



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

May 26, 2020

Board of Trustees  
Harborview Medical Center  
Seattle, Washington

**Contracted CPA Firm's Audit Report on Financial Statements and  
Federal Single Audit**

We have reviewed the audit report issued by a certified public accounting (CPA) firm on the financial statements and compliance with federal grant requirements of the Harborview Medical Center for the fiscal years ended June 30, 2019 and 2018. The Medical Center contracted with the CPA firm for this audit and requested that we accept it in lieu of performing our own audit.

Based on this review, we have accepted this report in lieu of the audit required by RCW 43.09.260. The Office of the Washington State Auditor did not audit the accompanying financial statements or the Harborview Medical Center's compliance with federal grant agreements and, accordingly, we do not express an opinion on those financial statements or on compliance.

This report is being published on the Office of the Washington State Auditor website as a matter of public record.

Sincerely,

Pat McCarthy  
State Auditor  
Olympia, WA

***Americans with Disabilities***

*In accordance with the Americans with Disabilities Act, we will make this document available in alternative formats. For more information, please contact our Office at (564) 999-0950, TDD Relay at (800) 833-6388, or email our webmaster at [webmaster@sao.wa.gov](mailto:webmaster@sao.wa.gov).*



**HARBORVIEW MEDICAL CENTER  
UNIFORM GUIDANCE FOR FEDERAL AWARDS**

Independent Auditor's Report in Accordance with the  
Uniform Guidance for Federal Awards

Year Ended June 30, 2019

**HARBORVIEW MEDICAL CENTER  
UNIFORM GUIDANCE FOR FEDERAL AWARDS**

**Table of Contents**

Independent Auditors' Report	1-2
Consolidated Financial Statements:	
Statements of Financial Position	3
Statements of Activities	4-5
Statements of Cash Flows	6
Statements of Functional Expenses	7
Notes to Consolidated Financial Statements	8-41
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	42-43
Independent Auditors' Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance	44-46
Schedule of Expenditures of Federal Awards	47-48
Notes to the Schedule of Expenditures of Federal Awards	49
Schedule of Findings and Questioned Costs	50



KPMG LLP  
Suite 2900  
1918 Eighth Avenue  
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## Independent Auditors' Report

The Board of Trustees Finance Committee  
Harborview Medical Center:

### *Report on the Financial Statements*

We have audited the accompanying financial statements of the business-type activities of Harborview Medical Center, as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise Harborview Medical Center's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; 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.

### *Auditors' Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit 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 auditors' 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 entity'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 entity'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.

### *Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Harborview Medical Center, as of June 30, 2019 and 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with U.S. generally accepted accounting principles.



### *Other Matters*

#### Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3–15 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.

#### Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 11, 2019 on our consideration of Harborview 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Harborview Medical Center's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Harborview Medical Center's internal control over financial reporting and compliance.

*KPMG LLP*

Seattle, Washington  
October 11, 2019

**HARBORVIEW MEDICAL CENTER**  
(A Component Unit of King County)  
(Operated by the University of Washington)  
Management's Discussion and Analysis  
June 30, 2019 and 2018  
(Dollar amounts in thousands)  
(Unaudited)

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, 2019 and 2018. 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 basic 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**

The financial report consists of two parts: management discussion and analysis and the basic financial statements. Harborview's basic 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 include 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 report 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.

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

Management's Discussion and Analysis

June 30, 2019 and 2018

(Dollar amounts in thousands)

(Unaudited)

**Results of Operations for Fiscal Year 2019**

Harborview reported operating income of \$41,969 and an increase in net position of \$30,948 for the year ended June 30, 2019 compared to operating income of \$10,308 and decrease in net position of \$6,455 for the year ended June 30, 2018. The increase in net position in 2019 is primarily attributed to an increase in operating revenues that exceeded the increase in operating expenses. The increase in revenues is attributed to greater patient acuity, contract pharmacy and favorable third-party payer settlements. In addition, operating expenses increased as a result of greater labor and benefit expense as well as an increase in expenses associated with contract pharmacy.

For the year ended June 30, 2018, Harborview reported operating income of \$10,308 and a decrease in net position of \$6,455 compared to operating income of \$23,792 and an increase in net position of \$6,808 for the year ended June 30, 2017. The decrease in net position in 2018 was primarily attributed to lower inpatient admissions with an increase in the length of stay and reduced reimbursement. In addition, operating expenses increased as a result of greater labor and benefit expense as well as unexpected maintenance and staffing costs of \$1,800 related to an inpatient psychiatry unit and costs of \$1,700 related to patient placement at skilled nursing facilities in the Seattle area.

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Operating revenues	\$ 1,069,545	1,028,462	998,430
Operating expenses	<u>1,027,576</u>	<u>1,018,154</u>	<u>974,638</u>
Income from operations	<u>41,969</u>	<u>10,308</u>	<u>23,792</u>
Investment income, net	6,755	4,593	2,985
Other, net	<u>(21,385)</u>	<u>(21,491)</u>	<u>(20,196)</u>
Nonoperating expenses	<u>(14,630)</u>	<u>(16,898)</u>	<u>(17,211)</u>
Income (loss) before other changes in net position	27,339	(6,590)	6,581
Other changes in net position	<u>3,609</u>	<u>135</u>	<u>227</u>
Increase (decrease) in net position	30,948	(6,455)	6,808
Net position, beginning of year	<u>672,672</u>	<u>679,127</u>	<u>672,319</u>
Net position, end of year	<u>\$ 703,620</u>	<u>672,672</u>	<u>679,127</u>

**HARBORVIEW MEDICAL CENTER**  
(A Component Unit of King County)  
(Operated by the University of Washington)  
Management's Discussion and Analysis  
June 30, 2019 and 2018  
(Dollar amounts in thousands)  
(Unaudited)

The following table presents Harborview's key performance indicators for June 30, 2019, 2018, and 2017:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Licensed beds	413	413	413
Admissions	16,073	16,716	17,158
Patient days	147,649	147,027	146,805
Average length of stay	9.2	8.8	8.6
Occupancy	98 %	98 %	97 %
Case mix index (CMI)	2.42	2.36	2.28
Surgery cases	16,248	16,597	16,412
Emergency room visits	55,545	57,516	58,847
Primary care clinic visits	81,767	83,941	86,180
Specialty care clinic visits	176,639	178,191	172,486
Trauma cases	6,418	6,315	6,399
Full-time equivalents (FTEs)	4,454	4,501	4,438

In 2019 and 2018, Harborview experienced a decline in admissions due to an increased length of stay resulting from patient discharge barriers. As such, Harborview contracted and rented skilled nursing facility beds in the Seattle area as a way to safely discharge patients from inpatient units.

*Operating Revenues*

Operating revenues consist primarily of net patient service revenues and other operating revenues. Net patient service revenues are recorded based on standard billing rates less contractual adjustments, financial assistance, and a provision for uncollectible accounts. Harborview has agreements with federal and state agencies and commercial insurers that provide for payments at amounts that differ from gross charges. Harborview provides care at no charge to patients who qualify under Harborview's financial assistance policy. In addition, Harborview 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 are comprised of hospital-related revenues such as grants, state appropriations specific for operating purposes, contract pharmacy revenue, as well as parking and cafeteria revenues.



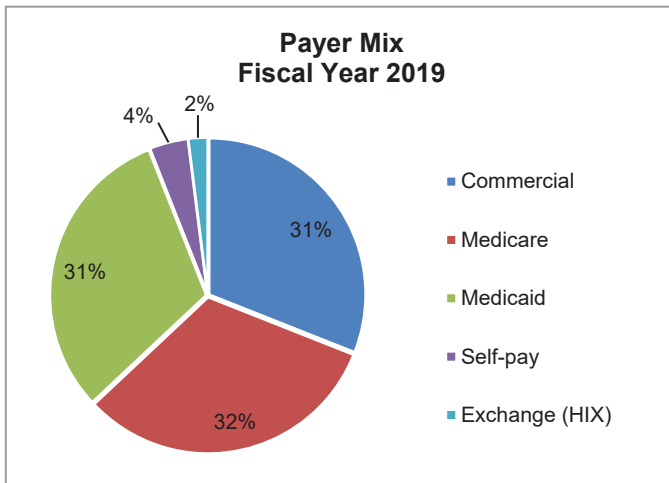
**HARBORVIEW MEDICAL CENTER**  
(A Component Unit of King County)  
(Operated by the University of Washington)

Management's Discussion and Analysis

June 30, 2019 and 2018

(Dollar amounts in thousands)

(Unaudited)



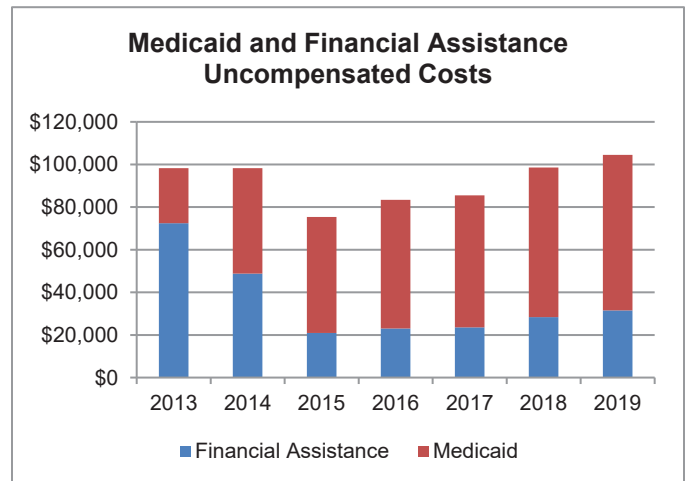
Harborview's payer mix is a key factor in the overall financial operating results. The chart to the left illustrates payer mix for 2019 by gross patient service revenue. For the years ended June 30, 2019 and 2018, Medicaid revenue represented 31% and 33%, respectively; Commercial revenue represented 31% and 32%, respectively; Medicare revenue represented 32% and 30%, respectively; and Self-pay revenue represented 4% and 3%, respectively. Exchange revenue represented 2% 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 financial assistance now

qualified 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 reimbursement for Medicaid and financial assistance patients. This chart does not include all uncompensated costs, such as providing care to Medicare patients.

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



For the years ended June 30, 2019, 2018, and 2017, Harborview's total operating revenues were \$1,069,545, \$1,028,462, and \$998,430, which was composed of \$962,042, \$942,623, and \$918,904 in net patient service revenues and \$107,503, \$85,839, and \$79,526 in other operating revenues, respectively. The increase in operating revenues for fiscal year 2019 and 2018 was driven by greater case acuity, an increase in contract pharmacy activity, and favorable third-party payer settlements.

