



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

June 10, 2024

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 year ended June 30, 2023. The District 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

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

UNIFORM GUIDANCE FOR FEDERAL AWARDS

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

Year Ended June 30, 2023

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

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KPMG LLP
Suite 2800
401 Union Street
Seattle, WA 98101

Independent Auditors' Report

Board of Trustees
Harborview Medical Center:

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Harborview Medical Center, a component unit of the King County, as of and for the years ended June 30, 2023 and 2022, and the related notes to the financial statements, which collectively comprise Harborview Medical Center's basic financial statements for the years then ended as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of Harborview Medical Center as of June 30, 2023 and 2022, and the changes in its financial position and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Harborview Medical Center and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Harborview Medical Center's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.



Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Harborview Medical Center's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Harborview Medical Center's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2023 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 13, 2023

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

Management's Discussion and Analysis

June 30, 2023 and 2022

(Dollar amounts in millions)

(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, 2023 and 2022. This discussion has been prepared by management and is designed to focus on current activities, resulting changes, and current known facts. It 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 is a learning, research, and clinical health system comprised of multiple legal entities that share the UW Medicine mission to improve the health of the public. UW Medicine also includes University of Washington Medical Center (UW Medical Center), Valley Medical Center (VMC), UW Medicine Primary Care (UWM PC), UW Physicians (UWP), UW School of Medicine (the School), Airlift Northwest (Airlift), UW Medicine Shared Services, and Fred Hutchinson Cancer Center (FHCC).

Using the Financial Statements

The financial report consists of two parts: management's 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 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.

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(Unaudited)

Results of Operations

For the fiscal year ended 2023, Harborview experienced high occupancy and length of stay, primarily driven by barriers of discharging patients to post-acute care facilities. There were significant pressures on Harborview's operating expenses during the year as a result of inflationary increases, particularly labor costs. Labor costs increased in fiscal year 2023 due to permanent staff salary increases, higher full-time equivalents (FTEs), continued unprecedented utilization of contract labor and contract labor rates. Further, \$41 million of nonrecurring revenue was received from the Federal Emergency Management Agency (FEMA) for reimbursement of expenses due to the national emergency declaration made as a result of the Coronavirus (COVID-19) pandemic.

Harborview reported an operating loss of \$29 million and an increase in net position of \$20 million for the year ended June 30, 2023 compared to an operating loss of \$19 million and a decrease in net position of \$4 million for the year ended June 30, 2022. The increase in net position in fiscal year 2023 is attributed to an increase nonoperating revenues as a result of \$41 million recognized for FEMA Public Assistance program funds received for the reimbursement of expenses incurred as a result of the COVID-19 pandemic.

For the year ended June 30, 2022, Harborview reported an operating loss of \$19 million and a decrease in net position of \$4 million compared to an operating loss of \$8 million and an increase in net position of \$5 million for the year ended June 30, 2021. The decrease in net position in fiscal year 2022 was primarily attributed to increased operating expenses, particularly an increase in utilization of contract labor, driven by shortages in permanent staff, and high occupancy.

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Operating revenues	\$ 1,309	1,173	1,129
Operating expenses	<u>1,338</u>	<u>1,192</u>	<u>1,137</u>
Loss from operations	<u>(29)</u>	<u>(19)</u>	<u>(8)</u>
Investment income, net	7	3	5
FEMA Public Assistance Program	41	8	—
Recurring state appropriations	7	7	6
Nonrecurring state appropriations	8	8	3
Other, net	<u>(14)</u>	<u>(11)</u>	<u>(1)</u>
Nonoperating revenues	<u>49</u>	<u>15</u>	<u>13</u>
Increase (decrease) in net position	20	(4)	5
Net position, beginning of year	<u>732</u>	<u>736</u>	<u>731</u>
Net position, end of year	<u>\$ 752</u>	<u>732</u>	<u>736</u>

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(Dollar amounts in millions)

(Unaudited)

The following table presents Harborview's key performance indicators for June 30, 2023, 2022, and 2021:

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Licensed beds ¹	500	413	413
Admissions	16,024	15,180	15,112
Patient days	173,137	167,573	151,432
Average length of stay	10.8	11.0	10.0
Occupancy	112 %	111 %	101 %
Case mix index (CMI)	2.63	2.60	2.62
Surgery cases	19,032	17,909	17,833
Emergency room visits	55,409	50,401	47,369
Primary care clinic visits	89,166	87,204	80,596
Specialty care clinic visits	178,978	173,822	178,531
Trauma cases	7,316	6,883	6,573
Full-time equivalents (FTEs)	4,713	4,555	4,544

¹Effective March 9, 2023, licensed beds increased from 413 to 500.

At the onset of the pandemic, the governor issued a waiver allowing hospitals to operate outside of Washington's Certificate of Need bed counts. This waiver was in effect throughout the pandemic and expired on October 31, 2022. However, with the Washington State Department of Health's (DOH) approval, Harborview was allowed to continue operations in excess of its licensed bed count until March 9, 2023, when the DOH approved Harborview's certificate of need application for 127 additional acute care beds, which will be added in two phases. As of June 30, 2023, phase one was completed, which increased Harborview's licensed bed count from 413 to 500.

During fiscal year 2023, Harborview's high occupancy rate and acuity resulted in Harborview initiating Basic Life Support diversion three different times in order to manage capacity and to ensure access for trauma patients. Harborview continues to focus on reducing high length of stay and implemented initiatives to safely discharge patients with barriers. Harborview experienced an average daily census of 459 in fiscal year 2022 as a result of utilization of beds in excess of licensure. In fiscal year 2022, Harborview experienced high case mix acuity and extremely high occupancy and length of stay, resulting from patient discharge barriers.

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June 30, 2023 and 2022

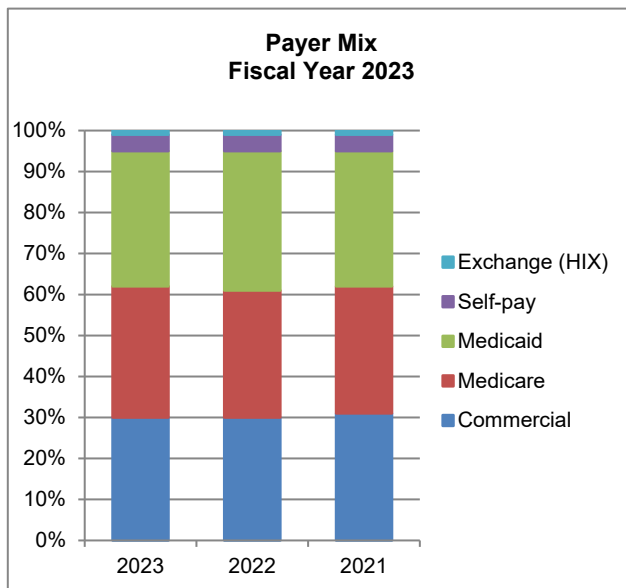
(Dollar amounts in millions)

(Unaudited)

Operating Revenues

Operating revenues consist primarily of net patient service revenues and other revenue. Net patient service revenues are recorded based on standard charges less contractual adjustments, financial assistance, and a provision for uncollectible accounts. Harborview has agreements with federal and state agencies and commercial payers 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 professional fees, and retail pharmacy revenues. Other revenue is comprised of hospital-related revenues, such as grants, contract pharmacy revenue, as well as parking and cafeteria revenues.



Harborview's payer mix is a key factor in the overall financial operating results. The chart to the left illustrates gross patient service revenue payer mix for fiscal years 2023, 2022, and 2021 gross patient service revenue. For the years ended June 30, 2023 and 2022, Medicaid revenue represented 33% and 34%, respectively; commercial revenue represented 30% for both years; Medicare revenue represented 32% and 31%, respectively; self-pay revenue represented 4% for both years; and exchange revenue represented 1% for both years.

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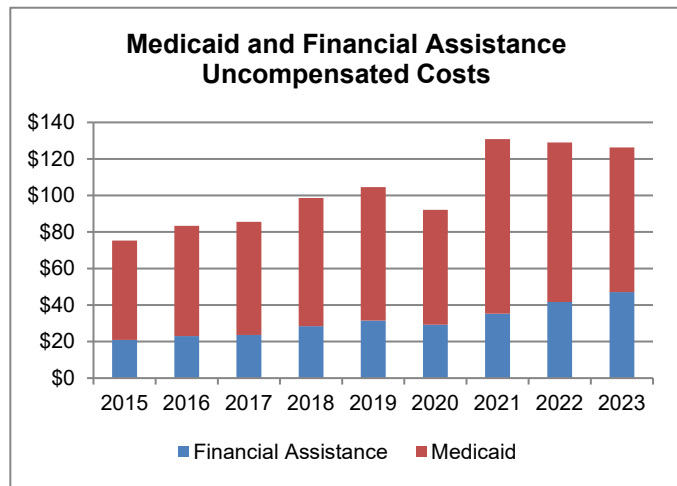
June 30, 2023 and 2022

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(Unaudited)

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. Over the past several years, the cost of providing care to Medicaid patients has increased.

Reimbursement from governmental payers are 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, 2023, 2022, and 2021, Harborview's total operating revenues were \$1,309 million, \$1,173 million, and \$1,129 million, which was comprised of \$1,202 million, \$1,085 million, and \$1,021 million in net patient service revenues and \$107 million, \$88 million, and \$108 million, in other revenue, respectively. The increase in operating revenues of \$136 million is driven by higher net patient service revenue, primarily driven by increased admissions, surgeries, high occupancy and other rate increases, including the outpatient directed payment program (ODPP), which is a new program managed by the Washington State Health Care Authority, effective January 1, 2023. Harborview also experienced an increase in contract pharmacy and long-term care pharmacy revenues, which are recorded within other revenue on the statements of revenues, expenses, and changes in net position. The increase in operating revenues in fiscal year 2022 of \$44 million was driven by increased net patient service revenue as a result of higher occupancy and length of stay.

