017 and 2016, net patient service revenue includes approximately $8,115 and $2,729, respectively, of increases relating to the prior year's estimate and settlements.

As of June 30, 2017, Harborview has an estimated payable of $20,040 for the CPE program, which is included in payable to contractual agencies in the statements of net position. As of June 30, 2016, Harborview had an estimated payable of $44,229 for the CPE program, which is included in payable to contractual agencies in the statements of net position.

(b) Professional Services Supplemental Payment and Provider Access Payment 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 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 $12,266 and $11,911 for the years ended June 30, 2017 and 2016 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 revenues, expenses, and changes in net position.

WSHCA uses the federal match funds to make PSSPs to UW Medicine entities for PSSP and through the Medicaid managed care plans for PAP. Harborview recognized $5,001 and $5,949 in supplemental payments for the years ended June 30, 2017 and 2016, respectively. These payments are included in net patient service revenue in the statements of revenues, 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 revenue 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 $25,503 and $25,679 in fiscal years 2017 and 2016, respectively. This reduction is included as an offset to purchased services in the statements of revenues, 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, 2019.

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 $10,260 for the years ended June 30, 2017 and 2016, which is recorded in other operating revenues in the statements of revenues, expenses, and changes in net position.

(d) Meaningful Use Incentives

The American Recovery and Reinvestment Act of 2009 (ARRA) established incentive payments to eligible professionals and hospitals participating in Medicare and Medicaid programs that adopt certified electronic health records, 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 $3,664 and $6,030 for the years ended June 30, 2017 and 2016, which are included in other operating revenues in the statements of revenues, 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 2017 and 2016 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 $6,519 and $7,519 for the years ended June 30, 2017 and 2016, respectively. In addition to the funding received through the Trauma Enhancement program, Harborview received State sponsored trauma grants in the amount of $1,520 and $1,495 for the years ended June 30, 2017 and 2016, 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 $6,389 and $6,297 for the years ended June 30, 2017 and 2016, respectively.

(Dollar amounts in thousands)

(5) Capital Assets

The activity in Harborview's capital asset and related accumulated depreciation accounts for the years ended June 30, 2017 and 2016 is set forth below:

	Balance June 30, 2016	Additions	Transfers	Retirements	Balance June 30, 2017
Capital assets, not being depreciated:					
Land	$ 2,432	—	—	—	2,432
Construction in process	12,584	13,462	(6,777)	—	19,269
Total capital assets, not being depreciated	15,016	13,462	(6,777)	—	21,701
Capital assets, being depreciated:					
Land improvements	5,598	—	342	(33)	5,907
Buildings, renovations, and furnishings	419,700	—	4,202	(2,034)	421,868
Fixed equipment	143,813	—	71	(3,339)	140,545
Movable equipment	294,453	8,997	2,112	(84,833)	220,729
Leasehold improvements	10,500	—	50	(68)	10,482
Total capital assets, being depreciated	874,064	8,997	6,777	(90,307)	799,531
Total capital assets at historical cost	889,080	22,459	—	(90,307)	821,232
Less accumulated depreciation for:					
Land improvements	(2,941)	(455)	—	33	(3,363)
Buildings, renovations, and furnishings	(201,977)	(13,755)	—	2,034	(213,698)
Fixed equipment	(129,462)	(4,086)	—	3,336	(130,212)
Movable equipment	(249,576)	(13,494)	—	84,572	(178,498)
Leasehold improvements	(4,760)	(592)	—	68	(5,284)
Total accumulated depreciation	(588,716)	(32,382)	—	90,043	(531,055)
Total capital assets, net	$ 300,364	(9,923)	—	(264)	290,177

(Dollar amounts 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

(Dollar amounts in thousands)

(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:

		2017	2016
Board-designated assets:			
Pooled investments managed by King County	$	60,214	66,178
Receivables and other		234	188
Property held for future use, at cost, less accumulated depreciation		2,717	2,718
Total board-designated assets		63,165	69,084
Management-designated assets		25,985	25,784
Restricted cash and investments:			
Investments restricted for capital by King County		4,573	4,737
Investments restricted by donor		8,395	7,857
Total restricted assets		12,968	12,594
Total assets whose use is limited	$	102,118	107,462