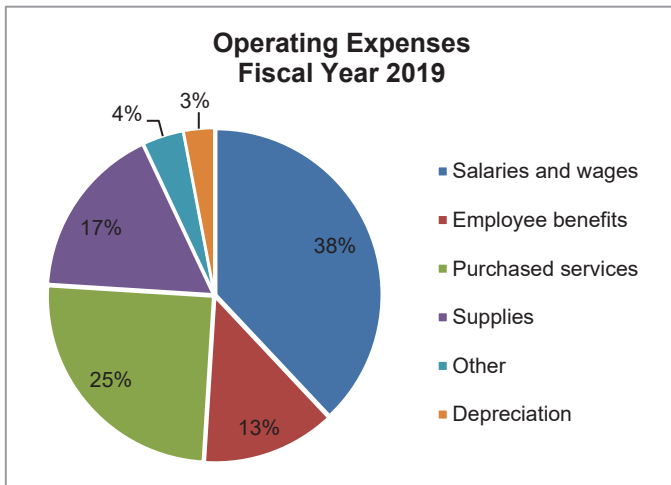
**HARBORVIEW MEDICAL CENTER**  
(A Component Unit of King County)  
(Operated by the University of Washington)

Management's Discussion and Analysis

June 30, 2019 and 2018

(Dollar amounts in thousands)

(Unaudited)



*Operating Expenses*

Operating expenses were \$1,027,576 for fiscal year 2019 compared to \$1,018,154 for fiscal year 2018 and \$974,638 for fiscal year 2017. The composition of fiscal year 2019 operating expenses is illustrated in the chart to the left.

**Salaries and wages** increased \$9,712 from \$380,376 in fiscal year 2018 to \$390,088 in fiscal year 2019. The increase in salaries and wages in the current year is primarily attributed to employee merit increases.

Salaries and wages increased \$12,882 from \$367,494 in fiscal year 2017 to \$380,376 in fiscal year 2018. The increase in salaries and wages in

fiscal year 2018 was primarily attributed to employee merit increases and a slight increase in FTEs.

**Employee benefits** increased \$5,473 from \$132,079 in fiscal year 2018 to \$137,552 in fiscal year 2019 and increased \$12,660 from \$119,419 in fiscal year 2017 to \$132,079 in fiscal year 2018. Between fiscal year 2018 and fiscal year 2019, the University benefit load rate for professional employees increased 1.6% from 32.5% to 34.1% as a result of employer pension contributions. The benefit load rate for classified employees increased 0.4% from 40.1% to 40.5% as a result of increased healthcare expenses. Between fiscal year 2017 and fiscal year 2018, the University benefit load rate for classified employees increased 2.2% from 37.9% to 40.1% as a result of employer pension contributions and increased healthcare expenses.

In fiscal year 2020, the University benefit load rate is 32.1% for professional employees and 41.2% for classified employees.

**Purchased services**, which consist of UW Medicine shared services, clinical department funding to the School, resident and other purchased service expenses, increased \$5,710 from \$251,101 in fiscal year 2018 to \$256,811 in fiscal year 2019 and increased \$17,255 from \$233,846 in fiscal year 2017 to \$251,101 in fiscal year 2018. The increase in purchased services in fiscal year 2019 is attributed to contract pharmacy administrative fees related to the increase in contract pharmacy revenue, consulting fees, post-acute placement fee expense and other maintenance expense.

The increase in purchased services in fiscal year 2018 was attributed to rental of skilled nursing facility beds for Harborview mission population patients experiencing post-acute placement issues, an increase in clinical department funding to the School, as well as consulting and resident salaries expense.

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

Management's Discussion and Analysis

June 30, 2019 and 2018

(Dollar amounts in thousands)

(Unaudited)

**Supplies expense** includes medical, surgical, pharmaceutical supplies, and nonmedical supplies. In total, these expenses decreased \$8,362 from \$178,595 in fiscal year 2018 to \$170,233 in fiscal year 2019 and decreased \$1,457 from \$180,052 in fiscal year 2017 to \$178,595 in fiscal year 2018. The decrease in supplies expense between 2019 and 2018 is due to lower prosthesis expense as a result of a decrease in surgeries as compared to the prior year, lower volumes in retail pharmacy which reduced specialty pharmacy expense, and a decrease in minor equipment expense.

The decrease in supplies expense between 2018 and 2017 was due to lower volumes in retail pharmacy, which reduced specialty pharmacy expense, and a decrease in surgical supplies expense.

**Other expense** includes insurance, taxes, rent, and other miscellaneous expenses. Other expense decreased \$2,570 from \$47,388 in fiscal year 2018 to \$44,818 in fiscal year 2019 and increased \$5,943 from \$41,445 in fiscal year 2017 to \$47,388 in fiscal year 2018. The increase in other expense between 2018 and 2017 was primarily attributed to a \$4,559 one-time write-off of investments following King County's exercise of control over the funds, which also accounts for the decrease in fiscal year 2019.

**Depreciation expense** decreased \$541 from \$28,615 in fiscal year 2018 to \$28,074 in fiscal year 2019 and decreased \$3,767 from \$32,382 in fiscal year 2017 to \$28,615 in fiscal year 2018. The decrease in fiscal years 2019 and 2018 is attributed to moderate capital spending and assets becoming fully depreciated.

*Nonoperating Revenues (Expenses)*

Nonoperating revenues (expenses) consist primarily of investment income, donations, intergovernmental transfer expense, strategic funding to UW Medicine entities and mission support paid to King County. In 2019, net nonoperating expenses decreased \$2,268 from \$16,898 for the year ended June 30, 2018 to \$14,630 at June 30, 2019. In 2019, nonoperating expenses decreased as a result of greater investment income from the King County Investment Pool. At June 30, 2019 the investment pool performance was 2.31% compared to 1.74% in fiscal year 2018.

Net nonoperating expenses decreased \$313 from \$17,211 for the year ended June 30, 2017 to \$16,898 at June 30, 2018. In 2018, nonoperating expenses decreased as a result of an increase in donation revenue, offset by greater intergovernmental payments to the state.

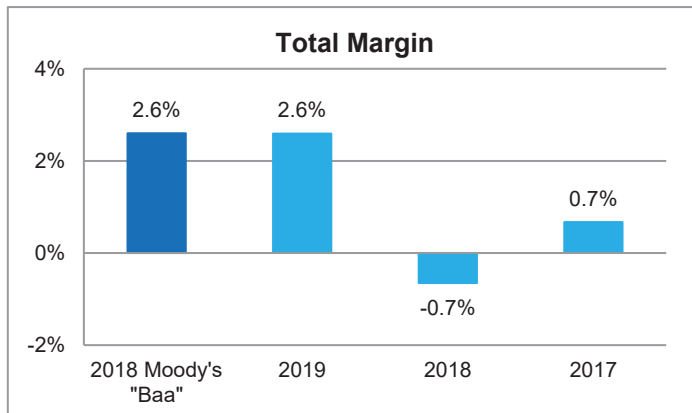
**HARBORVIEW MEDICAL CENTER**  
(A Component Unit of King County)  
(Operated by the University of Washington)

Management's Discussion and Analysis

June 30, 2019 and 2018

(Dollar amounts in thousands)

(Unaudited)



*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) before capital contributions, additions to permanent endowments, and other and is a common measure of total hospital profitability. Total margin for the fiscal years 2019, 2018, and 2017 compared to industry median is illustrated in the chart to the left.

**Financial Analysis**

*Statements of Net Position*

The table below is a presentation of certain condensed financial information derived from Harborview's statements of net position as of the fiscal years ended June 30, 2019, 2018, and 2017:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Current assets	\$ 464,606	427,334	410,904
Noncurrent assets:			
Capital assets, net	284,981	281,437	290,177
Internally designated assets	81,493	76,332	94,323
Other assets	24,304	27,024	29,152
Total assets	<u>855,384</u>	<u>812,127</u>	<u>824,556</u>
Current liabilities	141,269	128,324	133,442
Noncurrent liabilities	10,495	11,131	11,987
Total liabilities	<u>151,764</u>	<u>139,455</u>	<u>145,429</u>
Net position	<u>703,620</u>	<u>672,672</u>	<u>679,127</u>
Total liabilities and net position	<u>\$ 855,384</u>	<u>812,127</u>	<u>824,556</u>

Total assets were \$855,384 at June 30, 2019 compared to \$812,127 at June 30, 2018, an increase of \$43,257. Significant events within total assets during fiscal year 2019 include an increase in cash and cash equivalents

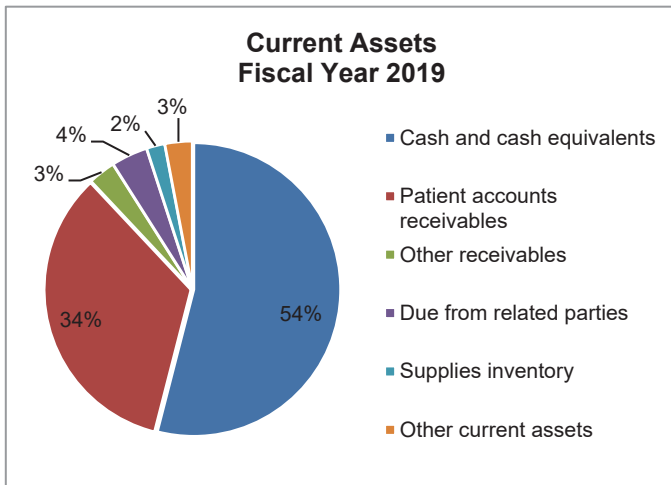
**HARBORVIEW MEDICAL CENTER**  
(A Component Unit of King County)  
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Management's Discussion and Analysis

June 30, 2019 and 2018

(Dollar amounts in thousands)

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as a result of improved cash from operations, specifically contract pharmacy, and an increase in patient accounts receivable.