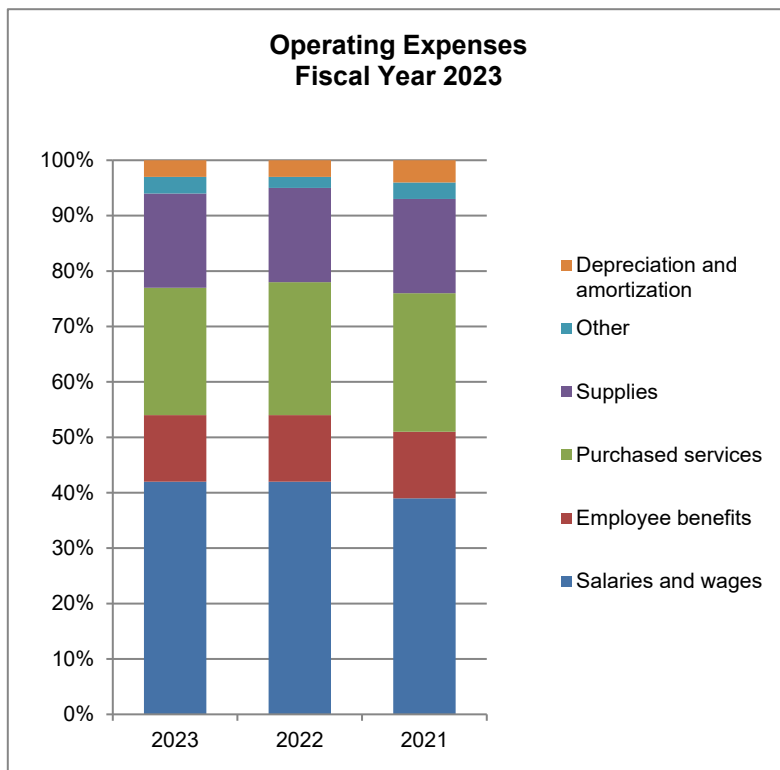
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(Dollar amounts in millions)

(Unaudited)



Operating Expenses

Operating expenses were \$1,338 million for fiscal year 2023 compared to \$1,192 million for fiscal year 2022 and \$1,137 million for fiscal year 2021. The composition of operating expenses for fiscal years 2023, 2022, and 2021 is illustrated in the chart to the left.

Salaries and wages increased \$55 million from \$505 million in fiscal year 2022 to \$560 million in fiscal year 2023. The increase in salaries and wages in the current year is primarily attributed to an increase in FTEs due to high occupancy as well as wage increases. In fiscal year 2023 in an effort to align with rapidly increasing market rates, UW Medicine reached historic agreements with its four largest labor union partners which included incremental pay increases that are the largest UW Medicine has ever negotiated. Further, utilization of contract labor remained high in fiscal year 2023 as a

result of shortages in permanent staff and increased volumes.

Salaries and wages increased \$56 million from \$449 million in fiscal year 2021 to \$505 million in fiscal year 2022. The increase in salaries and wages in fiscal year 2022 was primarily attributed to additional staffing needs due to an increase in volumes and increasing labor costs in the market.

Employee benefits increased \$22 million from \$137 million in fiscal year 2022 to \$159 million in fiscal year 2023 and decreased \$6 million from \$143 million in fiscal year 2021 to \$137 million in fiscal year 2022. Between fiscal year 2022 and fiscal year 2023, the University benefit load rate for classified and professional employees increased due to higher healthcare expenses and employer pension contributions.

Between fiscal year 2021 and fiscal year 2022, the University benefit load rate for classified and professional employees decreased as a result of reduced healthcare expenses and employer pension contributions.

Purchased services, which consist of UW Medicine shared services, clinical department funding to the School, residency programs, and other purchased service expenses increased \$31 million from \$284 million in fiscal year 2022 to \$315 million in fiscal year 2023 and increased \$4 million from \$280 million in fiscal year 2021 to \$284 million in fiscal year 2022. The increase in purchased services in fiscal year 2023 is driven by

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higher UW Medicine Shared Service expenses, funding for UWM PC operations, and resident salaries expense.

The increase in purchased services in fiscal year 2022 is driven by an increase in clinical department funding to the School due to an increase in physician volumes during the year.

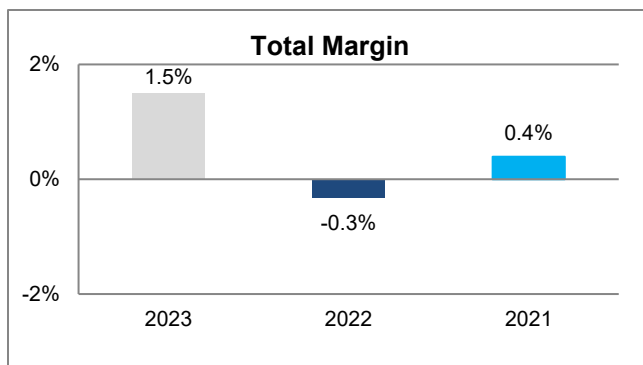
Supplies expense includes medical, surgical, pharmaceutical, and nonmedical supplies. In total, these expenses increased \$27 million from \$199 million in fiscal year 2022 to \$226 million in fiscal year 2023 and increased \$6 million from \$193 million in fiscal year 2021 to \$199 million in fiscal year 2022. The increase in supplies expense between fiscal years 2023 and 2022 was driven by higher pharmaceuticals, prosthesis, and surgical supplies due to higher volumes in fiscal year 2023.

The increase in supplies expense between fiscal years 2022 and 2021 was driven by higher prosthesis and surgical expenses as a result of higher surgical volumes in fiscal year 2022.

Nonoperating Revenues (Expenses)

Nonoperating revenues (expenses) consist primarily of investment income, donations, intergovernmental transfer expense, primary care funding, mission support paid to King County, state appropriations, hospital safety net program, COVID-19 federal stimulus funding, and FEMA public assistance funds. Net nonoperating revenues increased \$34 million from \$15 million for the year ended June 30, 2022 to \$49 million at June 30, 2023. The increase is primarily driven by to a \$33 million increase in COVID-19 FEMA public assistance funds as a result of obligated projects, which are recorded within Federal Emergency Management Agency public assistance program in the statements of revenues, expenses, and changes in net position.

In fiscal year 2022, net nonoperating revenues increased \$2 million from \$13 million for the year ended June 30, 2021 to \$15 million at June 30, 2022. The increase was due to an increase in state appropriations, which was offset by a decrease in investment income, donations, and COVID-19 federal stimulus funding. While the investment pool performance was 1.04% in fiscal year 2022 compared to 0.75% in fiscal year 2021, investment income decreased due to a lower investment balance being held within the King County Investment Pool. Additionally, in fiscal year 2022, Harborview recognized \$3 million of COVID-19 federal stimulus funding, compared to \$18 million of COVID-19 federal stimulus funding recognized in the prior year.



Total Margin

Total margin or excess margin is a ratio that defines the percentage of total revenue (operating plus nonoperating) that has been realized in the form of net income before additions to permanent endowments and is a common measure of total hospital profitability. Total margin for the fiscal years 2023, 2022, and 2021 is illustrated in the chart to the left.

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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, 2023, 2022, and 2021:

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Current assets	\$ 573	518	583
Noncurrent assets:			
Capital assets, net	272	267	269
Right-to-use lease assets, net	152	158	161
Internally designated assets	114	110	95
Other assets	66	63	79
Total assets	<u>\$ 1,177</u>	<u>1,116</u>	<u>1,187</u>
Current liabilities	\$ 218	171	198
Noncurrent liabilities	171	176	215
Total liabilities	<u>\$ 389</u>	<u>347</u>	<u>413</u>
Other deferred inflows of resources	36	37	38
Net position	<u>752</u>	<u>732</u>	<u>736</u>
Total liabilities and net position	<u>\$ 1,177</u>	<u>1,116</u>	<u>1,187</u>

Total assets are \$1,177 million at June 30, 2023 compared to \$1,116 million at June 30, 2022, an increase of \$61 million. Significant events within total assets during fiscal year 2023 include an increase in other receivables of \$28 million due to the estimated receivable for ODPP, which is a new program managed by the Washington State Health Care Authority, effective January 1, 2023.

Total assets are \$1,116 million at June 30, 2022 compared to \$1,187 million at June 30, 2021, a decrease of \$71 million. Significant events within total assets during fiscal year 2022 include a decrease in cash and cash equivalents as a result of higher operating expenses and the recoupment of a significant portion of the Medicare advanced payments.

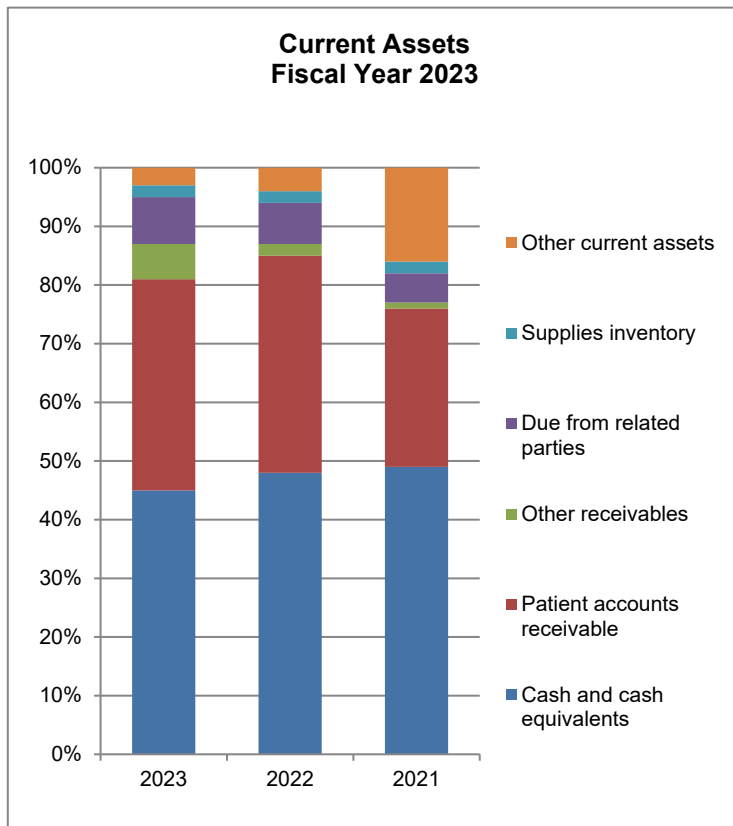
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Current Assets

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 \$573 million, \$518 million, and \$583 million at fiscal years 2023, 2022, and 2021, respectively. For fiscal years 2023, 2022, and 2021, the 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 presented within cash and cash equivalents, internally designated assets, and certain donor restricted assets in the statements of net position. Cash and cash equivalents increased \$7 million from \$250 million at June 30, 2022 to \$257 million at June 30, 2023 and decreased \$85 million from \$335 million at June 30, 2021 to \$250 million at June 30, 2022.