(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:

		2017	2016
Commuter service fund	$	14,674	13,266
Self-insurance fund		1,207	1,198
Walter Scott Brown property		2,718	2,718
Equipment fund		12,431	1,525
Building repair and replacement fund		22,268	22,712
Planned capital and program reserves		9,867	27,665
Total	$	63,165	69,084

(Dollar amounts in thousands)

(c) Investments Restricted for Capital and by Donor

Investments restricted for capital comprise investments held in the King County Investment Pool, managed for Harborview by King County, and are $4,573 and $4,737 for the years ended June 30, 2017 and 2016, respectively. These investments represent unspent bond proceeds, required capital funding, and accumulated interest earnings. Use of these investments is restricted by King County for designated capital projects.

Investments restricted by donor represent assets whose use is restricted by grantors or contributors external to Harborview and are $8,395 and $7,857 as of June 30, 2017 and 2016, 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, 2017 and 2016 are summarized below:

	Beginning balance	Increases	Decreases	Ending balance	Due within one year
Fiscal year ending:					
June 30, 2017	$ 13,514	—	(841)	12,673	686
June 30, 2016	14,402	—	(888)	13,514	686

(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.

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 5.0% for 2017 and 5.5% for 2016 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. In addition to the self-insurance fund contributions, the participants share in the expenses of the Health Science Risk Management Office.

Harborview's contribution to the professional liability program was $3,696 and $3,514 in 2017 and 2016, respectively recorded in 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 $26,691 and $28,972 in fiscal years 2017 and 2016, respectively, related to annual PERS funding, which is recorded in employee benefits on the statements of revenues, expenses, and changes in net position.

University of Washington Retirement Plan (UWRP) – UWRP is a defined contribution plan administered by the University. All faculty and professional staff are eligible to participate in the plan. Contributions to UWRP are invested by participants in annuity contracts or mutual fund accounts offered by one or more fund sponsors. Employees have at all times a 100% vested interest in their accumulations. Benefits from fund sponsors are available upon separation or retirement at the

member's option. RCW 28B.10.400 et. Seq. assigns the authority to the University of Washington's 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 $4,706 and $4,581 in fiscal years 2017 and 2016, 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 $1,731 and $717 in fiscal years 2017 and 2016, 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 – 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.

(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 revenue 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 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 Neighborhood Clinics

Under an annual agreement between the involved UW Medicine entities, Harborview provided strategic support of approximately 26.6% of the UWNC's annual operating loss for fiscal years 2017 and 2016, and 20% of capital funding needs. Funding for operations from Harborview to UWNC was $11,522 and $10,340 for fiscal years 2017 and 2016, respectively, and is recorded as purchased services expense in the statements of revenues, expenses, and changes in net position. Capital funding from Harborview to UWNC was $255 and $386 for fiscal years 2017 and 2016, 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 ITS, 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)).

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)).

(Dollar amounts in thousands)

(b) Northwest Hospital

Harborview provides strategic support to Northwest Hospital for operating purposes. Funding from Harborview to Northwest Hospital was $1,668 and $8,039 for the year ended June 30, 2017 and 2016, respectively, and is recorded as funding to affiliates in the statements of revenues, expenses, and changes in net position.

(c) King County

King County holds all investment funds on behalf of Harborview. King County also processes all payments to vendors outside of the University divisions. Harborview has agreed to provide space and services on behalf of King 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 King County is provided in note 1.

Under the Hospital Services Agreement, the Harborview board designates $5,000 annually from Harborview's revenues and reserves for the support of King County programs. The annual allocation may be reduced through joint efforts by UW Medicine and King County to obtain permanent reductions in cost or new sources of revenues to King County. At June 30, 2017 and 2016, Harborview recorded a nonoperating expense of $5,000 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 due to related parties in the statements of net position. To date, Harborview has paid $5,000 to King County.