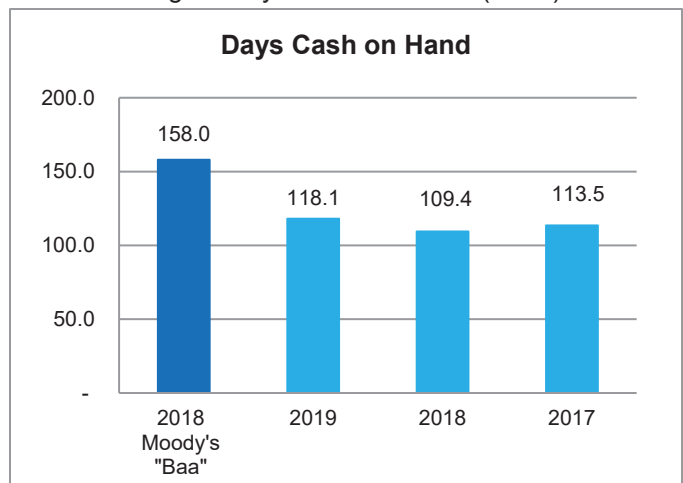
Total assets were \$812,127 at June 30, 2018 compared to \$824,556 at June 30, 2017, a decrease of \$12,429. Significant events affecting total assets during fiscal year 2018 include a decrease in capital assets attributed to moderate capital spending and a write-down of investments restricted for capital purposes.

*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 \$464,606, \$427,334, and \$410,904 at fiscal years 2019, 2018, and 2017, respectively. Fiscal year 2019 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, internally designated assets and donor restricted assets in the statements of net position. Cash and cash equivalents increased \$27,954 from \$223,853 at June 30, 2018 to \$251,807 at June 30, 2019 and increased \$17,076 in 2018 from \$206,777 at June 30, 2017 to \$223,853 at June 30, 2018.



Days cash on hand is utilized to evaluate an organization's continuing ability to meet its short-term operating needs. Days cash on hand, including board and management designated assets as of June 30, 2019, 2018, and 2017 and compared to Moody's rating, is illustrated in the graph to the right.

Harborview's total days cash on hand increased 8.7 days from 109.4 days at June 30, 2018 to 118.1 days at June 30, 2019 and decreased 4.1 days from 113.5 days at June 30, 2017 to 109.4 days at June 30, 2018. The increase of 8.7 days between 2019 and 2018 is due to a positive income from operations.

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

Management's Discussion and Analysis

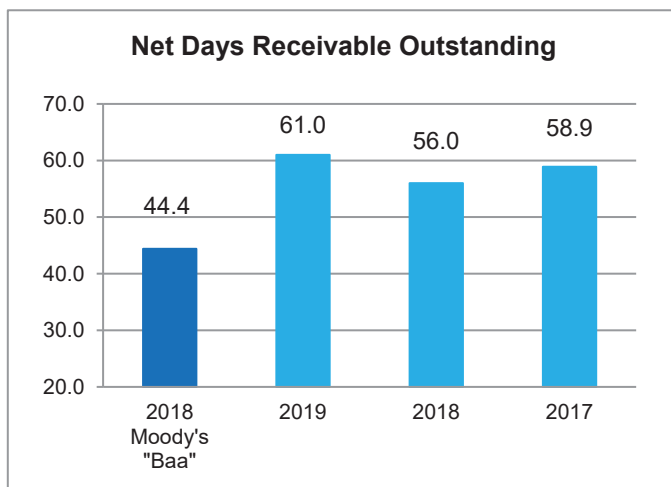
June 30, 2019 and 2018

(Dollar amounts in thousands)

(Unaudited)

The decrease in 2018 was due to an increase in operating expenses and a decrease in unrestricted cash as a result of repayment of Medicaid CPE settlements to the state.

**Patient accounts receivable** were \$160,371 as of June 30, 2019 compared to \$144,517 as of June 30, 2018 and \$148,279 as of June 30, 2017. Patient accounts receivable increased \$15,854 in fiscal year 2019 and decreased \$3,762 in fiscal year 2018. In 2019, patient accounts receivable increased due to timing of cash collections at the end of the fiscal year. In 2018, patient accounts receivable decreased as a result of improved billing and collection activities as compared to 2017.



Days receivable outstanding indicates an organization's ability to convert net patient service revenue to cash. Days receivable outstanding as of June 30, 2019, 2018, and 2017 and comparison to Moody's rating is provided in the graph to the left.

Harborview's net days receivable outstanding increased 5.0 days from 56.0 days at June 30, 2018 to 61.0 days at June 30, 2019 and decreased 2.9 days from 58.9 days at June 30, 2017 to 56.0 days at June 30, 2018. The increase in net days receivable in the current year is due to timing of cash collections from a large commercial payer at the end of the fiscal year. The decrease in net days receivable in fiscal year 2018 was driven by a continued focus on revenue cycle initiatives that

improved billing and collection activities.

As of June 30, 2019 and 2018, 39% and 39% of the gross patient accounts receivable balances are due from Commercial payers, 54% and 55% are due from governmental payers (Medicare and Medicaid), 4% and 4% are due from Self-pay patients, and 3% and 2% from the Washington Health Benefit Exchange, respectively.

**Due from related parties** consists of amounts due for services provided by Harborview to UW Medicine entities, including the School. Due from related parties increased \$2,126 from \$17,194 at June 30, 2018 to \$19,320 at June 30, 2019 and increased \$3,050 from \$14,144 at June 30, 2017 to \$17,194 at June 30, 2018. The increases in 2019 and 2018 relate to the timing of payments between Harborview and other UW Medicine entities.

*Noncurrent Assets*

**Capital assets**, net of accumulated depreciation increased \$3,544 during fiscal year 2019 from \$281,437 at June 30, 2018 to \$284,981 at June 30, 2019 and decreased \$8,740 during fiscal year 2018 from \$290,177 at June 30, 2017 to \$281,437 at June 30, 2018. The increase in the current year is primarily attributed to an increase in capital spending for equipment and construction projects. The decrease in fiscal year 2018 was

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

Management's Discussion and Analysis

June 30, 2019 and 2018

(Dollar amounts in thousands)

(Unaudited)

primarily due to continued depreciation of depreciable assets offset by moderate capital spending 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.

**Internally designated assets** include board designated, management designated assets, and funds held by the University. These assets include cash and investments, as well as property held for future use and are used by Harborview to fund strategic initiatives, capital improvements, and to purchase equipment.

At June 30, 2019, total internally designated assets were \$81,493 compared to \$76,332 at June 30, 2018, an increase of \$5,161 between years. The increase in internally designated assets between fiscal year 2019 and fiscal year 2018 relates to funds held by the University designated for construction projects at Harborview.

At June 30, 2018, total internally designated assets were \$76,332 compared to \$94,323 at June 30, 2017, a decrease of \$17,991 between years. The decrease in internally designated assets between fiscal year 2018 and fiscal year 2017 was a result of transfers to cash and cash equivalents, reduction in capital spending, CPE hold harmless repayments to the state, and a one-time write-off of \$4,559 in investments following King County's exercise of control over the funds.

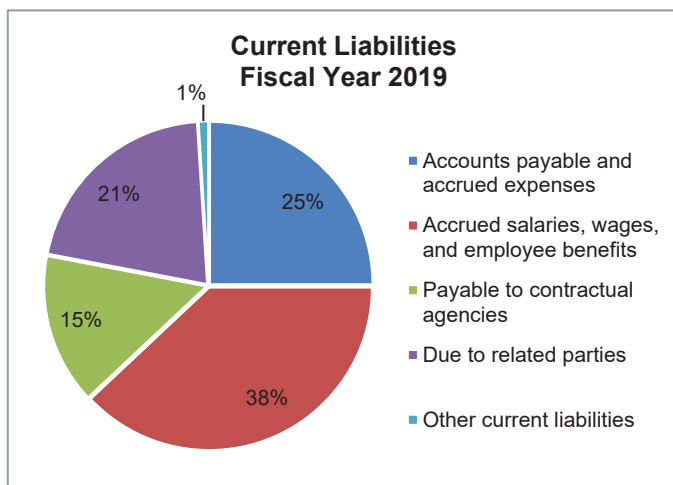
**Other assets** consist of long-term prepaid expenses and donor restricted assets. The long-term prepaid expense reflected in other assets entitles Harborview access to the enterprise-wide information technology (IT) software and services. Other assets decreased \$2,720 during fiscal year 2019 from \$27,024 at June 30, 2018

to \$24,304 at June 30, 2019 and decreased \$2,128 during fiscal year 2018 from \$29,152 at June 30, 2017 to \$27,024 at June 30, 2018. The decreases in 2019 and 2018 are driven by the timing of IT capital projects, offset by usage based allocations. In 2019, the primary IT project of UW Medicine is Destination One, which is the Epic clinical transformation program, and is being funded through the University internal lending program, which contributes to the decrease in the long-term prepaid expenses.

*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 \$141,269,

\$128,324, and \$133,442 at June 30, 2019, 2018, and 2017, respectively. Fiscal year 2019 composition of current liabilities is illustrated in the chart to the left.



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

Management's Discussion and Analysis

June 30, 2019 and 2018

(Dollar amounts in thousands)

(Unaudited)

**Accounts payable and accrued expenses** increased \$7,115 from \$28,211 at June 30, 2018 to \$35,326 at June 30, 2019 and decreased \$267 from \$28,478 at June 30, 2017 to \$28,211 at June 30, 2018. Changes in accounts payable and accrued expenses are primarily driven by timing of payments to vendors.

**Accrued salaries, wages, and employee benefits** increased \$1,560 from \$51,822 at June 30, 2018 to \$53,382 at June 30, 2019 and increased \$2,360 from \$49,462 at June 30, 2017 to \$51,822 at June 30, 2018. Changes in accrued salaries, wages, and employee benefits are primarily driven by the number of employees, employee merit and fringe benefit rate increases, as well as compensated absences accrual.

**Payable to contractual agencies** consists of estimated reserves for Medicare cost reports and Medicaid CPE settlements. Payable to contractual agencies increased \$2,213 from \$19,873 at June 30, 2018 to \$22,086 at June 30, 2019 and decreased \$9,186 from \$29,059 at June 30, 2017 to \$19,873 at June 30, 2018. The increase in fiscal year 2019 was driven by development in open Medicare cost reports and Medicaid CPE estimates. The decrease in fiscal year 2018 relates to lower current year reserve requirements and finalization of multiple prior year settlements.

**Due to related parties** consists of amounts due for services provided to Harborview from UW Medicine shared services, including ITS, the School, and funding to King County. Amounts due to related parties increased \$2,057 from \$27,732 at June 30, 2018 to \$29,789 at June 30, 2019 and increased \$2,090 from \$25,642 at June 30, 2017 to \$27,732 at June 30, 2018. The increases in 2019 and 2018 in due to related parties are primarily driven by timing of payments to related parties.

### **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 considerable 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 (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 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.