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, 2023, 2022, and 2021, is illustrated in the graph below.

Harborview's total days cash on hand decreased 8.6 days from 111.3 days at June 30, 2022 to 102.7 days at June 30, 2023. The decrease of 8.6 days between fiscal year 2023 and fiscal year 2022 is attributed to increased operating expenses, an increase in capital spend, and the recoupment by the Centers for Medicare and Medicaid Services (CMS) of Medicare advanced payments. At June 30, 2023, Medicare has recouped all of Harborview's Medicare advance payments.

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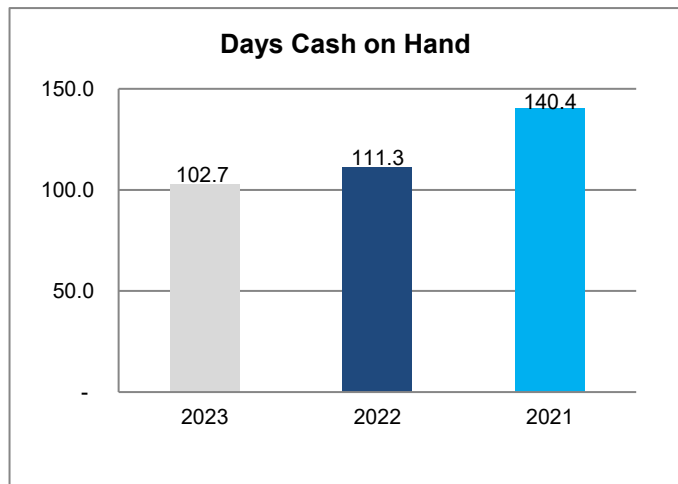
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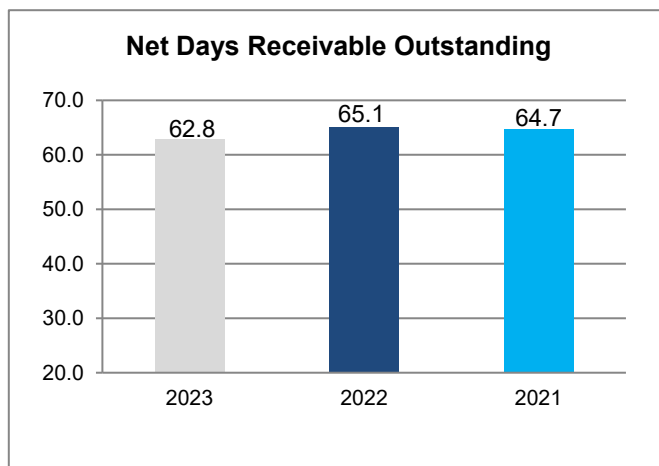
(Dollar amounts in millions)

(Unaudited)

Harborview's total days cash on hand decreased 29.1 days from 140.4 days at June 30, 2021 to 111.3 days at June 30, 2022. The decrease of 29.1 days between fiscal year 2022 and fiscal year 2021 is attributed to the increased operating expenses and the recoupment by CMS of Medicare advanced payments. At June 30, 2022, Medicare had recouped \$52.0 million of Harborview's Medicare advanced payments. Excluding the payable balance of Medicare advanced payments at June 30, 2022, days cash on hand would have been 106.2 days.



Patient accounts receivable were \$207 million as of June 30, 2023 compared to \$193 million as of June 30, 2022 and \$181 million as of June 30, 2021. Patient accounts receivable increased \$14 million in fiscal year 2023 and increased \$12 million in fiscal year 2022. The increase in fiscal years 2023 and 2022 were primarily due to higher volumes and revenues as well as timing of payer cash collections.



Days receivable outstanding indicates an organization's ability to convert net patient service revenue to cash. Days receivable outstanding as of June 30, 2023, 2022, and 2021 is provided in the graph to the left.

Harborview's net days receivable outstanding decreased 2.3 days from 65.1 days at June 30, 2022 to 62.8 days at June 30, 2023 and increased 0.4 days from 64.7 days at June 30, 2021 to 65.1 days at June 30, 2022. The decrease in net days receivable in the current year is due to an increase in net patient accounts receivable driven by timing of cash collections, slightly offset by an increase in net patient service revenue. The increase

in net days receivable in fiscal year 2022 was driven by timing of cash collections and increases in net patient service revenues.

As of June 30, 2023 and 2022, 39% of the gross patient accounts receivable balances are due from commercial payers for both years, 55% are due from governmental payers (Medicare and Medicaid) for both years, 4% are due from self-pay patients for both years, and 2% from the Washington Health Benefit Exchange for both years.

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(Dollar amounts in millions)

(Unaudited)

Other receivables consist of amounts due from external parties for services. Other receivables increased \$28 million from \$11 million at June 30, 2022 to \$39 million at June 30, 2023. The increase in fiscal year 2023 is due to the \$26 million estimated receivable for ODPP, which is a new program managed by the Washington State Health Care Authority effective January 1, 2023. Other receivables increased \$2 million from \$9 million at June 30, 2021 to \$11 million at June 30, 2022.

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 \$9 million from \$34 million at June 30, 2022 to \$43 million at June 30, 2023 and decreased \$2 million from \$36 million at June 30, 2021 to \$34 million at June 30, 2022. The changes in fiscal years 2023 and 2022 relate to the timing of payments between Harborview and other UW Medicine entities.

Noncurrent Assets

Capital assets, net of accumulated depreciation and amortization increased \$5 million during fiscal year 2023 from \$267 million at June 30, 2022 to \$272 million at June 30, 2023 and decreased \$2 million during fiscal year 2022 from \$269 million at June 30, 2021 to \$267 million at June 30, 2022. The increase in year 2023 was due to the increase in capital spending for equipment and construction projects offset by depreciation expense. The decrease in year 2022 was attributed to the depreciation of depreciable assets offset by moderate capital spending.

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

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

At June 30, 2023, total internally designated assets were \$114 million compared to \$110 million at June 30, 2022, an increase of \$4 million between years. The increase in internally designated assets between fiscal year 2022 and fiscal year 2023 relates to an increase in board designated assets, funds held for commuter services, and building repairs.

At June 30, 2022, total internally designated assets were \$110 million compared to \$95 million at June 30, 2021, an increase of \$15 million between years. The increase in internally designated assets between fiscal year 2021 and fiscal year 2022 related to an increase in funds, which were designated for the Maleng bed capacity project at Harborview, which is a multiyear capital project that will provide Harborview more single patient rooms.

Other assets consist of long-term prepaid expenses, long-term lease receivables, and donor restricted assets. The long-term prepaid expense entitles Harborview access to the enterprise-wide information technology (IT) software and services. Other assets increased \$3 million during fiscal year 2023 from \$63 million at June 30, 2022 to \$66 million at June 30, 2023 and decreased \$16 million during fiscal year 2022 from

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Management's Discussion and Analysis

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(Dollar amounts in millions)

(Unaudited)

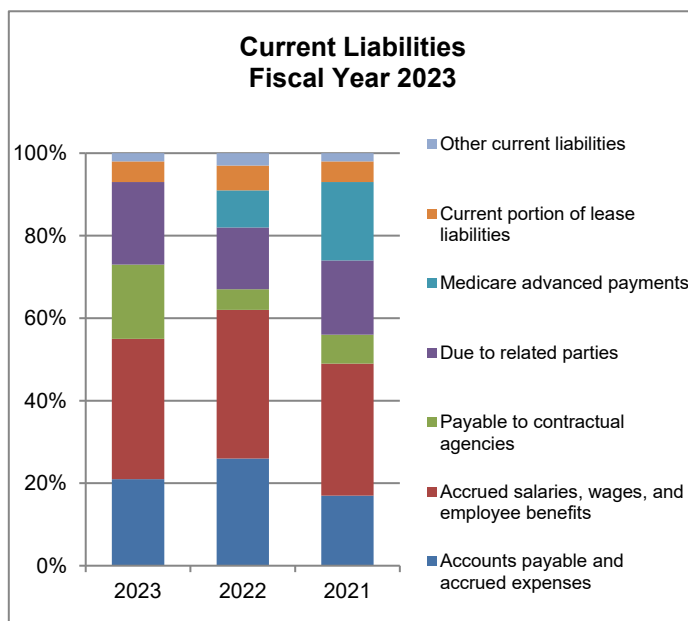
\$79 million at June 30, 2021 to \$63 million at June 30, 2022. The increase in fiscal year 2023 was driven by an increase in donor restricted assets related to donations received during the year and timing of IT capital projects. The decrease in fiscal year 2022 resulted from the fact that Harborview had \$8 million of long-term prepaid rent recorded within other assets, which became a right-to-use lease asset when the lease term began in fiscal year 2022. The decrease in fiscal year 2022 was also caused by the timing of IT capital projects.

Current Liabilities

Current liabilities consist of accounts payable and other accrued liabilities that are expected to be paid within a year. Total current liabilities were \$218 million, \$171 million, and \$198 million at June 30, 2023, 2022, and 2021, respectively. Fiscal year 2023 composition of current liabilities is illustrated in the chart below.

Accounts payable and accrued expenses increased \$3 million from \$44 million at June 30, 2022 to \$47 million at June 30, 2023 and increased \$11 million from \$33 million at June 30, 2021 to \$44 million at June 30, 2022. Changes in accounts payable and accrued expenses are primarily driven by timing of payments to vendors.

Accrued salaries, wages, and employee benefits increased \$12 million from \$61 million at June 30, 2022 to \$73 million at June 30, 2023 and decreased \$2 million from \$63 million at June 30, 2021 to \$61 million at June 30, 2022. Overall, the changes in accrued salaries, wages, and employee benefits are primarily driven by the number of employees, employee merit and fringe benefit rate fluctuations, and paid leave accruals.