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

Revenue (expense) transactions		2017	2016
Services and supplies purchased from the University and its departments and affiliates:			
UW Medicine Shared Services	$	(102,019)	(96,508)
The School		(90,396)	(89,624)
Central Costs		(12,583)	(11,518)
UW Medical Center		(1,783)	(2,507)
UWP		(1,723)	(1,646)
Other University divisions and departments		(14,647)	(11,284)
Services provided to the University and its departments and affiliates:			
The School		10,569	7,754
UW Medicine Shared Services		2,350	4,784
UW Medical Center		2,577	2,275
UW Neighborhood Clinics		1,207	1,059
Services provided to King County		2,520	960

(Dollar amounts in thousands)

Harborview had net amounts due from (due to) related parties for various transactions, which are included in the due from and due to related parties in the accompanying statements of net position. The net amounts due from (due to) related parties as of June 30, 2017 and 2016 are as follows:

Net receivable (payable)	2017	2016
The University and its departments and affiliates:		
The School	$ 2,147	6,998
UW Medicine Shared Services	(9,479)	(8,841)
UWP	1,594	1,589
UW Medical Center	843	1,205
Airlift	3,122	2,666
UW Medicine Central Costs	—	(902)
Other University divisions and departments	(27,699)	(30,041)
UW Neighborhood Clinics	(404)	(590)
King County	(3,039)	(2,868)
Northwest Hospital	(2)	64

(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, 2017 and 2016 for all operating leases was $14,609 and $14,364, respectively, which is recorded in other expense in the statements of revenues, expenses, and change in net position.

The following schedule shows future minimum lease payments by fiscal year as of June 30, 2017:

2018	$ 1,119
2019	945
2020	898
2021	898
2022	898
Thereafter	—
	$ 4,758

HARBORVIEW MEDICAL CENTER
SCHEDULE OF EXPENIDTURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30,2017

Federal CFDA No.	Federal CFDA Title	Pass-Through Grantor	Contract ID	Federal Expenditures - Direct Awards	Federal Expenditures - Pass Through Awards	Expenditures to Subrecipients	Note
HEALTH CENTERS CLUSTER							
Department of Health & Human Services							
					34,368		3
					305,200		3
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	CHS4094		185,577		
							3
					81,808		3
			CHS4116		486,377		3
					1,093,330		
MEDICAID CLUSTER							
Department of Health & Human Services							
93.778	Medical Assistance Program	Seattle Human Services Department	DA16-1329		5,075		
			DA17-1329		4,813		
					9,888		
Department of Housing and Urban Development							
14.241	Housing Opportunities for Persons with AIDS	Seattle Human Services Department	DA16-1142		43,516		
			DA17-1142		11,975		
					55,491		
14.267	Continuum of Care Program	King County Dept. of Community and Human Services	5851627		92,347		
					7,940		
					100,287		
					155,779		
Department of Justice							
16.575	Crime Victim Assistance	Washington State Dept. of Commerce	17-31310-130		194,132		
			S17-31119-020		42,953		
					237,085		
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		1,981		
					1,981		
					239,066		
Department of Health & Human Services							
93.136	Injury Prevention and Control Research and State and Community Based Programs	Washington State Dept. of Commerce	F15-31310-609		45,856		
			F16-31310-609		29,974		