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

Management's Discussion and Analysis

June 30, 2019 and 2018

(Dollar amounts in thousands)

(Unaudited)

*Embright*

UW Medicine and MultiCare Health System (MultiCare) announced the formation of a new alliance in 2017 to expand access to high-quality healthcare and allow the two organizations to engage in joint activities to further the mission of each organization. UW Medicine, MultiCare and LifePoint Health formed the Pacific Northwest Clinically Integrated Network, LLC dba Embright, following University board of regent approval in October 2018. As a clinically integrated network in the Pacific Northwest owned by healthcare provider organizations, Embright enables the partners to develop care delivery models that will improve patient care and experience at a more affordable cost. Together, the founding organizations represent 14 hospitals, more than 6,500 providers and over 600 outpatient sites of care. Embright's broad geographical reach assures that patients will have access to the full continuum of care, including preventive, primary, secondary, tertiary, quaternary and post-acute care. Throughout the network, teams are also implementing evidence-based clinical protocols, care pathways, standardized processes and care management services for complex patients. UW Medicine currently has an equity ownership interest of 45% in Embright at June 30, 2019.

*Investments in Information Technology*

In July 2018, the University's board of regents granted approval to proceed with the UW Medicine clinical transformation program, called Destination One. This multi-year program will allow UW Medicine to improve patient engagement, physician and practitioner experience, and to achieve business and operating efficiencies through development of foundational systems and improved staffing workflows. Patient engagement will be enhanced through development of a single online patient portal for activities between the patient and UW Medicine. More online service opportunities and easy navigation will create additional opportunities for communication between the patient and their care team. UW Medicine will achieve business and operating efficiencies through simplification and standardization across operations and IT, resulting in revenue cycle improvements and optimized resource utilization. Total program costs are estimated at \$180,000, of which \$129,000 will be financed through the University's Internal Lending Program (ILP). The remaining portion will be funded by Harborview, UW Medical Center, Northwest Hospital, and Seattle Cancer Care Alliance. Destination One will be fully implemented in October 2020.

*Financial Stability Plan/Project FIT*

UW Medicine implemented a three-year plan to improve and transform financial results known as Project FIT. UW Medicine leadership established site specific and system-wide assumptions to develop a baseline long range plan to compare against financial performance goals and margin targets. Improvement initiatives that are anticipated to positively impact the financial performance have been identified and will be actively monitored and measured as UW Medicine completes the work to operationalize them. Project FIT is intended to improve operating performance over the next three years so that by fiscal year 2020, UW Medicine will be achieving improved margins and cash levels. In November 2017, the University's board of regents granted approval to proceed with Project FIT. UW Medicine leadership will continue seeking to identify additional initiatives and work with UW Treasury and Central Administration to advance progress on initiatives requiring support at the University level.

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

Management's Discussion and Analysis

June 30, 2019 and 2018

(Dollar amounts in thousands)

(Unaudited)

*Employee Costs*

Rising benefit costs, particularly for pensions and healthcare, continue to impact the University and Harborview. Employer pension funding rates for the PERS pension plans were unchanged during fiscal year 2019, but will be increasing 1% during fiscal year 2020, from 12.70% to 12.86% of covered salary. Likewise, the monthly employer base rate paid by the University for employee healthcare was mostly unchanged during fiscal year 2019, but will be increasing 3% in fiscal year 2020, from \$913 to \$939 per active employee. Both rates are likely to continue rising over the next few years.

The University has financial responsibility for pension and other post employment (OPEB) benefits associated with the Public Employees' Retirement System (PERS) defined-benefit plans, University of Washington Supplemental Retirement Plan defined-benefit plan, and OPEB benefits administered by Washington State Health Care Authority (HCA) (as described in note 9), which include those University employees deployed at Harborview. Pension and OPEB liabilities and the respective deferred outflow and inflow of resources are determined by actuarial reports. Management evaluated the requirements of relevant accounting pronouncements and determined that they are not applicable to Harborview, as Harborview is not part of the University's financial reporting entity, Harborview does not directly fund the employer contribution to the Department of Retirement System, and Harborview has no legal responsibility for benefit payments of the plan directly to employees. All funding obligations to the University are on a pay-as-you-go basis. As the liability continues to grow, Harborview's cash funding obligation will also increase. Although Harborview fully funds its share of pension and OPEB expense through the University benefit load rate, Harborview does not record a pension or OPEB liability on its financial statements. The portion of the University's pension liabilities at June 30, 2019 and June 30, 2018 that relates to University employees deployed at Harborview was approximately \$182,835 and \$241,224, respectively. In addition, Harborview's annual pension funding was \$40,113 and \$38,057 in fiscal years 2019 and 2018, respectively, which is recorded as employee benefits expense on the statements of revenues, expenses, and changes in net position. The portion of the University's OPEB liability at June 30, 2019 and 2018 that relates to University employees deployed at Harborview was \$207,028 and \$232,231, respectively, and the OPEB expense was \$11,990 and \$18,980, respectively. In addition, Harborview's annual OPEB funding was \$3,801 and \$3,854 in fiscal years 2019 and 2018, respectively, which is recorded as employee benefits expense on the statements of revenue, expenses, and changes in net position.

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

Statements of Net Position

June 30, 2019 and 2018

(Dollar amounts in thousands)

<b>Assets</b>	<b>2019</b>	<b>2018</b>
<b>Current assets:</b>		
Cash and cash equivalents	\$ 251,807	223,853
Patient accounts receivable, less allowance for uncollectible accounts of \$35,121 in 2019 and \$41,014 in 2018	160,371	144,517
Other receivables	11,636	13,683
Due from related parties	19,320	17,194
Supplies inventory	9,032	10,126
Other current assets	12,440	17,961
Total current assets	464,606	427,334
<b>Noncurrent assets:</b>		
Capital assets, net of accumulated depreciation	284,981	281,437
Internally designated assets	81,493	76,332
Donor restricted assets	11,583	8,806
Other assets	12,721	18,218
Total noncurrent assets	390,778	384,793
Total assets	\$ 855,384	812,127
<b>Liabilities and Net Position</b>		
<b>Current liabilities:</b>		
Accounts payable and accrued expenses	\$ 35,326	28,211
Accrued salaries, wages, and employee benefits	53,382	51,822
Due to related parties	29,789	27,732
Payable to contractual agencies	22,086	19,873
Other current liabilities	686	686
Total current liabilities	141,269	128,324
<b>Noncurrent liabilities:</b>		
Other noncurrent liabilities	10,495	11,131
Total liabilities	151,764	139,455
<b>Net position:</b>		
Net investment in capital assets	284,981	281,437
Expendable, restricted	7,545	6,114
Nonexpendable, restricted	2,870	2,664
Unrestricted	408,224	382,457
Total net position	703,620	672,672
Total liabilities and net position	\$ 855,384	812,127

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, 2019 and 2018

(Dollar amounts in thousands)

	<b>2019</b>	<b>2018</b>
Operating revenues:		
Net patient service revenues (net of provision for uncollectible accounts of \$33,361 in 2019 and \$31,868 in 2018)	\$ 962,042	942,623
Other operating revenues	107,503	85,839
Total operating revenues	1,069,545	1,028,462
Operating expenses:		
Salaries and wages	390,088	380,376
Employee benefits	137,552	132,079
Purchased services	256,811	251,101
Supplies	170,233	178,595
Other	44,818	47,388
Depreciation	28,074	28,615
Total operating expenses	1,027,576	1,018,154
Income from operations	41,969	10,308
Nonoperating revenues (expenses):		
Investment income, net	6,755	4,593
Interest expense	—	(5)
Funding to affiliates	(16,620)	(15,987)
Funding to King County	(5,000)	(5,000)
Other, net	235	(499)
Nonoperating expenses	(14,630)	(16,898)
Income (loss) before capital contributions, additions to permanent endowments, and other	27,339	(6,590)
Capital contributions, additions to permanent endowments, and other:		
Additions to permanent endowments	221	32
Capital contributions and other transfers	3,388	103
Total capital contributions, additions to permanent endowments, and other	3,609	135
Increase (decrease) in net position	30,948	(6,455)
Net position – beginning of year	672,672	679,127
Net position – end of year	\$ 703,620	672,672

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, 2019 and 2018

(Dollar amounts in thousands)

	<b>2019</b>	<b>2018</b>
Cash flows from operating activities:		
Cash received for patient service revenues	\$ 946,059	937,154
Cash received for other services	109,700	84,585
Cash paid to employees	(524,312)	(510,095)
Cash paid to suppliers and others	(455,796)	(471,324)
Net cash provided by operating activities	75,651	40,320
Cash flows from noncapital financing activities:		
Funding to affiliates	(14,278)	(15,942)
Funding to King County	(5,000)	(5,000)
Cash received for permanent endowments	221	32
Other	811	(156)
Net cash used in noncapital financing activities	(18,246)	(21,066)
Cash flows from capital and related financing activities:		
Principal payments on long-term debt	—	(115)
Cash paid for interest	—	(5)
Cash paid for capital expenditures	(29,700)	(19,634)
Cash received for capital contributions	1,582	103
Net cash used in capital and related financing activities	(28,118)	(19,651)
Cash flows from investing activities:		
Internally designated and donor restricted assets	(7,983)	13,289
Investment income received	6,650	4,184
Net cash provided by investing activities	(1,333)	17,473
Increase in cash and cash equivalents	27,954	17,076
Cash and cash equivalents, beginning of year	223,853	206,777
Cash and cash equivalents, end of year	\$ 251,807	223,853
Reconciliation of income from operations to net cash provided by operating activities:		
Income from operations	\$ 41,969	10,308
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation	28,074	28,615
Provision for uncollectible accounts	33,361	31,868
Investment write-off	—	4,559
Net increase in current and other assets	(37,032)	(28,541)
Net decrease in current liabilities	9,915	(5,633)
Decrease in other noncurrent liabilities	(636)	(856)
Net cash provided by operating activities	\$ 75,651	40,320
Supplemental disclosure of cash flow information:		
Increase in capital assets included in accounts payable	\$ 2,456	585

See accompanying notes to basic financial statements.

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

Notes to Basic Financial Statements

June 30, 2019 and 2018

(Dollar amounts in thousands)

**(1) Organization**

Harborview Medical Center (Harborview) is a 413 licensed bed hospital operating in Seattle, Washington with extensive ambulatory services and is a 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.