Payable to contractual agencies consists of estimated reserves for Medicare cost reports and Medicaid Certified Public Expenditures (CPE) settlements. Payable to contractual agencies increased \$30 million from \$9 million at June 30, 2022 to \$39 million at June 30, 2023 and decreased \$5 million from \$14 million at June 30, 2021 to \$9 million at June 30, 2022. The increase in fiscal year 2023 was due to an increase in the CPE liability as a result of timing of payments and due to the outpatient directed payment program, which was effective January 1, 2023. The decrease in fiscal year 2022 was due to the timing of payments.

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Due to related parties consists of amounts owed for services provided to Harborview from UW Medicine shared services, including UW Medicine IT Services (ITS), the School, and funding to King County. The current portion of amounts due to related parties increased \$18 million from \$26 million at June 30, 2022 to \$44 million at June 30, 2023 and decreased \$10 million from \$36 million at June 30, 2021 to \$26 million at June 30, 2022. The increase in fiscal year 2023 and the decrease in fiscal year 2022 was primarily driven by timing of payments to related parties.

Harborview has a long-term due to related parties balance of \$20 million at June 30, 2023 compared to \$19 million at June 30, 2022, an increase of \$1 million. Long-term due to related parties had a balance of \$19 million at June 30, 2022 compared to \$26 million at June 30, 2021, a decrease of \$7 million. Changes in this account relate to Harborview's long-term arrangement to pay ITS for its portion of Destination: One costs, which was funded in large part through the University's internal lending program and was fully implemented in March 2021. Destination: One was the implementation of a single electronic health record system, which allowed UW Medicine to improve the experience for its patients, as well as to achieve clinical quality, safety, and workflow efficiencies through standardization.

Medicare advanced payments represent advanced payments received from Medicare under Centers for Medicare and Medicaid Services (CMS) Medicare Advanced Payment Program, which was designed to provide liquidity during the beginning stages of the COVID-19 pandemic. As of June 30, 2023, 2022, and 2021, the current portion of \$0 million, \$16 million, and \$38 million, respectively, is presented within Medicare advanced payments in the accompanying statements of net position. The long-term portion of \$0 million, \$0 million and \$23 million is recorded in other noncurrent liabilities at June 30, 2023, 2022, and 2021, respectively, in the statements of net position. Medicare began recouping Medicare advanced payments in April 2021 from Harborview and has recouped the entire balance as of June 30, 2023.

Factors Affecting the Future

Cautionary Note Regarding Forward-Looking Statements

Certain information provided by Harborview and UW Medicine, including written or oral statements made by its representatives, may contain forward-looking statements. All statements, other than statements of historical facts, which address activities, events or developments that Harborview expects or anticipates will or may occur in the future contain forward-looking information. In reviewing such information, it should be kept in mind that actual results may differ materially from those projected or suggested in such forward-looking information. This forward-looking information is based upon various factors and was derived using various assumptions. Harborview does not undertake to update forward-looking information contained in this report or elsewhere to reflect actual results, changes in assumptions or changes in other factors affecting such forward-looking information.

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Economic Uncertainty Facing the Healthcare Industry

The federal COVID-19 Public Health Emergency declaration under the Public Health Service Act expired on May 11, 2023. The broad economic factors resulting from the pandemic continue to impact Harborview's patient volumes, case mix acuity, service mix, and revenue mix. Ongoing economic conditions, such as significant labor market wage and benefit pressure, supply chain and other inflationary pressures have also increased, and will continue to increase Harborview's expenses and pressure hospital liquidity. Because of these factors and other uncertainties coming out of the COVID-19 pandemic, management cannot estimate the severity of the aforementioned general economic and marketplace conditions on Harborview's business.

The healthcare industry, in general, is experiencing higher demand for labor, and volatility and uncertainty in the labor market, which has impacted the Harborview's ability to attract and retain labor and manage operating cost increases associated with the higher labor costs. It is difficult to predict the full impact of the labor market on Harborview's future expenses and operations.

Reimbursement for patient services from federal, state, and private insurance payors continues to be a concern as healthcare costs continue to rise. There is continued downward pressure on average realized payment rates from commercial payor plans and a reduction in the number or percentage of the Harborview's patients under such plans. Harborview participates in the 340B Drug Pricing Program, which is a federal program that requires drug manufacturers provide outpatient drugs to eligible healthcare organizations and covered entities at significantly reduced prices. In the past several years, a number of drug manufacturers have reduced the benefits to covered entities through the elimination of access to certain 340B priced drugs in contract pharmacy settings. This has led to legal action at the federal level in an attempt to reinstate previous savings. The first federal appeals court ruling is unfavorable to covered entities but is not yet resolved due to two pending federal appellate court rulings. This has resulted in uncertainty related to the financial impact of the 340B program in the future. Due to these uncertainties, management cannot predict the impact on Harborview's future revenues and operations.

However, Harborview believes that its ultimate success in increasing profitability depends in part on its success in executing on its strategies. In general, these strategies are intended to improve financial performance through the reduction of costs and in streamlining how Harborview provides clinical care as well as mitigating the negative reimbursement trends 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 governmental and commercial payers shift risk to providers, the Group's focus is on managing costs and care efficiently.

UW Finance Transformation

In December 2019, the UW Finance Transformation (UWFT) program received approval from the Board of Regents to proceed with a broad redesign of finance-related policies and processes, enabled by the implementation of new enterprise resource planning (ERP) technology. The University, including UW Medicine has determined that Workday Financials® will provide the best available platform to support the business

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objectives for this transformation by providing a seamless, integrated solution for Human resources and Payroll (previously implemented), Procurement, and Finance. The University, including UW Medicine, expects three primary areas of program benefit: functional benefits in the form of new and improved system capabilities, cost avoidance of maintaining and upgrading existing systems, and efficiencies in new business processes and organization. Total program costs are approximately \$340 million, which includes all operating and capital costs for implementation and one year of stabilization. UW Medicine, including Harborview, will be charged for a portion of the project. The amount and allocation methodology will be finalized upon completion of the project. UWFT was implemented on July 6, 2023.

Major Construction Project Update

Harborview continued its foundational work with King County on the \$1.7 billion capital improvement bond measure that was approved by King County voters in November 2020. A workgroup was established which developed and submitted a Program Plan to King County Council recommending health and safety improvements at Harborview that can be built within the approved bond amount based on new cost estimates received in 2023. The process identified building a new patient tower as a priority along with improving behavioral health services and meeting the needs of the mission population.

As part of Harborview's major capital project plan, there are two currently underway. The Maleng Bed Capacity project will provide 40 single patient rooms in the Maleng building. This project is scheduled to be completed by winter of 2024. The Ninth and Jefferson Operating Room project, which includes the building of four new outpatient operating rooms, has begun with an estimated end of 2025 occupancy.

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Employee Costs

The University has financial responsibility for pension and other postretirement benefits associated with the PERS defined-benefit plans, University of Washington Supplemental Retirement Plan defined-benefit plan, and other postemployment benefits (OPEB) administered by Washington State Health Care Authority (HCA) (as described in note 10), which include those University employees deployed at Harborview. Pension and other postretirement liabilities and the respective deferred outflows and inflows 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 other postretirement expense through the University benefit load rate, Harborview does not record a pension or other postretirement liability on its financial statements. The portion of the University's pension (assets) liabilities at June 30, 2023 and 2022 that relates to University employees deployed at Harborview was approximately \$(39) million and \$(248) million, respectively. In addition, Harborview's annual pension funding was \$38 million and \$34 million in fiscal years 2023 and 2022, respectively, which is recorded as employee benefits expense in the statements of revenues, expenses, and changes in net position. The portion of the University's OPEB liability at June 30, 2023 and 2022 that relates to University employees deployed at Harborview was \$159 million and \$244 million, respectively, and the OPEB expense was \$2 million and \$13 million, respectively. In addition, Harborview's annual OPEB funding was \$4 million in both fiscal years 2023 and 2022, respectively, which is recorded as employee benefits expense in the statements of revenue, expenses, and changes in net position.

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Statements of Net Position

June 30, 2023 and 2022

(Dollar amounts in thousands)

Assets	2023	2022
Current assets:		
Cash and cash equivalents	\$ 257,032	250,094
Patient accounts receivable, less allowance for uncollectible accounts of \$53,225 in 2023 and \$48,136 in 2022	206,892	193,384
Other receivables	38,672	10,685
Due from related parties	43,266	34,257
Supplies inventory	13,418	10,714
Other current assets	14,126	18,954
Total current assets	573,406	518,088
Noncurrent assets:		
Capital assets, net of accumulated depreciation and amortization	271,843	266,740
Right-to-use lease assets, net of accumulated amortization	151,780	157,857
Internally designated assets	114,181	110,188
Donor restricted assets	16,926	13,750
Other assets	48,843	48,958
Total noncurrent assets	603,573	597,493
Total assets	\$ 1,176,979	1,115,581
Liabilities and Net Position		
Current liabilities:		
Accounts payable and accrued expenses	\$ 46,450	44,309
Accrued salaries, wages, and employee benefits	73,244	61,456
Due to related parties	44,100	25,449
Payable to contractual agencies	38,767	8,568
Medicare advanced payments	—	16,032
Current portion of lease liabilities	11,095	10,223
Other current liabilities	3,891	5,204
Total current liabilities	217,547	171,241
Noncurrent liabilities:		
Long-term lease liabilities, net of current portion	151,344	156,440
Due to related parties – long-term	20,426	19,152
Total liabilities	389,317	346,833
Other deferred inflows of resources – leases	35,513	36,915
Total liabilities and deferred inflows of resources	424,830	383,748
Net position:		
Net investment in capital assets	261,184	257,933
Expendable, restricted	13,231	10,137
Nonexpendable, restricted	3,534	3,519
Unrestricted	474,200	460,244
Total net position	752,149	731,833
Total liabilities, deferred inflows of resources, and net position	\$ 1,176,979	1,115,581

See accompanying notes to basic financial statements.