Federal CFDA No.	Federal CFDA Title	Pass-Through Grantor	Contract ID	Federal Expenditures - Direct Awards	Federal Expenditures - Pass Through Awards	Expenditures to Subrecipients	Note
					75,830		
93.153	Coordinated Services and Access to Research for Women, Infants, Children, and Youth	Direct Award - HRSA	H12HA28849-01-00	831,043.99			3
				153,606.51		63,556.17	5
				984,650.50		**63,556.17**	
93.243	Substance Abuse and Mental Health Services Projects of Regional and National Significance	Washington State Department of Social and Health Services	1512-47681		24,697		3
			1512-47681		159,511		3
			1512-47681		191,197		3
					375,405		
93.270	Viral Hepatitis Prevention and Control	King County Department of Public Health	1589 PREV		27,409		
					27,409		
93.521	The Affordable Care Act: Building Epidemiology, Laboratory, and Health Information Systems Capacity in the Epidemiology and Laboratory Capacity for Infectious Disease (ELC) and Emerging Infections Program (EIP) Cooperative Agreements; PPHF	King County Department of Public Health	PREV4073		5,159		
					32,392		
			1589PREV		168,995		
					92,404		
					298,950		
93.604	Assistance for Torture Victims	Lutheran Community Services	90ZT0167-01-00		18,860		
			90ZT0167-02-00		58,689		
					77,549		
93.610	Health Care Innovation Awards (HCIA)	National Health Care for the Homeless Council	1C1CM331336-01-00 Year 2		28,473		
			1C1CM331336-01-00 Year 3		152,314		
					180,787		
93.817	Hospital Preparedness Program (HPP) Ebola Preparedness and Response Activities	Washington State Department of Social and Health Services	U3REP150480-01-00		69,327		
					69,327		
93.918	Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	Direct Award - HRSA	H76HA00198-24-00	822,306.02			3
			H76HA00198-25-01	783,782.97			3
				1,606,088.99			
93.940	HIV Prevention Activities Health Department Based	King County Department of Public Health	PREV4073		251,815		
					349,943		
			1589PREV		27,156		
					33,861		
					662,776		
93.941	HIV Demonstration, Research, Public and Professional Education Projects	King County Department of Public Health	1878 PREV		11,849		
					11,849		
93.944	Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	King County Department of Public Health	PREV4073		30,409		
			1589 PREV		7,102		
					37,511		
93.958	Block Grants for Community Mental Health Services	Washington State Dept. of Social & Health Services	1565-48149		74,789		
			1565-48149		190,091		
		King County Department of Community and Human Services	5918588		45,193		
					310,073		

Federal CFDA No.	Federal CFDA Title	Pass-Through Grantor	Contract ID	Federal Expenditures - Direct Awards	Federal Expenditures - Pass Through Awards	Expenditures to Subrecipients	Note
					50,697		
			PREV4073		4,837		
					53,797		
93.977	Sexually Transmitted Diseases (STD) Prevention and Control Grants	King County Department of Public Health			87,512		
					36,539		
			1589 PREV		694		
					48,928		
					92,283		
					375,286		
				2,590,739	**2,502,752**	**63,556**	
				2,590,739	**4,000,814**	**63,556**	
					FEDERAL EXPENDITURES GRAND TOTAL		**6,655,109**

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 program costs. Entire program costs, including the Harborview Medical Center portion, are more than shown. Such expenditures are recognized following, as applicable, either the cost principles in the OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements,

Note 3 - Program Income

The noted programs generate income to cover a portion of program expenses. Expenses covered by program income are included in the reported expenses according to the additive method.

Note 4 - Indirect Cost Rate

Harborview Medical Center has elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

UW Medicine
HARBORVIEW MEDICAL CENTER

CORRECTIVE ACTION PLAN FOR FINDINGS REPORTED UNDER UNIFORM GUIDANCE

Harborview Medical Center
King County
July 1, 2016 through June 30, 2017

This schedule presents the corrective action planned by the Medical Center 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).

Finding ref number:	**Finding caption:**
2017-001	The Medical Center did not have adequate internal controls to ensure compliance with requirements for time and effort.

Name, address, and telephone of Medical Center contact person:

Lilien Namba

325 Ninth Avenue, Box 359951

Seattle, WA 98104

(206) 744-9711

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

As mentioned in the auditor's finding, the Medical Center was made aware of the noncompliance with Ryan White Parts C and D time-and-effort certifications in June 2017 as part of the prior year's audit. Procedures to comply with these requirements were subsequently implemented following the notification; however as the changes were made at the end of the fiscal year, the FYI 7 audit period was prior to when our new procedures were implemented.

For the Affordable Care Act, there was a change in clinic management that resulted in the late review and approvals of time-and-effort certifications. The Medical Center will re-train clinic staff on time-and-effort documentation requirements to ensure federal requirements are being met.

Anticipated date to complete the corrective action: April 1, 2018

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	
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