Under the Hospital Services Agreement, King County retains title to all real and personal properties acquired with Harborview capital and operating funds and are recorded on Harborview's books. Facility revenues for the operation of Harborview are deposited in a King County account that is separate from general King County accounts. 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 are responsible for adopting 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 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 on reductions in costs incurred by King County or new funding sources that would not otherwise be received by King County. For both the years ended June 30, 2019 and 2018, Harborview recorded 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. During fiscal years 2018 and 2019, the annual allocation was not reduced. Since 2016, Harborview has paid total allocations of \$15,000 to King County.

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

Notes to Basic Financial Statements

June 30, 2019 and 2018

(Dollar amounts in thousands)

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 basic financial statements are prepared in accordance with accounting principles generally accepted in the United States of America for state and local governments as prescribed by the Governmental Accounting Standards Board (GASB). 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.

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

Notes to Basic Financial Statements

June 30, 2019 and 2018

(Dollar amounts in thousands)

**(d) Cash and Cash Equivalents**

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

The King County Investment Pool is not registered with the Securities and Exchange Commission (SEC) as an investment company. Oversight is provided by the King County Executive Finance Committee (EFC). All investments are subject to written policies and procedures adopted by the EFC. The EFC reviews pool performance monthly. The King County Investment Pool was invested as follows at June 30:

	<b>2019</b>	<b>2018</b>
Cash and cash equivalents	5.5 %	6.2 %
U.S. Treasury and agencies securities	63.6	73.0
Washington State Local Government Investment Pool	15.2	6.5
Corporate and other fixed income securities	15.7	14.3
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 deposit and withdraw from the King County Investment Pool at its discretion and without limitation, and as such, these investments are considered cash equivalents. Harborview has cash equivalents of \$251,807 and \$223,853 as of June 30, 2019 and 2018, respectively.

**(e) Internally Designated and Donor Restricted Assets**

Internally designated include assets board designated and management designated assets set aside for future capital and program purposes over which the Trustees and management retain control. Donor restricted assets consist of assets that Harborview is legally or contractually obligated to expend in accordance with restrictions placed by donors. Internally designated and donor restricted assets are held in the King County Investment Pool, managed for Harborview by King County, and are carried at amortized cost. Endowments are managed for Harborview by the University and are carried at fair value.



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

Notes to Basic Financial Statements

June 30, 2019 and 2018

(Dollar amounts in thousands)

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.

**(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) 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 measured 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 of the asset

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 2019 and 2018.

**(h) Other Assets**

UW Medicine IT Services (ITS) (a department of the University) records enterprise-wide 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 based on expected usage. At June 30, 2019 and 2018, \$11,100 and \$11,500, respectively, is recorded in other current assets and \$12,721 and \$18,218 is recorded in other assets, respectively.

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

Notes to Basic Financial Statements

June 30, 2019 and 2018

(Dollar amounts in thousands)

**(i) *Compensated Absences***

University employed staff at Harborview earn annual leave at rates based on length of service and sick leave at the rate of one day per month. Annual leave balances, which are limited to 240 hours, can be converted to monetary compensation upon employment termination. Sick leave balances, which are unlimited, can be converted to monetary compensation annually at 25% of the employees' normal 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, 2019 and 2018 is \$21,600 and \$22,383, respectively. Sick leave accrued as of June 30, 2019 and 2018 is \$6,482 and \$5,766, 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 (the State) 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 net patient service revenues, 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 nonexchange and certain exchange transactions. This activity includes investment income, net, interest expense, intergovernmental transfer expense, funding to King County, and strategic funding to affiliates of UW Medicine.

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

Notes to Basic Financial Statements

June 30, 2019 and 2018

(Dollar amounts in thousands)

**(I) Net Patient Service Revenues**

Harborview has agreements with third-party payers that provide for payments to Harborview at amounts that differ 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 on 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.

*Medicaid*

Inpatient services rendered to Medicaid program beneficiaries are provided at prospectively determined rates per discharge. Outpatient services rendered are provided based on 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.

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

Notes to Basic Financial Statements

June 30, 2019 and 2018

(Dollar amounts in thousands)

*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, 2019 and 2018, Harborview has recorded a liability of \$539 and \$2,223, 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) Financial Assistance**

Harborview provides care without charge to patients who meet certain criteria under its financial assistance policy. Harborview maintains records to identify and monitor the level of financial assistance it provides. These records include charges foregone for services and supplies furnished under its financial assistance policy to the uninsured and the underinsured. Because Harborview does not pursue collection of amounts determined to qualify as financial assistance, these are not reported as net patient service revenue. The charges associated with financial assistance provided by the Hospital are approximately \$96,100 and \$82,847, respectively, for the years ended June 30, 2019 and 2018.

Harborview estimates the cost of financial assistance using its Medicaid cost to charge ratio of 40% for both fiscal years ended June 30, 2019 and 2018. Applying Harborview's Medicaid cost to charge ratio of 40% to total financial assistance of \$96,100 results in an estimated cost of financial assistance of \$38,440 for the fiscal year ended June 30, 2019. Applying Harborview's Medicaid cost to charge ratio of 40% to total financial assistance of \$82,847 results in an estimated cost of financial assistance of \$33,139 for the fiscal year ended June 30, 2018.

**(o) Net Position**

Harborview's net position is classified in various components. Net investment in capital assets consists of capital assets, net of accumulated depreciation reduced by outstanding borrowings used to finance the purchase or construction of those assets. Expendable restricted net position consists of resources that Harborview is legally or contractually obligated to expend in accordance with time or purpose restrictions placed by donors and/or external parties. Nonexpendable restricted net position, primarily endowments, represents gifts to Harborview's permanent endowment funds, in which the donor or other external party has imposed a restriction that the corpus is not available for expenditure.

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

Notes to Basic Financial Statements

June 30, 2019 and 2018

(Dollar amounts in thousands)

Unrestricted net position is all other funds available to Harborview for any purpose associated with its operations and mission.

**(p) 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.

**(q) Recently Adopted and New Accounting Pronouncements**

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, which is 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 are required 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 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 adopted this statement and determined it to be immaterial to the financial statements.

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*, which will be effective for the fiscal year ending June 30, 2020. This Statement establishes criteria for identifying and reporting fiduciary activities of all state and local governments. Governments with activities meeting the criteria are required to present a Statement of Fiduciary Net Position and a Statement of Changes in Fiduciary Net Position. Custodial assets held for three months or less are exempt from the reporting requirements. 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 represent financings of the right to use an underlying asset. Lessees will be 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.

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

Notes to Basic Financial Statements

June 30, 2019 and 2018

(Dollar amounts in thousands)

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which will be effective for the fiscal year ending June 30, 2021. This statement requires that interest cost incurred before the end of a construction period be recognized as expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, these costs will not be included in the capitalized cost of capital assets reported by Harborview. This statement will be applied on a prospective basis, and interest costs capitalized prior to implementation will continue to be recognized as those assets are depreciated. Harborview is currently analyzing the impact of this statement.

**(r) 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 2019 and 2018, net patient service revenues include approximately \$13,144 and \$10,480 of revenue, respectively, relating to prior years' net Medicare and Medicaid 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 years ended June 30:

	<b>2019</b>	<b>2018</b>
Gross patient service revenues	\$ 2,529,967	2,447,288
Less adjustments to patient service revenues:		
Financial assistance	(96,100)	(82,847)
Contractual discounts	(1,438,464)	(1,389,950)
Provision for uncollectible accounts	(33,361)	(31,868)
Total adjustments to patient service revenues	(1,567,925)	(1,504,665)
Net patient service revenues	\$ 962,042	942,623

Harborview grants credit without collateral to its patients, most of whom are local residents and who are insured under third-party payer agreements. Patient accounts receivable is valued utilizing historical

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

Notes to Basic Financial Statements

June 30, 2019 and 2018

(Dollar amounts in thousands)

collection rates across the various payers. The mix of gross patient service revenues and gross accounts receivable from significant third-party payers for the years ended June 30, 2019 and 2018 is as follows:

	<u>Gross patient service revenues</u>	<u>Gross accounts receivable</u>
2019:		
Medicare	32 %	25 %
Medicaid	31	29
Commercial and other	31	39
Self-pay	4	4
Exchange (HIX)	2	3
Total	<u>100 %</u>	<u>100 %</u>
2018:		
Medicare	30 %	25 %
Medicaid	33	30
Commercial and other	32	39
Self-pay	3	4
Exchange (HIX)	2	2
Total	<u>100 %</u>	<u>100 %</u>

**(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 a 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 recognized \$44,456 and \$47,714 in claims payments under this program for the years ended June 30, 2019 and 2018, respectively.

In addition, Harborview receives the federal match portion of DSH payments, which are the lesser of qualifying Medicaid and financial assistance uncompensated care cost or the hospital’s specific limit. Harborview recognized \$48,694 and \$42,603 in DSH funding under this program for the years ended June 30, 2019 and 2018, respectively.

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

Notes to Basic Financial Statements

June 30, 2019 and 2018

(Dollar amounts in thousands)

Since the inception of the program, the Washington State Legislature 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 did not recognize any amounts for state grants for the years ended June 30, 2019 and 2018. 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 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. As of June 30, 2019 and 2018, respectively, Harborview has an estimated payable of \$13,514 and \$15,354 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 (HCA) benefiting certain public hospitals.

Under the program, UW Medical Center, Harborview, 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 \$14,175 and \$14,214 for the years ended June 30, 2019 and 2018 in intergovernmental transfers (IGT) to HCA related to professional claims paid in those fiscal years, which is recorded as funding to affiliates in the statements of revenues, expenses, and changes in net



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

Notes to Basic Financial Statements

June 30, 2019 and 2018

(Dollar amounts in thousands)

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.

HCA uses the federal match funds to make PSSP payments to UW Medicine entities and through the Medicaid managed care plans for PAP. Harborview recognized \$5,295 and \$5,626 in supplemental payments for the years ended June 30, 2019 and 2018, respectively. These payments are included in net patient service revenues in the statements of revenues, expenses, and changes in net position.

PSSP and PAP funds are combined with other revenue used by the School for the central support of faculty costs. As a result, the School requires less funding from Harborview and UW Medical Center. Harborview's clinical department funding to the School was recorded in purchased services expense in the statements of revenues, expenses, and changes in net position and was reduced by \$29,030 and \$28,814 in fiscal years 2019 and 2018, respectively, due to the PSSP and PAP funds received by the School.

**(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 HSNA program, PPS hospitals receive supplemental Medicaid payments, Critical Access Hospitals receive disproportionate share payments, and CPE hospitals receive state grants. The program has an expiration date of June 30, 2023.