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Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2023 and 2022

(Dollar amounts in thousands)

	<u>2023</u>	<u>2022</u>
Operating revenues:		
Net patient service revenues (net of provision for uncollectible accounts of \$39,655 in 2023 and \$46,108 in 2022)	\$ 1,201,617	1,084,743
Other revenue	<u>106,944</u>	<u>87,821</u>
Total operating revenues	<u>1,308,561</u>	<u>1,172,564</u>
Operating expenses:		
Salaries and wages	559,661	505,259
Employee benefits	159,027	137,010
Purchased services	314,659	283,535
Supplies	225,719	198,834
Other	37,510	28,213
Depreciation and amortization	<u>41,132</u>	<u>38,720</u>
Total operating expenses	<u>1,337,708</u>	<u>1,191,571</u>
Loss from operations	<u>(29,147)</u>	<u>(19,007)</u>
Nonoperating revenues (expenses):		
Investment income, net	7,038	2,797
Interest expense	(4,993)	(5,136)
Funding to affiliates	(21,320)	(16,365)
Funding to King County	(5,000)	(5,000)
Federal Emergency Management Agency public assistance program	41,314	8,122
Recurring State Appropriations	6,916	6,722
Nonrecurring State Appropriations	8,000	8,000
Other, net	<u>17,494</u>	<u>15,985</u>
Nonoperating revenues	<u>49,449</u>	<u>15,125</u>
Income (loss) before additions to permanent endowments	20,302	(3,882)
Additions to permanent endowments	<u>14</u>	<u>124</u>
Increase (decrease) in net position	20,316	(3,758)
Net position – beginning of year	<u>731,833</u>	<u>735,591</u>
Net position – end of year	<u>\$ 752,149</u>	<u>731,833</u>

See accompanying notes to basic financial statements.

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Statements of Cash Flows

Years ended June 30, 2023 and 2022

(Dollar amounts in thousands)

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities:		
Cash received for patient service revenues	\$ 1,175,435	1,022,886
Cash received for other services	108,895	86,380
Cash paid to employees	(706,900)	(643,551)
Cash paid to suppliers and others	(561,489)	(517,849)
Net cash provided by (used in) operating activities	<u>15,941</u>	<u>(52,134)</u>
Cash flows from noncapital financing activities:		
Funding to affiliates	(19,152)	(16,516)
Funding to King County	(5,000)	(5,000)
Cash received for permanent endowments	14	124
Cash received for Federal Emergency Management Agency public assistance program	36,734	8,122
Other	30,119	34,530
Change in due to/from related parties	239	(5,691)
Net cash provided by noncapital financing activities	<u>42,954</u>	<u>15,569</u>
Cash flows from capital and related financing activities:		
Cash paid for principal and interest on leases	(15,888)	(15,214)
Cash paid for capital expenditures	(35,222)	(22,721)
Cash paid for capital contributions	(993)	(1,301)
Other	759	742
Net cash used in capital and related financing activities	<u>(51,344)</u>	<u>(38,494)</u>
Cash flows from investing activities:		
Internally designated and donor restricted assets	(7,571)	(12,529)
Investment income received	6,958	2,607
Net cash used in investing activities	<u>(613)</u>	<u>(9,922)</u>
Increase (decrease) in cash and cash equivalents	6,938	(84,981)
Cash and cash equivalents, beginning of year	<u>250,094</u>	<u>335,075</u>
Cash and cash equivalents, end of year	<u>\$ 257,032</u>	<u>250,094</u>
Reconciliation of loss from operations to net cash used in operating activities:		
Loss from operations	\$ (29,147)	(19,007)
Adjustments to reconcile loss from operations to net cash used in operating activities:		
Depreciation and amortization	41,132	38,720
Provision for uncollectible accounts	39,655	46,108
Net increase in current and other assets	(84,582)	(65,355)
Net increase (decrease) in current liabilities	48,883	(29,259)
Decrease in other noncurrent liabilities	—	(23,341)
Net cash provided by (used in) operating activities	<u>\$ 15,941</u>	<u>(52,134)</u>
Supplemental disclosures of cash flow information:		
Change in capital assets included in accounts payable	\$ (1,800)	1,930

See accompanying notes to basic financial statements.

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Notes to Basic Financial Statements

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(1) Organization and Operations

Harborview Medical Center (Harborview) is a 500-licensed-bed hospital operating in Seattle, Washington with extensive ambulatory services and is a component unit of King County, Washington (King County). On March 9, 2023, the Washington State Department of Health approved Harborview's certificate of need application for 127 additional acute care beds which will be added in two phases. As of June 30, 2023, phase one was completed which increased Harborview's licensed beds from 413 to 500. 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.

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, which is a learning, research, and clinical health system comprised of multiple legal entities, and King County to provide the Harborview mission population with access to primary, secondary, tertiary, and quaternary services as well as UW Medicine's mission to improve the health of the public through its clinical, research, and teaching activities. Harborview is part of UW Medicine which also includes University of Washington Medical Center, Valley Medical Center (VMC), UW Medicine Primary Care (UWM PC), UW Physicians (UWP), UW School of Medicine (the School), Airlift Northwest (Airlift), UW Medicine Shared Services, and Fred Hutchinson Cancer Center (FHCC).

Under the Hospital Services Agreement, King County retains title to all real and personal properties acquired with Harborview capital and operating funds and these are accordingly 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 approve and monitor Harborview's annual operating budget. 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.

A 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. During fiscal years 2023 and 2022, the annual allocation was not reduced. For both of the years ended June 30, 2023 and 2022, Harborview recorded nonoperating expense of \$5,000 related to King County mission support in the statements of revenues, expenses, and changes in net position and a payable to

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King County, which is recorded within due to related parties in the statements of net position. Since 2016, Harborview has paid total allocations of \$35,000 to King County.

The University 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.

(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. Estimates in Harborview's financial statements include patient accounts receivable allowances and payable to contractual agencies.

(d) Cash and Cash Equivalents

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

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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:

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	16.6 %	12.7 %
U.S. Treasury and agencies securities	66.7	79.3
Washington State Local Government Investment Pool	15.0	5.1
Corporate and other fixed income securities	<u>1.7</u>	<u>2.9</u>
Total	<u>100.0 %</u>	<u>100.0 %</u>

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 \$257,032 and \$250,094 as of June 30, 2023 and 2022, respectively.

(e) Internally Designated and Donor Restricted Assets

Internally designated assets include 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.

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.

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(f) Supplies Inventory

Inventories consist primarily of surgical, medical, and pharmaceutical supplies in organized stores at various locations across 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 or amortization are removed from the accounts, and any resulting gain or loss is recorded.

The provision for depreciation and amortization 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 and intangible assets	5–25 years
Movable equipment	3–20 years
Leasehold improvements	The shorter of the lease term or useful life of the asset

(h) Leases

(i) Lessee

Harborview enters into noncancellable leases primarily for buildings and equipment. For leases with a maximum possible term of 12 months or less at commencement, Harborview recognizes expense based on the terms of the lease contract. For all other leases, Harborview recognizes a lease liability, which is recorded within current portion of lease liabilities and long-term lease liabilities in the statements of net position and a right-to-use lease asset, net of accumulated amortization, at the present value of payments expected to be made throughout the lease term. Harborview uses its incremental borrowing rate based on information available at the commencement date of the lease in determining the present value of lease payments. Variable lease payments, other than those payments that depend on an index or rate or are fixed in substance, are excluded from the measurement of the lease and are expensed as incurred.

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Subsequently, the lease liability is reduced by the principal portion of lease payments made. Interest expense is recognized ratably over the contract term. The right-to-use lease assets are initially measured as the initial amount of the lease liability, plus lease payments made at or before the lease commencement date, plus any initial direct costs ancillary to placing the underlying asset into service, less any lease incentives received at or before the lease commencement date. Subsequently, the right-to-use lease assets are amortized on a straight-line basis over the shorter of the lease term or the useful life of the underlying asset, which is recorded within depreciation and amortization in the statements of revenues, expenses, and changes in net position.

Some leases include one or more renewal options, which are at Harborview's discretion and if it is reasonably certain that the renewal options will be exercised by Harborview, the renewal options payments and term are included in Harborview's measurement of the lease liability and right-to-use lease assets.

(ii) Lessor

Harborview leases building space on its campus to external vendors for retail space and to the School for research space. For leases with terms greater than 12 months, Harborview recognizes a lease receivable and deferred inflows of resources at the present value of payments expected to be received during the lease term using Harborview's incremental borrowing rate. The current portion of the lease receivable is recorded within other current assets and the long-term lease receivable is recorded within other assets in the statements of net position.

Subsequently, the lease receivable is reduced by the lease payments received and the discount on the lease receivable is amortized through recognition of interest income, which is recorded in other, net in the statements of revenues, expenses, and changes in net position. The deferred inflow of resources are recognized over the lease term in subsequent periods as lease revenue, which is recorded in other revenue in the statements of revenues, expenses, and changes in net position.

(i) UW Medicine IT Services

UW Medicine IT Services (ITS) (a department within UW Medicine Shared Services) records enterprise-wide Information Technology (IT) capital assets that are purchased for use by UW Medicine entities. Harborview provides advance funding to ITS, which entitles Harborview access to the enterprise-wide IT software and services. At June 30, 2023 and 2022, \$8,600 and \$9,300, respectively, is recorded in other current assets and \$13,143 and \$12,296 is recorded in other assets, respectively, based on expected usage.

Harborview entered into a long-term arrangement to pay ITS for Harborview's portion of UW Medicine's clinical transformation program, called Destination: One, which is being funded by the University's Internal Lending Program (ILP). Harborview will pay ITS for its share of the project costs, which are allocated to Harborview based on full-time equivalents (FTEs) and total operating revenues. At June 30, 2023 and 2022, \$20,426 and \$19,152, respectively, is recorded within due to related parties – long term in the statements of net position for Destination: One. At June 30, 2023 and 2022, \$543 and \$1,578, respectively, is recorded in due to related parties in the statements of net position for

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Destination: One. Harborview made its first payment to ITS on August 1, 2021 with the remaining amounts paid over 12 years. The amounts for these transactions are included within note 12(d).

(j) *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, 2023 and 2022 is \$28,689 and \$26,426, respectively. Sick leave accrued as of June 30, 2023 and 2022 is \$7,116 and \$7,770, respectively. Compensated absences are reported within the accrued salaries, wages, and employee benefits in the statements of net position.

(k) *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 reports and CPE payments that are not considered final are included in payable to contractual agencies in the accompanying statements of net position.

(l) *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.

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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 transactions. This activity includes investment income, net, funding to King County, funding to affiliates of UW Medicine, state appropriations, hospital safety net program, and other federal and state funding.

(m) Net Patient Service Revenues

Harborview has agreements with third-party payers that provide for payments to Harborview at amounts that differ from its established charges. 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:

(i) 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 provider'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.

(ii) 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 notes 3(a) and 3(c) for discussion surrounding the Medicaid certified public expenditures and Outpatient Directed Payment programs.

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(iii) 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.

(iv) 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.

(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 Harborview are approximately \$110,078 and \$127,584, respectively, for the years ended June 30, 2023 and 2022.

Harborview estimates the cost of financial assistance using its Medicaid cost to charge ratio of 35.9% and 37.4% for the fiscal years ended June 30, 2023 and 2022, respectively. Applying Harborview's Medicaid cost to charge ratio of 35.9% to total financial assistance of \$110,078 results in an estimated cost of financial assistance of \$39,518 for the fiscal year ended June 30, 2023. Applying Harborview's Medicaid cost to charge ratio of 37.4% to total financial assistance of \$127,584 results in an estimated cost of financial assistance of \$47,716 for the fiscal year ended June 30, 2022.

(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, and right-to-use lease assets, net of accumulated amortization reduced by outstanding borrowings used to finance the purchase, or construction those assets and lease liabilities. 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. Unrestricted net position is all other funds available to Harborview for any purpose associated with its operations and mission.

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(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 May 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*, which is effective for the fiscal year ending June 30, 2023. This statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs). This statement defines a SBITA, establishes that a SBITA results in a right-to-use subscription asset (an intangible asset) and a corresponding subscription liability, provides the capitalization criteria for outlays other than subscription payments (including implementation costs of a SBITA), and requires note disclosures regarding a SBITA. Harborview adopted this statement in fiscal year 2023 and determined it did not have a material impact to the financial statements.

In March 2020, the GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, which is effective for the fiscal year ending June 30, 2023. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). This statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). APAs are agreements in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange like transaction. Harborview adopted this statement in fiscal year 2023 and determined it did not have a material impact to the financial statements.

In April 2022, the GASB issued Statement No. 99, *"Omnibus 2022."* Provisions of which will be effective for the fiscal years ending June 30, 2023 and 2024. Requirements related to leases, PPPs, and SBITAs are effective for the fiscal year ending June 30, 2023. Requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement No. 53 are effective for the fiscal year ending June 30, 2024. Harborview adopted this statement in fiscal year 2023 and determined it did not have a material impact to the financial statements.

In June 2022, the GASB issued Statement No. 100, *"Accounting Changes and Error Corrections – an amendment of GASB statement No. 62,"* which will be effective for the fiscal year ending June 30, 2024. This statement is intended to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. It defines changes as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity. This statement requires that (a) changes in accounting principles and error corrections be reported retroactively by restating prior periods, (b) changes to or within the financial reporting entity be reported by adjusting beginning balances in the current period and (c) changes in accounting estimates be reported prospectively by recognizing the change in the current

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period. Harborview is currently analyzing the impact of this statement but does not expect it to have a material impact on its financial statements.

In June 2022, the GASB issued Statement No. 101, "*Compensated Absences*," which is effective for the fiscal year ending June 30, 2025. This statement will update the recognition and measurement guidance for compensated absences. This statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. The statement amends the existing disclosure requirements to allow governments to disclose only the net change in the liability as long as they identify it as a net change. 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 2023 and 2022, net patient service revenues increased \$12,357 and \$11,142, respectively, relating to prior years' net Medicare and Medicaid settlements and revised estimates, including Disproportionate Share Hospital (DSH) reimbursement and the CPE program.

Harborview grants credit without collateral to its patients, most of whom are Washington State residents and who are insured under third-party payer agreements. Patient accounts receivable is valued utilizing historical 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, 2023 and 2022 is as follows:

	<u>Gross patient service revenues</u>	<u>Gross accounts receivable</u>
2023:		
Medicare	32 %	27 %
Medicaid	33	28
Commercial and other	30	39
Self-pay	4	4
Exchange (HIX)	1	2
	<u>100 %</u>	<u>100 %</u>
Total		

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	<u>Gross patient service revenues</u>	<u>Gross accounts receivable</u>
2022:		
Medicare	31 %	28 %
Medicaid	34	27
Commercial and other	30	39
Self-pay	4	4
Exchange (HIX)	1	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 \$44,669 and \$49,366 in claims payments under this program for the years ended June 30, 2023 and 2022, 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. Funding received through the outpatient directed payment program, described in footnote 3(c), reduced DSH payments under this section in fiscal year 2023. Harborview recognized \$44,915 and \$56,159 in DSH funding under this program for the years ended June 30, 2023 and 2022, respectively.

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.

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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, 2023 and 2022. 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 a 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, 2023 and 2022, respectively, Harborview has an estimated payable of \$25,472 and \$1,676 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, 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 \$19,520 and \$14,808 for the years ended June 30, 2023 and 2022 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 position. There is no requirement that UWP and CUMG PSSP and PAP payments be returned to Harborview as a condition for making the IGTs.

Harborview recognized \$4,009 and \$3,332 in supplemental payments for the years ended June 30, 2023 and 2022, respectively. These payments are included in net patient service revenues in the statements of revenues, expenses, and changes in net position.

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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 is recorded in purchased services expense in the statements of revenues, expenses, and changes in net position and was reduced by \$48,096 and \$37,801 in fiscal years 2023 and 2022, respectively, due to the PSSP and PAP funds received by the School.

(c) Outpatient Directed Payment Program (ODPP)

The outpatient directed payment program was effective January 1, 2023 and is managed by the Washington State Health Care Authority (HCA) benefiting certain public hospitals.

Under the program, Harborview receives supplemental Medicaid payments for outpatient services for which they bill. These supplemental payments equal the difference between the standard Medicaid Managed Care Organization outpatient reimbursement rate and the upper payment limit allowable by federal law. Harborview provides the nonfederal share of the supplemental payments that are used to obtain the matching federal funds.

Harborview recorded \$8,651 in IGT to HCA for the year ended June 30, 2023 related to outpatient claims with dates of service in those fiscal years, which is included in net patient service revenue in the statements of revenues, expenses, and changes in net position.

Harborview recognized \$37,738 in supplemental payments for the year ended June 30, 2023. These payments are included in net patient service revenues in the statements of revenues, expenses, and changes in net position.

As of June 30, 2023, Harborview has an estimated payable of \$5,741 for the ODPP program, which is included in payable to contractual agencies in the statements of net position. As of June 30, 2023, respectively, Harborview has an estimated receivable for the ODPP program of \$25,666, which is recorded in other receivables in the statements of net position.

(4) Medicare Advanced Payments

In response to financial pressures brought on by the COVID-19 pandemic, Harborview pursued additional sources of liquidity and financial recovery through various federal programs. Harborview requested and received approval for six months of advance Medicare payments under the CMS Medicare Advanced Payment Program (MAPP). Harborview received \$68,000 in fiscal year 2020. The advance Medicare funds are recovered by Medicare by offsetting paid claims until the full amount is recouped. Medicare began recouping Harborview's Medicare advanced payments in April 2021 and has recouped the entire balance. As of June 30, 2023, Harborview has no outstanding Medicare advanced payments. As of June 30, 2022, the current portion of \$16,032 was recorded within Medicare advanced payments in the accompanying statements of net position.

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(5) State Appropriation

An appropriation is made by the State to the University on a biennial basis, specifically designated by the State for training 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. Harborview recognized recurring state appropriations of \$6,916 and \$6,722 for the years ended June 30, 2023 and 2022, respectively, which is recorded in recurring state appropriations in the statements of revenues, expenses, and changes in net position.

Harborview also recognized nonrecurring state appropriations of \$8,000 for both the years ended June 30, 2023 and 2022, which is recorded in nonrecurring state appropriations in the statements of revenues, expenses, and changes in net position. This appropriation was used to fund salaries, benefits, supplies, and other operating expenses that assist Harborview in fulfilling its safety net and training functions.

(6) Capital Assets

The activity in Harborview's capital asset and related accumulated depreciation and amortization accounts for the years ended June 30, 2023 and 2022 is set forth below:

	Balance June 30, 2022	Additions	Transfers	Retirements	Balance June 30, 2023
Capital assets, not being depreciated or amortized:					
Land	\$ 2,432	—	—	—	2,432
Construction in process	12,521	24,343	(10,101)	—	26,763
Total capital assets, not being depreciated or amortized	14,953	24,343	(10,101)	—	29,195
Capital assets, being depreciated or amortized:					
Land improvements	7,378	—	329	—	7,707
Buildings, renovations, and furnishings	459,243	—	7,463	—	466,706
Fixed equipment	124,165	—	2,309	—	126,474
Intangible assets	27,099	30	—	(25,278)	1,851
Movable equipment	171,838	9,125	—	(16,271)	164,692
Leasehold improvements	14,158	—	—	—	14,158
Total capital assets, being depreciated or amortized	803,881	9,155	10,101	(41,549)	781,588
Total capital assets at historical cost	818,834	33,498	—	(41,549)	810,783

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	Balance June 30, 2022	Additions	Transfers	Retirements	Balance June 30, 2023
Less accumulated depreciation and amortization for:					
Land improvements	(4,972)	(335)	—	—	(5,307)
Buildings, renovations, and furnishings	(258,074)	(14,729)	—	—	(272,803)
Fixed equipment	(116,890)	(1,190)	—	—	(118,080)
Intangible assets	(26,977)	(137)	—	25,278	(1,836)
Movable equipment	(136,467)	(11,167)	—	16,271	(131,363)
Leasehold improvements	(8,714)	(837)	—	—	(9,551)
Total accumulated depreciation and amortization	(552,094)	(28,395)	—	41,549	(538,940)
Total capital assets, net	\$ 266,740	5,103	—	—	271,843
	Balance June 30, 2021	Additions	Transfers	Retirements	Balance June 30, 2022
Capital assets, not being depreciated or amortized:					
Land	\$ 2,432	—	—	—	2,432
Construction in process	5,792	13,520	(6,791)	—	12,521
Total capital assets, not being depreciated or amortized	8,224	13,520	(6,791)	—	14,953
Capital assets, being depreciated or amortized:					
Land improvements	7,378	—	—	—	7,378
Buildings, renovations, and furnishings	448,580	—	10,663	—	459,243
Fixed equipment	128,341	—	(4,176)	—	124,165
Intangible assets	27,099	—	—	—	27,099
Movable equipment	162,957	11,189	—	(2,308)	171,838
Leasehold improvements	13,854	—	304	—	14,158
Total capital assets, being depreciated or amortized	788,209	11,189	6,791	(2,308)	803,881
Total capital assets at historical cost	796,433	24,709	—	(2,308)	818,834