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 related to the HSNA program of \$10,260 for both the years ended June 30, 2019 and 2018, which is recorded in other operating revenues in the statements of revenues, expenses, and changes in net position.

**(d) Other Federal and State Funding**

As a regional trauma center, Harborview was eligible for additional state funding in both 2019 and 2018 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 recognized \$9,646 and \$10,078 for the years ended June 30, 2019 and 2018, respectively. In addition to the funding received through the Trauma Enhancement program, Harborview recognized state sponsored trauma funding in the amount of \$1,540 and \$1,626 for the years ended June 30, 2019 and 2018, respectively. Funds from both programs are included in net patient service revenues in the statements of revenues, expenses, and changes in net position.

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

Notes to Basic Financial Statements

June 30, 2019 and 2018

(Dollar amounts in thousands)

**(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 \$6,582 and \$6,470 for the years ended June 30, 2019 and 2018, respectively.

**(5) Capital Assets**

The activity in Harborview’s capital asset and related accumulated depreciation accounts for the years ended June 30, 2019 and 2018 is set forth below:

	<u>June 30, 2018</u>	<u>Additions</u>	<u>Transfers</u>	<u>Retirements</u>	<u>June 30, 2019</u>
Capital assets, not being depreciated:					
Land	\$ 2,432	—	—	—	2,432
Construction in process	14,698	14,994	(6,114)	—	23,578
Total capital assets, not being depreciated	<u>17,130</u>	<u>14,994</u>	<u>(6,114)</u>	<u>—</u>	<u>26,010</u>
Capital assets, being depreciated:					
Land improvements	7,089	—	299	(10)	7,378
Buildings, renovations, and furnishings	405,692	—	4,680	(300)	410,072
Fixed equipment	124,284	—	476	(165)	124,595
Movable equipment	187,964	17,225	168	(20,424)	184,933
Leasehold improvements	10,397	—	491	(3)	10,885
Total capital assets, being depreciated	<u>735,426</u>	<u>17,225</u>	<u>6,114</u>	<u>(20,902)</u>	<u>737,863</u>
Total capital assets at historical cost	<u>752,556</u>	<u>32,219</u>	<u>—</u>	<u>(20,902)</u>	<u>763,873</u>
Less accumulated depreciation for:					
Land improvements	(3,749)	(330)	—	8	(4,071)
Buildings, renovations, and furnishings	(200,996)	(13,315)	—	233	(214,078)
Fixed equipment	(112,193)	(1,537)	—	153	(113,577)
Movable equipment	(148,631)	(12,201)	—	19,905	(140,927)
Leasehold improvements	(5,550)	(691)	—	2	(6,239)
Total accumulated depreciation	<u>(471,119)</u>	<u>(28,074)</u>	<u>—</u>	<u>20,301</u>	<u>(478,892)</u>
Total capital assets, net	<u>\$ 281,437</u>	<u>4,145</u>	<u>—</u>	<u>(601)</u>	<u>284,981</u>

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

Notes to Basic Financial Statements

June 30, 2019 and 2018

(Dollar amounts in thousands)

	<u>June 30, 2017</u>	<u>Additions</u>	<u>Transfers</u>	<u>Retirements</u>	<u>June 30, 2018</u>
Capital assets, not being depreciated:					
Land	\$ 2,432	—	—	—	2,432
Construction in process	19,269	12,707	(17,278)	—	14,698
Total capital assets, not being depreciated	<u>21,701</u>	<u>12,707</u>	<u>(17,278)</u>	<u>—</u>	<u>17,130</u>
Capital assets, being depreciated:					
Land improvements	5,907	—	1,235	(53)	7,089
Buildings, renovations, and furnishings	421,868	—	9,790	(25,966)	405,692
Fixed equipment	140,545	—	3,321	(19,582)	124,284
Movable equipment	220,729	7,687	2,650	(43,102)	187,964
Leasehold improvements	10,482	—	282	(367)	10,397
Total capital assets, being depreciated	<u>799,531</u>	<u>7,687</u>	<u>17,278</u>	<u>(89,070)</u>	<u>735,426</u>
Total capital assets at historical cost	<u>821,232</u>	<u>20,394</u>	<u>—</u>	<u>(89,070)</u>	<u>752,556</u>
Less accumulated depreciation for:					
Land improvements	(3,363)	(439)	—	53	(3,749)
Buildings, renovations, and furnishings	(213,698)	(13,264)	—	25,966	(200,996)
Fixed equipment	(130,212)	(1,563)	—	19,582	(112,193)
Movable equipment	(178,498)	(12,716)	—	42,583	(148,631)
Leasehold improvements	(5,284)	(633)	—	367	(5,550)
Total accumulated depreciation	<u>(531,055)</u>	<u>(28,615)</u>	<u>—</u>	<u>88,551</u>	<u>(471,119)</u>
Total capital assets, net	<u>\$ 290,177</u>	<u>(8,221)</u>	<u>—</u>	<u>(519)</u>	<u>281,437</u>

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

Notes to Basic Financial Statements

June 30, 2019 and 2018

(Dollar amounts in thousands)

**(6) Internally Designated and Donor Restricted Assets**

Internally designated and donor restricted assets consist of the following, as of June 30:

	<b>June 30, 2019</b>	<b>June 30, 2018</b>
Internally designated and donor restricted assets:		
Board designated assets:		
Pooled investments	\$ 39,866	41,056
Receivables and other	271	250
Property held for future use	2,718	2,718
Total board designated assets	42,855	44,024
Management designated assets:		
Pooled investments	31,631	31,708
Funds held by the University:		
Pooled investments	7,007	600
Total internally designated assets	81,493	76,332
Donor restricted assets:		
Pooled investments	11,583	8,806
Total donor restricted assets	11,583	8,806
Total internally designated and donor restricted assets	\$ 93,076	85,138

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

Notes to Basic Financial Statements

June 30, 2019 and 2018

(Dollar amounts in thousands)

**(a) 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:

	<b>2019</b>	<b>2018</b>
Commuter service fund	\$ 16,961	15,141
Self-insurance fund	1,248	1,221
Walter Scott Brown property	2,718	2,718
Equipment fund	17,389	16,175
Building repair and replacement fund	4,530	5,991
Planned capital and program reserves	9	2,778
Total	\$ 42,855	44,024

**(b) Investments Restricted for Capital and by Donor**

In 2018, Harborview wrote off \$4,559 of investments previously restricted by King County for designated capital projects following King County's exercise of control over the funds. The write-off is included in other expense in the statement of revenues, expenses, and changes in net position.

**(7) Unearned Rent and Other**

Unearned rent and other is reflected within other current liabilities and other noncurrent liabilities in the statement of position. Changes in unearned rent and other during the fiscal years ended June 30, 2019 and 2018 are summarized below:

	<b>Beginning balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending balance</b>	<b>Due within one year</b>
Fiscal year ended:					
June 30, 2019	\$ 11,817	—	(636)	11,181	686
June 30, 2018	12,673	—	(856)	11,817	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 and professional liability programs 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 contribution to the professional liability program is determined by the University administration using information from an annual actuarial study. In addition to the

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

Notes to Basic Financial Statements

June 30, 2019 and 2018

(Dollar amounts in thousands)

University, the participants in the professional liability program include Harborview, UWP, CUMG, UWNC, School of Dentistry, the School, 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 self-insurance coverage is first dollar, and no claim liability is recorded on Harborview's balance sheet for professional liability exposures.

Harborview's contribution to the professional liability program was \$4,068 and \$4,070 in 2019 and 2018, respectively, and is 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, other postretirement benefit plans, 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.

*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:

**(a) 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/annual-report/>.

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.

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

Notes to Basic Financial Statements

June 30, 2019 and 2018

(Dollar amounts in thousands)

Based on the University's benefit load apportionment, Harborview incurred and paid \$37,109 and \$36,397 in fiscal years 2019 and 2018, respectively, related to annual PERS funding, which is recorded in employee benefits expense on the statements of revenues, expenses, and changes in net position. Because Harborview is not part of the University's financial reporting entity and Harborview does not directly fund the employer contribution to the Department of Retirement System, Harborview does not record a PERS net pension liability on the statement of net position.

**(b) 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'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 \$4,916 and \$4,849 in fiscal years 2019 and 2018, respectively, related to annual UWRP funding, which is recorded in employee benefits expense on the statements of revenues, expenses, and changes in net position.

**(c) University of Washington Supplemental Retirement Plan (UWSRP)**

UWSRP is a 401(a) plan that provides for a supplemental payment component which guarantees a minimum retirement benefit based on a onetime 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 effective March 1, 2011.

Based on the University's benefit load apportionment, Harborview incurred and paid \$3,004 and \$1,660 in fiscal years 2019 and 2018, respectively, related to annual UWSRP funding, which is recorded in employee benefits expense on the statements of revenues, expenses, and changes in net position. Because Harborview is not part of the University's financial reporting entity and Harborview has no legal responsibility for benefit payments of the plan directly to the employees, Harborview does not record a UWSRP pension liability on the statement of net position.

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

Notes to Basic Financial Statements

June 30, 2019 and 2018

(Dollar amounts in thousands)

**(d) Other Postemployment Benefits (OPEB)**

OPEB are benefits provided to retired employees (and their dependents) beyond those provided by their pension plans. These programs for employees of the state of Washington are administered by the Washington State Health Care Authority (HCA). Per RCW 41.05.065, the Public Employees' Benefits Board (PEBB), created within the HCA, is authorized to design benefits and determine terms and conditions of employee and retired employee participation and coverage. Benefits provided by this single-employer defined-benefit OPEB plan include medical, prescription drug, life, dental, vision, disability, and long-term care insurance. Retirees have access to all of these benefits; however, medical, prescription drug, and vision insurance comprise the bulk of the monetary assistance, or subsidies, provided by PEBB OPEB. 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.

Based on the University's benefit load apportionment, Harborview incurred and paid \$3,801 and \$3,854 in fiscal years 2019 and 2018, respectively, related to annual OPEB funding, which is recorded in employee benefits expense on the statements of revenues, expenses, and changes in net position. Because Harborview is not part of the University's financial reporting entity and Harborview does not directly fund the employer contribution to HCA, Harborview does not record an OPEB liability on the statement of net position.

**(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 nonexchange transactions 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, administrative, and teaching services from the School, which includes laboratory services, residents programs, direct faculty salaries, and clinical department funding. Harborview provides rental space for research programs of the School. The amounts for these services are shown below (see (d)).