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	Balance June 30, 2021	Additions	Transfers	Retirements	Balance June 30, 2022
Less accumulated depreciation and amortization for:					
Land improvements	(4,677)	(295)	—	—	(4,972)
Buildings, renovations, and furnishings	(242,913)	(15,161)	—	—	(258,074)
Fixed equipment	(117,959)	1,069	—	—	(116,890)
Intangible assets	(26,772)	(205)	—	—	(26,977)
Movable equipment	(127,355)	(11,420)	—	2,308	(136,467)
Leasehold improvements	(7,863)	(851)	—	—	(8,714)
Total accumulated depreciation and amortization	(527,539)	(26,863)	—	2,308	(552,094)
Total capital assets, net	\$ 268,894	(2,154)	—	—	266,740

(7) Leases

(a) Lessee

Harborview lease various equipment and facilities under noncancelable lease agreements. Existing leases have lease terms through 2042.

(i) Right-to-use lease assets

The activity in Harborview's right-to-use lease assets and related accumulated amortization accounts for the fiscal years ended June 30, 2023 and 2022 is set forth below:

	June 30, 2022	Additions	Modifications and renewals	Deductions	June 30, 2023
Lease assets:					
Buildings	\$ 180,351	1,611	(156)	—	181,806
Equipment	1,790	5,180	—	(1,307)	5,663
Total lease assets	182,141	6,791	(156)	(1,307)	187,469
Less accumulated amortization for:					
Buildings	(22,850)	(11,820)	25	—	(34,645)
Equipment	(1,434)	(917)	—	1,307	(1,044)
Total accumulated amortization	(24,284)	(12,737)	25	1,307	(35,689)
Total lease assets, net	\$ 157,857	(5,946)	(131)	—	151,780

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	June 30, 2021	Additions	Modifications and renewals	Deductions	June 30, 2022
Lease assets:					
Buildings	\$ 172,112	8,200	39	—	180,351
Equipment	1,307	483	—	—	1,790
Total lease assets	173,419	8,683	39	—	182,141
Less accumulated amortization for:					
Buildings	(11,368)	(11,482)	—	—	(22,850)
Equipment	(1,059)	(375)	—	—	(1,434)
Total accumulated amortization	(12,427)	(11,857)	—	—	(24,284)
Total lease assets, net	\$ 160,992	(3,174)	39	—	157,857

(ii) *Lease liabilities*

Changes in lease liabilities during the fiscal years ended June 30, 2023 and 2022 are summarized below:

	Beginning balance	Additions	Remeasurements and renewals	Deductions	Ending balance	Due within one year
Fiscal year ended:						
June 30, 2023	\$ 166,663	6,791	(114)	(10,901)	162,439	11,095
June 30, 2022	176,196	483	39	(10,055)	166,663	10,223

(iii) *Lease maturities*

The following schedule shows future annual lease payments, for the next five years and in five-year increments thereafter, as of June 30, 2023, for both principal and interest:

	Principal	Interest	Total
2024	\$ 11,095	4,723	15,818
2025	11,240	4,379	15,619
2026	11,582	4,039	15,621
2027	11,932	3,687	15,619
2028	12,275	3,334	15,609
2029–2033	60,727	11,036	71,763
2034–2038	43,571	2,628	46,199
2039–2043	17	—	17
Total payments	\$ 162,439	33,826	196,265

HARBORVIEW MEDICAL CENTER
(A Component Unit of King County)
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Notes to Basic Financial Statements

June 30, 2023 and 2022

(Dollar amounts in thousands)

(iv) Related Party Leases

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 future rental payments to King County for PSB as a lease liability and a right-to-use lease asset, net of accumulated amortization, at the present value of payments expected to be made during the lease term. Cash paid for rent was \$3,043 and \$2,945 for the years ended June 30, 2023 and 2022, respectively. At June 30, 2023 and 2022, the right-to-use lease asset, net of accumulated amortization was \$20,320 and \$22,756, respectively. At June 30, 2023 and 2022, \$2,349 and \$2,292 is recorded within current portion of lease liabilities and \$21,507 and \$23,874 is recorded within long-term lease liabilities, respectively, in the statements of net position for this lease.

In 2006, the Trustees passed a resolution in support of constructing the Ninth & Jefferson Building (NJB). 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 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 future rental payment obligations to King County for NJB as a lease liability and a right-to-use lease asset, net of accumulated amortization, at the present value of payments expected to be made during the lease term. Cash paid for rent was \$11,611 and \$11,367 for the years ended June 30, 2023 and 2022, respectively. At June 30, 2023 and 2022, the right-to-use lease asset, net of accumulated amortization, was \$115,117 and \$123,841, respectively. At June 30, 2023 and 2022, \$7,576 and \$7,379 is recorded within current portion of lease liabilities and \$122,187 and \$129,877 is recorded within long-term lease liabilities, respectively, in the statements of net position for this lease.

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Notes to Basic Financial Statements

June 30, 2023 and 2022

(Dollar amounts in thousands)

(8) Internally Designated and Donor Restricted Assets

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

	<u>2023</u>	<u>2022</u>
Internally designated and donor restricted assets:		
Board designated assets:		
Pooled investments	\$ 41,085	34,135
Receivables and other	377	192
Property held for future use	<u>2,718</u>	<u>2,718</u>
Total board designated assets	44,180	37,045
Management designated assets:		
Pooled investments	68,143	68,744
Funds held by the University:		
Pooled investments	<u>1,858</u>	<u>4,399</u>
Total internally designated assets	<u>114,181</u>	<u>110,188</u>
Donor restricted assets:		
Pooled investments	<u>16,926</u>	<u>13,750</u>
Total donor restricted assets	<u>16,926</u>	<u>13,750</u>
Total internally designated and donor restricted assets	<u>\$ 131,107</u>	<u>123,938</u>

(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:

	<u>2023</u>	<u>2022</u>
Commuter service fund	\$ 27,823	24,375
Self-insurance fund	1,314	1,291
Walter Scott Brown property	2,718	2,718
Equipment fund	5,257	5,163
Building repair and replacement fund	<u>7,068</u>	<u>3,498</u>
Total	<u>\$ 44,180</u>	<u>37,045</u>

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(A Component Unit of King County)
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Notes to Basic Financial Statements

June 30, 2023 and 2022

(Dollar amounts in thousands)

(9) Other Current and Noncurrent Liabilities

Unearned revenue, long-term Medicare advanced payments, accrued lease interest payable and other is reflected within other current liabilities and other noncurrent liabilities in the statements of net position. Changes in other current and noncurrent liabilities during the fiscal years ended June 30, 2023 and 2022 are summarized below:

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>	<u>Due within one year</u>
Fiscal year ended:					
June 30, 2023	\$ 5,204	2,401	(3,714)	3,891	3,891
June 30, 2022	27,505	1,063	(23,364)	5,204	5,204

(10) Risk Management

Harborview is exposed to risk of loss related to professional, automobile and general liability, employment practices, 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 of which statutory self-insurance coverage is first dollar. Harborview's annual contribution to the professional liability program is determined by UW Medicine Finance using information from an annual actuarial study conducted by the University administration. In addition to the University, the participants in the professional liability program include Harborview, UWP, CUMG, UWM PC, School of Dentistry, the School, Airlift, and UW Medical Center. In addition to the self-insurance fund contributions, the participants share in the expenses of the Clinical Risk Management Office. No claim liability is recorded on Harborview's balance sheet for professional liability exposures.

Harborview's contribution to the professional liability program was \$9,206 and \$5,838 in 2023 and 2022, respectively, and is recorded in other expense in the statements of revenues, expenses, and changes in net position.

(11) 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, unemployment, 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 salary dollars by employment classification. All funding of obligations are on a pay-as-you-go basis.

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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 (DRS). 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 DRS issues a publicly available financial report that includes financial statements and required supplementary information for PERS. DRS publishes an annual report for retirement plans, which is available at: <https://www.drs.wa.gov/wp-content/uploads/2021/06/2022-ACFR.pdf>.

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

Based on the University's benefit load apportionment, Harborview incurred and paid \$37,457 and \$32,330 in fiscal years 2023 and 2022, respectively, related to annual PERS funding, which is recorded in employee benefits expense in the statements of revenues, expenses, and changes in net position. Because Harborview is not part of the University's financial reporting entity and does not directly fund the employer contribution to the DRS, Harborview does not record a PERS net pension asset and liability in the statements of net position.

(b) University of Washington Retirement Plan (UWRP)

UWRP (the 403(b) plan) 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.

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Based on the University's benefit load apportionment, Harborview incurred and paid \$6,343 and \$5,691 in fiscal years 2023 and 2022, respectively, related to annual UWRP funding, which is recorded in employee benefits expense in the statements of revenues, expenses, and changes in net position.

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

UWSRP, a single-employer 401(a) defined-benefit retirement plan administered by the University, operates in tandem with the 403(b) plan that provides for a supplemental payment component, which guarantees a minimum retirement benefit based on a one-time calculation at each eligible participant's retirement date. The University makes direct payment to qualifying retirees when the retirement benefits provided by UWRP do not meet the benefit goals.

The University receives an independent actuarial valuation to determine funding needs for the supplemental payment component of UWRP. The funding obligation is determined at the University level and the University allocates expense to departments, divisions, agencies, and component units through the benefit load. This plan was closed to new participants effective March 1, 2011.

Based on the University's benefit load apportionment, Harborview incurred and paid \$348 and \$1,292 in fiscal years 2023 and 2022, respectively, related to annual UWSRP funding, which is recorded in employee benefits expense in 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 in the statements of net position.