*UW Medicine Central Costs*

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



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

Notes to Basic Financial Statements

June 30, 2019 and 2018

(Dollar amounts in thousands)

*UW Neighborhood Clinics*

Under an annual agreement between the involved UW Medicine entities, Harborview provided funding of approximately 26.6% of the UWNC's annual operating loss for fiscal years 2019 and 2018 and 20.0% of capital funding needs. Funding for operations from Harborview to UWNC was \$12,402 and \$11,334 for fiscal years 2019 and 2018, 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 \$500 and \$105 for fiscal years 2019 and 2018, 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 IT 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 shared services transactions are shown below (see (d)).

*Other Divisions of the University*

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

**(b) Northwest Hospital**

Harborview provides strategic support to Northwest Hospital for operating purposes. Funding from Harborview to Northwest Hospital was \$1,668 for both the years ended June 30, 2019 and 2018, 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. The amounts for these transactions are shown below (see (d)). Additional detail describing Harborview's position within King County is provided in note 1. See further discussion about building rentals with the County in note 11 (f) and (g).

**(d) Summary of Related Party Transactions**

Harborview's related party revenue and expense amounts are included in net patient service revenue, salaries and wages expense, employee benefits expense, purchased services expense, and other expense in the accompanying statements of revenues, expenses, and changes in net position. The

**HARBORVIEW MEDICAL CENTER**  
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Notes to Basic Financial Statements

June 30, 2019 and 2018

(Dollar amounts in thousands)

following table summarizes the related party revenue and expense transactions for the years ended June 30, 2019 and 2018:

<b>Revenue (expense) transactions</b>	<b>2019</b>	<b>2018</b>
Services and supplies purchased from the University and its departments and affiliates:		
UW Medicine Shared Services	\$ (118,338)	(100,641)
The School	(107,574)	(105,850)
Central Costs	(12,951)	(12,062)
UW Medical Center	(2,902)	(2,357)
UWP	—	(1,611)
Other University divisions and departments	(15,007)	(15,474)
Services provided to the University and its departments and affiliates:		
The School	10,519	11,331
UW Medicine Shared Services	2,484	2,377
UW Medical Center	3,575	3,223
UW Neighborhood Clinics	137	1,534
Services provided to King County	12,797	8,565

Harborview had net amounts due from (due to) related parties for various transactions, which are included in the due from related parties, other receivables, accrued salaries, wages and benefits, 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, 2019 and 2018 are as follows:

<b>Net receivable (payable)</b>	<b>2019</b>	<b>2018</b>
The University and its departments and affiliates:		
The School	\$ 6,641	4,823
UW Medicine Shared Services	(10,299)	(8,955)
UWP	1,856	1,588
UW Medical Center	750	1,155
Airlift	3,528	3,476
UW Medicine Central Costs	(481)	(291)
Other University divisions and departments	(34,830)	(32,066)
UW Neighborhood Clinics	11	777
King County	(2,553)	(2,684)
Northwest Hospital	58	200
Valley Medical Center	68	—

**HARBORVIEW MEDICAL CENTER**  
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Notes to Basic Financial Statements

June 30, 2019 and 2018

(Dollar amounts in thousands)

**(11) Commitments and Contingencies**

**(a) Operating Leases**

Harborview leases certain medical office space and equipment under operating lease arrangements. Total rental expense for the years ended June 30, 2019 and 2018 for all operating leases was \$15,377 and \$15,383, respectively, which is recorded in other expense in the statements of revenues, expenses, and changes in net position.

The following schedule shows future minimum lease payments by fiscal year as of June 30, 2019:

2020	\$	15,387
2021		1,087
2022		1,068
2023		175
2024		76
Thereafter		—
	\$	17,793

**(b) Purchase Commitments**

Harborview has current commitments at June 30, 2019 of \$33,096 related to various construction projects and equipment purchases. Harborview intends to use its unrestricted funds for these commitments.

**(c) Regulatory Environment**

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not limited to, matters such as licensure, accreditation, governmental healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government agencies are actively conducting investigations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs, together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Through its compliance program, Harborview maintains an effective and safe program for reporting and addressing potential regulatory concerns. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions known or unasserted at this time.

**(d) Litigation**

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

**HARBORVIEW MEDICAL CENTER**  
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Notes to Basic Financial Statements

June 30, 2019 and 2018

(Dollar amounts in thousands)

**(e) *Collective Bargaining Agreements***

Approximately 79.6% of the University employees deployed at Harborview are covered by collective bargaining agreements as of June 30, 2019. Nurses are represented by the Service Employees International Union (SEIU), and other healthcare and support workers are represented by the SEIU and Washington Federation of State Employees. All collective bargaining agreements expire on June 30, 2021.

**(f) *Patricia Bracelin Steel Building***

In December 2012, King County exercised its option to purchase the Patricia Bracelin Steel building (PSB), which is located on Harborview's campus. To fund the purchase of the building, King County issued Limited Tax General Obligation (LTGO) debt. The Agreement requires the Trustees to budget funds annually to cover the monthly rent and outstanding debt associated with PSB. As the financial obligations of the LTGO debt remain the responsibility of King County, Harborview accounts for these rental payments to King County for PSB as rental expense. Rental expense was approximately \$2,847 for the years ended June 30, 2019 and 2018. If Harborview continues to occupy this space, annual lease expense will not differ significantly from the amount recognized in 2019.

**(g) *Ninth and Jefferson Building***

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

The Agreement requires the Trustees to budget funds annually to cover the monthly rent and outstanding debt associated with NJB. As the financial obligations of the lease and outstanding debt remain the responsibility of King County, Harborview accounts for these rental payments to King County for NJB as rental expense. Rental expense was approximately \$11,122 for both the years ended June 30, 2019 and 2018. If Harborview continues to occupy this space, annual lease expense will not differ significantly from the amount recognized in 2019.



KPMG LLP  
Suite 2900  
1918 Eighth Avenue  
Seattle, WA 98101

**Independent Auditors' 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***

The Board of Trustees Finance Committee  
Harborview Medical Center:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities of Harborview Medical Center, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise Harborview Medical Center's basic financial statements, and have issued our report thereon dated October 11, 2019.

*Internal Control Over Financial Reporting*

In planning and performing our audit of the financial statements, we considered Harborview 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 Harborview Medical Center's internal control. Accordingly, we do not express an opinion on the effectiveness of Harborview 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 Harborview Medical Center's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



*Purpose of this Report*

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Harborview 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 Harborview Medical Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Seattle, Washington  
October 11, 2019



KPMG LLP  
Suite 2900  
1918 Eighth Avenue  
Seattle, WA 98101

## **Independent Auditors' Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

The Board of Trustees  
Harborview Medical Center:

### **Report on Compliance for Each Major Federal Program**

We have audited Harborview Medical Center's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Harborview Medical Center's major federal programs for the year ended June 30, 2019. Harborview Medical Center's major federal programs are identified in the summary of auditors' results section of 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.

#### *Auditors' Responsibility*

Our responsibility is to express an opinion on compliance for each of Harborview 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 Harborview 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. However, our audit does not provide a legal determination of Harborview Medical Center's compliance.

#### *Opinion on Each Major Federal Program*

In our opinion, Harborview 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, 2019.



## **Report on Internal Control Over Compliance**

Management of Harborview 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 Harborview 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 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 Harborview 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 a 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 have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control over compliance, described in the accompanying schedule of findings and questioned costs as Finding 2019-001 that we consider to be a significant deficiency.

Harborview Medical Center's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Harborview Medical Center is also responsible for preparing a corrective action plan to address each audit finding included in our auditors' report. Harborview Medical Center's response and corrective action plan were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response or the corrective action plan.

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.

## **Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

We have audited the financial statements of Harborview Medical Center as of and for the year ended June 30, 2019, and have issued our report thereon dated October 11, 2019, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other





additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

KPMG LLP

Seattle, Washington  
February 7, 2020

**HARBORVIEW MEDICAL CENTER**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For the Fiscal Year Ended June 30, 2019**

Federal CFDA No.	Federal CFDA Title	Pass-Through Grantor	Contract ID	Contract Period	HMC ID	Program Description	Cost Center	Federal Expenditures - Direct Awards	Federal Expenditures - Pass Through Awards	Expenditures to Subrecipients	
<b>MEDICAID CLUSTER</b>											
<b>Department of Health &amp; Human Services</b>											
93.778	Medical Assistance Program	Seattle Human Services Department	DA17-1329 Amd #1 DA19-1329	1/1/17 - 12/31/18 1/1/19 - 12/31/19	15450	Harborview-Gero-Psych Consultation	7226		897 1,494		
<b>CFDA 93.778 Total</b>										<b>2,391</b>	
<b>MEDICAID CLUSTER TOTAL</b>											
<b>Department of Housing and Urban Development</b>											
14.267	Continuum of Care Program	King County Department of Community and Human Services	5851627 Amd #4	6/1/18 - 5/31/19	15265	Scattered Sites Supportive Housing	7242		91,757		
<b>CFDA 14.267 Total</b>										<b>91,757</b>	
<b>Department of Housing and Urban Development Total</b>											
<b>Department of Justice</b>											
16.575	Crime Victim Assistance	Washington State Dept. of Commerce	19-31310-130 S19-31219-020 F17-31219-542 Amd A	7/1/18 - 6/30/19 7/1/18 - 6/30/19 1/1/18 - 6/30/19	18700 18705 18706	OCVA Crime Victim Serv. Proj. OCVA - Crime Victim Services Proj. OCVA - Sexual Assault Medical Forensic Examination	7812 7828 7512		367,767 49,025 155,170		
<b>CFDA 16.575 Total</b>										<b>655,739</b>	
16.590	Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program	Washington State Dept. of Commerce	19-31310-030 Amd A	7/1/18 - 6/30/21	18717A	OCVA Sexual Assault Nurse Examiner (SANE) Training Program	7816		103,782		
<b>CFDA 16.590 Total</b>										<b>103,782</b>	
<b>Department of Justice Total</b>											
<b>Department of Health &amp; Human Services</b>											
93.136	Injury Prevention and Control Research and State and Community Based Programs	Washington State Dept. of Commerce	F18-31310-609 Amd A	2/1/18 - 1/31/19	18701	OCVA Rape Prevention and Education	7816		48,047 31,705		
<b>CFDA 93.136 Total</b>										<b>79,752</b>	
93.153	Coordinated Services and Access to Research for Women, Infants, Children, and Youth	Direct Award - HRSA	H12HA28849-03-00 H12HA28849-04-00	8/1/17 - 7/31/18 8/1/18 - 7/31/19	18215 18215	Ryan White Part D - Madison Ryan White Part D - Social Work Ryan White Part D - Madison Ryan White Part D - Social Work	7621 7886 7621 7886		82,555 12,814 1,001,653 150,763	12,019 58,832	
<b>CFDA 93.153 Total</b>										<b>1,247,783</b>	<b>70,850</b>
93.243	Substance Abuse and Mental Health Services Projects of Regional and National Significance	Direct Award - HRSA Washington State Health Care Authority	6H791081638-01M002 1512-47681 Amd #6	9/30/18 - 9/29/19 7/1/18 - 7/31/18	15501 18376	Medication Assisted Treatment Prescription Drug and Opioid Addiction Project SAMHSA Medication Assisted Treatment	7451 7804		231,586 31,481		
<b>CFDA 93.243 Total</b>										<b>231,586</b>	<b>31,481</b>

**HARBORVIEW MEDICAL CENTER**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For the Fiscal Year Ended June 30, 2019**

Federal CFDA No.	Federal CFDA Title	Pass-Through Grantor	Contract ID	Contract Period	HMC ID	Program Description	Cost Center	Federal Expenditures - Direct Awards	Federal Expenditures - Pass Through Awards	Expenditures to Subrecipients
<u>93.788</u>	Opioid STR	Washington State Health Care Authority	1765-98326 Amd #1 to Amd #3 1765-98326 Amd #4	5/1/18 - 4/30/19 5/1/19 - 9/29/19	15500	HUB Mat Services State Targeted Response to the Opioid Crisis	7452 7804 7452 7804	874,722 403,999 147,965 29,973		
						<b>CFDA 93.788 Total</b>		<b>1,456,659</b>		
<u>93.817</u>	Hospital Preparedness Program (HPP) Ebola Preparedness and Response Activities	Washington State Department of Health	N21822 Amd #2 changed to HSP21822-2	5/18/15 - 5/17/20	18403	Ebola Response	8712	135,407		
						<b>CFDA 93.817 Total</b>		<b>135,407</b>		
<u>93.917</u>	HIV Care Formula Grants	Washington State Department of Health	HED21329 & Amd #4 HED21329 & Amd #5 to 6	4/1/18 - 6/30/19 7/1/18 - 6/30/19	18225	Satellite Clinics	7522 7537	164,942		
						<b>CFDA 93.917 Total</b>		<b>164,942</b>		
<u>93.918</u>	Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	Direct Award - HRSA	H76HA00198-26-01 H76HA00198-27-01	1/1/18 - 12/31/18 1/1/19 - 12/31/19	18210	Ryan White Part C	7619	786,526 698,014		
						<b>CFDA 93.918 Total</b>		<b>1,484,540</b>		
<u>93.958</u>	Block Grants for Community Mental Health Services	Washington State Health Care Authority King County Department of Community and Human Services	1565-48149 Amd #2 1565-48149 Amd #3 5918588 & Amd #6 & #10 6057920	10/1/17 - 9/30/18 10/1/18 - 9/30/19 1/1/17 - 12/31/18 1/1/19 - 12/31/20	18765 15290	Trauma-Focused Behavioral Therapy Housing and Recovery Through Peer Services	7816 7227	74,364 202,091 87,680 102,760		
						<b>CFDA 93.958 Total</b>		<b>466,895</b>		
<b>Department of Health &amp; Human Services Total</b>								<b>2,963,909</b>	<b>2,773,214</b>	<b>70,850</b>
<b>FEDERAL EXPENDITURES TOTALS BY AWARD TYPE</b>								<b>2,963,909</b>	<b>3,626,883</b>	<b>70,850</b>
<b>FEDERAL EXPENDITURES GRAND TOTAL</b>								<b>6,590,792</b>		

**HARBORVIEW MEDICAL CENTER  
UNIFORM GUIDANCE FOR FEDERAL AWARDS**

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2019

**(1) Basis of Presentation**

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Harborview Medical Center (the Medical Center) under programs of the federal government for the year ended June 30, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200 (2 CFR 200), *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Medical Center, it is not intended to and does not present the balance sheet, statement of operations, changes in net assets, or cash flows of the Medical Center.

**(2) Summary of Significant Accounting Policies**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. The Medical Center has elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

**HARBORVIEW MEDICAL CENTER  
UNIFORM GUIDANCE FOR FEDERAL AWARDS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2019

**(1) Summary of Auditors' Results**

*Financial Statements*

Type of auditors' report issued: **Unmodified**

Internal control over financial reporting:

- Material weakness(es) identified? **No**
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? **None Reported**

Noncompliance material to the financial statements noted? **No**

*Federal Awards*

Type of auditors' report issued on compliance for major programs: **Unmodified**

Internal control over major programs:

- Material weakness(es) identified? **No**
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? **Yes**

Any audit findings disclosed that are required to be reported in accordance with Section 200.516(a) of the Uniform Guidance? **Yes**

*Identification of Major Programs*

<b>Federal grantor and program title</b>	<u><b>CFDA number</b></u>
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease (Ryan White HIV/AIDS Part C)	93.918
Coordinated Services and Access to Research for Women, Infants, Children, and Youth (Ryan White HIV/AIDS Part D)	93.153

Dollar threshold used to distinguish between type A and type B programs: **\$ 750,000**

Auditee qualified as low-risk auditee? **No**

**(2) Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards***

None

**HARBORVIEW MEDICAL CENTER  
UNIFORM GUIDANCE FOR FEDERAL AWARDS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2019

**(3) Federal Award Findings and Questioned Costs**

Finding 19-001

*Federal Program*

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)

*Federal Agency*

U.S. Department of Health and Human Services

*Federal Award Year*

July 1, 2018 to June 30, 2019

*Criteria*

Section 200.303 of the Uniform Guidance indicates that a nonfederal entity must establish and maintain effective internal control over the federal award that provides reasonable assurance that the nonfederal entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award.

*Statement of Condition*

Medical Center supervisors did not review payroll time-and-effort documentation in a timely manner. During our testwork over the Health and Human Services Cluster, we identified one of our nine selections tested in our payroll testwork where the manager did not sign off on the time and effort certification within 30 days of the payroll period. The Medical Center's controls over time and effort certification were not operating effectively and the documentation that review occurred within 30 days of the payroll period was not evidenced.

*Cause and Effect*

A new Medical Center Grants and Contracts Coordinator was assigned the responsibility of time and effort certification review and documentation for the month of February. Due to technical issues and additional training required due to personnel changes, the documentation of this review was completed after 30 days following the payroll period. The Medical Center should have controls designed and operating effectively to ensure that time and effort certifications are reviewed and documented within 30 days of the payroll period.

*Questioned Costs*

None

*Was the Sampling Statistically Valid?*

The sample was not intended to be, and was not, a statistically valid sample.

**HARBORVIEW MEDICAL CENTER  
UNIFORM GUIDANCE FOR FEDERAL AWARDS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2019

*Repeat Finding?*

Yes

*Recommendation*

We recommend that the Medical Center assign the appropriate personnel to perform the controls over the time and effort certification process.

*View of Responsible Officials and Corrective Action Plan*

We understand the finding regarding the time and effort certification. Management has implemented improvements to meet the requirements including revising our policy to state "Complete within 30 days after release date," and specified that both dates and signatures are required. Management has reassigned the responsibilities to appropriate personnel. In addition, the Medical Center reiterated to program staff the importance of completing effort certifications in a timely manner, retrained program management to ensure effort certifications were approved prior to seeking reimbursement, and is holding quarterly meetings to ensure compliance with the time and effort certification process.

**UW Medicine Harborview Medical Center**  
**Summary Status of Prior Year Findings**  
**Year ended June 30, 2019**  
**Contact: Lillen Namba, Director of Internal Controls**  
[lnamba@uw.edu](mailto:lnamba@uw.edu)

## **Finding 2018-001**

### *Statement of Condition*

In fiscal year 2018, Harborview Medical Center spent \$1.6 million and \$1.2 million in federal funds under the Ryan White HIV/AIDS Part C and 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 on Ryan White Part C, \$419,806 went to program expenditures and the remaining money spent was for costs covered by program income generated from the grant. Of the \$1.2 million spent in Ryan White Part D, \$379,758 was program expenditures and the remaining were costs covered by 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 \$2,366,621 (90.6 percent of program expenditures) for Part C and Part D combined.

The Medical Center requires supervisors to review and approve time-and-effort certifications within 30 days of the report period. This process should be completed before requesting reimbursement from the awarding agency to ensure the payroll charges are accurate.

We reviewed payroll transactions and found supervisors did not consistently review and approve time-and-effort certifications within 30 days as required. We also found instances for which the approval date was not detailed enough to determine if the approval occurred within the required 30 days. Further, we found instances when reimbursement requests were submitted before the time-and-efforts were reviewed.

We consider the control deficiency a material weakness. For the Ryan White Parts C and Part D grants, this issue was the result of conditions we reported in our previous audits as Findings 2017-001, 2016-001, and 2016-002.



## ***Correction Action Plan***

As mentioned in the auditor's finding, the prior year Ryan White Parts C and D conditions were reported in March 2018, and the Medical Center had limited time to implement recommendations and improve timeliness of supervisory review and approval.

In addition, there was a business process change as a result of our new HR Payroll system (Workday) implementation in June 2017, which required the Medical Center to develop a new report for effort certifications. This process spanned several months, and required the collaboration between a number of departments to determine where data fields for effort certifications (which includes both UW and Medical Center information) reside post implementation. During this period, there were many revisions made to accurately reflect effort on the grants, resulting in signatures on the certifications being delayed.

In order to ensure compliance with completing time-and-effort certification reports timely and with sufficient detail, the Medical Center has revised our policy to state "Complete within 30 days after release date," and specified that both dates and signatures are required. In addition, the Medical Center reiterated to program staff the importance of completing effort certifications in a timely manner and retrained program management to ensure effort certifications were approved prior to seeking reimbursement.

## ***Status as of June 30, 2019***

Procedures to comply with these requirements were subsequently implemented in FY18 following the notification of the finding, and as of this date, this finding has been fully addressed. In addition, there was a business process change as a result of our new HR Payroll system (Workday) implementation in June 2017, which required the Medical Center to create a new report design for effort certifications. This process spanned several months, and required the collaboration between a number of departments to determine where data fields for effort certifications (which includes both UW and Medical Center information) reside post implementation. During this period, there were many revisions made to accurately reflect effort on the grants post implementation, resulting in signatures on the certifications being delayed.