(d) Other Postemployment Benefits (OPEB)

OPEB are benefits provided to retired employees (and their spouses) 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. 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 \$4,008 and \$4,036 in fiscal years 2023 and 2022, respectively, related to annual OPEB funding, which is recorded in employee benefits expense in 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 in the statements of net position.

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(12) 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:

(i) The School

Harborview purchases a variety of clinical, administrative, and teaching services from the School, which includes laboratory services, residency programs, direct faculty salaries, and clinical department funding. Harborview provides rental space for research programs of the School for which Harborview receives rental income. The amounts for these services are shown below (see (d)).

(ii) UW Medicine Shared Services

UW Medicine Shared Services comprises a number of functions 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, as well as a number of other functions. Harborview provides rental space to UW Medicine Shared Services for which Harborview receives rental income. The amounts for these transactions are shown below (see (d)).

(iii) 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)).

(iv) Other University Divisions and Departments

In addition to the divisions and transactions identified above, Harborview purchases IT services, general and professional liability insurance, printing, and other administrative and operational services from other divisions of the University. The amounts for these transactions are shown below (see (d)). Additionally, Harborview pays the University for salaries and wages of University employees deployed at Harborview. These transactions are not shown below in (d). At June 30, 2023 and 2022, \$37,438 and \$27,260 is included in accrued salaries, wages, and employee benefits in the statements of net position for salaries, wages, and employee benefits owed to the University.

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(b) UW Medicine Primary Care

Under an annual agreement between the involved UW Medicine entities, Harborview provided funding of approximately 26.6% of the UWM PC's annual operating loss for fiscal years 2023 and 2022 and 20.0% of capital funding needs. Funding for operations from Harborview to UWM PC was \$16,745 and \$11,142 for fiscal years 2024 and 2023, respectively, and is recorded as purchased services expense in the statements of revenues, expenses, and changes in net position. Capital funding from Harborview to UWM PC was \$993 and \$1,301 for fiscal years 2023 and 2022, respectively, and is recorded as funding to affiliates in the statements of revenues, expenses, and changes in net position.

(c) King County

King County holds all investment funds on behalf of Harborview. 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 7(a)(iv).

(d) Summary of Related Party Transactions

Harborview's related party revenue and expense amounts are included in net patient service revenue, other revenue, other, net, 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 following table summarizes the related party revenue and expense transactions for the years ended June 30, 2023 and 2022:

Revenue (expense) transactions	2023	2022
Services and supplies purchased from the University and its departments and affiliates:		
The School	\$ (131,635)	(125,801)
UW Medicine Shared Services	(147,221)	(134,333)
UW Medicine Central Costs	(12,017)	(12,109)
UW Medical Center	(4,003)	(4,642)
Other University divisions and departments	(16,143)	(13,036)
Services provided to the University and its departments and affiliates:		
Other University divisions and departments and the School	13,428	13,513
UW Medicine Shared Services	221	1,676
UW Medical Center	4,530	4,056
Other UW Medicine entities	3,195	3,691
Services provided to King County	12,927	13,016

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June 30, 2023 and 2022

(Dollar amounts in thousands)

Harborview had amounts due from (due to) related parties for various transactions, which are included in the due from related parties and due to related parties in the accompanying statements of net position. The amounts as of June 30, 2023 and 2022 are as follows:

Due from related parties	2023	2022
The University and its departments and affiliates:		
The School and other University divisions and departments	\$ 30,731	21,533
UWP	3,637	3,072
UW Medical Center	312	154
UW Medicine Shared Services	1,549	1,140
Airlift	309	4,202
King County	6,672	4,065
Valley Medical Center	55	91
Due to related parties	2023	2022
The University and its departments and affiliates:		
The School and other University divisions and departments	\$ (21,164)	(4,988)
UW Medicine Shared Services	(37,013)	(33,915)
UW Medical Center	—	(698)
UW Medicine Primary Care	(857)	—
King County	(5,492)	(5,000)

(13) Commitments and Contingencies

(a) Purchase Commitments

Harborview has current commitments at June 30, 2023 of \$59,519 related to various construction projects and equipment purchases. Harborview intends to use its unrestricted funds for these commitments.

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(Operated by the University of Washington)

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June 30, 2023 and 2022

(Dollar amounts in thousands)

(b) 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 the UW Medicine compliance program, Harborview strives to maintain 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.

(c) Litigation

Harborview is aware of certain asserted and unasserted legal claims and regulatory matters arising in the normal course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on Harborview's financial statements.

(d) Collective Bargaining Agreements

Approximately 74.0% of the University employees deployed at Harborview are covered by collective bargaining agreements as of June 30, 2023. 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, 2025. Upon expiration of a collective bargaining agreement, both parties are obligated to continue to bargain in good faith until an agreement is reached or one year after the expiration date stated in the agreement.



KPMG LLP
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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
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, a component unit of King County, which comprise Harborview Medical Center's basic financial statements as of and for the year ended June 30, 2023 and the related notes to the financial statements, and have issued our report thereon dated October 13, 2023.

Report on 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) as a basis for designing 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 or significant deficiencies may exist that were not identified.

Report on 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 financial statements. 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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Seattle, Washington
October 13, 2023



KPMG LLP
Suite 2800
401 Union Street
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 identified as subject to audit 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, 2023. 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.

In our opinion, Harborview Medical Center complied, in all material respects, with the 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, 2023.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); 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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Harborview Medical Center and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Harborview Medical Center's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to Harborview Medical Center's federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Harborview Medical Center's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in



accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Harborview Medical Center's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Harborview Medical Center's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Harborview Medical Center's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 Harborview Medical Center's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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, 2023, and have issued our report thereon dated October 13, 2023 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 GAAS. 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
January 29, 2024

HARBORVIEW MEDICAL CENTER
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2023

Federal Grantor	Federal AL No.	Program Description	Pass-Through Grantor	Contract ID	Contract Period	Federal Expenditures	Expenditures to Subrecipients
Department of Housing and Urban Development							
	14.267	Continuum of Care Program					
	14.267	Scattered Sites Supportive Housing	King County Department of Community and Human Services	6167968 Amd #2	7/1/2021 - 7/31/2022	4,789	-
	14.267	Scattered Sites Supportive Housing	King County Department of Community and Human Services	6167968 Amd #2	8/1/2022 - 7/31/2023	111,565	-
					AL 14.267 Total	116,354	-
Department of Housing and Urban Development Total						116,354	-
Department of Justice							
	16.575	Crime Victim Assistance					
	16.575	OCVA - Unmet Needs	Washington State Dept. of Commerce	F19-31219-550	3/1/2022 - 9/23/2023	127,414	-
	16.575	OCVA - Sexual Assault Medical Forensic Examination	Washington State Dept. of Commerce	F19-31219-542 Amd#A	3/1/2022 - 12/31/2022	163,510	-
	16.575	OCVA - Sexual Assault Medical Forensic Examination	Washington State Dept. of Commerce	F20-31219-542	1/1/2023 - 12/31/2023	180,395	-
					AL 16.575 Total	471,319	-
	16.588	Violence Against Women Formula Grants					
	16.588	OCVA Sexual Assault Nurse Examiner (SANE) Training Program	Washington State Dept. of Commerce	F21-31103-116	1/1/2022 - 12/31/2022	145,141	-
	16.588	OCVA Sexual Assault Nurse Examiner (SANE) Training Program	Washington State Dept. of Commerce	F22-31103-121	1/1/2023 - 12/31/2023	104,439	-
					AL 16.588 Total	249,580	-
	16.589	Rural Domestic Violence, Dating Violence, Sexual Assault, and Stalking Assistance Program					
	16.589	18707 HATC TeleSANE	Washington State Dept. of Commerce	15JOVW-21-GG-00830-RURA	1/1/2022 - 12/31/2024	109,810	-
					AL 16.589 Total	109,810	-
Department of Justice Total						830,709	-
Department of Health & Human Services							
	93.136	Injury Prevention and Control Research and State and Community Based Programs					
	93.136	OCVA Rape Prevention and Education	Washington State Dept. of Commerce	F22-31310-609	2/1/22 - 1/31/23	72,430	-
	93.136	OCVA Rape Prevention and Education	Washington State Dept. of Commerce	F23-31310-609	2/1/23 - 1/31/24	51,576	-
					AL 93.136 Total	124,006	-
	93.153	Coordinated Services and Access to Research for Women, Infants, Children, and Youth					
	93.153	Ryan White Part D - Madison	Direct Award - HRSA	H12HA28849-05-03	8/1/2020 - 7/31/2022	47,520	10,529
	93.153	Ryan White Part D - Social Work	Direct Award - HRSA	H12HA28849-05-03	8/1/2020 - 7/31/2022	22,713	-
	93.153	Ryan White Part D - Madison	Direct Award - HRSA	H12HA28849-07-00	8/1/2022 - 7/31/2023	754,164	-
	93.153	Ryan White Part D - Social Work	Direct Award - HRSA	H12HA28849-07-00	8/1/2022 - 7/31/2023	51,387	-
					AL 93.153 Total	875,783	10,529
	93.224	Consolidated Health Center Program (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)					
	93.224	H8F Shelter-Based Services	Public Health Seattle & King County	8584 CHS	1/1/2022 to 3/31/2023	147,784	-
	93.224	H8F Shelter-Based Services	Public Health Seattle & King County	8584 CHS - Amd 1	4/1/2023 to 12/31/2023	50,544	-
					AL 93.224 Total	198,328	-
	93.243	Substance Abuse and Mental Health Services Projects of Regional and National Significance					
	93.243	Medication Assisted Treatment Prescription Drug and Opioid Addiction Project	Direct Award - SAMHSA	1H79TI084347-01	9/30/2020 - 9/29/2022	139,082	-
	93.243	Medication Assisted Treatment Prescription Drug and Opioid Addiction Project	Direct Award - SAMHSA	1H79TI084347-02	9/30/2022 - 9/29/2023	399,006	-
	93.243	OBOT Satellite - South King County	Direct Award - SAMHSA	1H79TI085075-01	9/30/2022 - 9/30/2023	165,970	-
					AL 93.243 Total	704,058	-
	93.391	Activities to Support State, Tribal, Local and Territorial (STLT) Health Department Response to	Public Health or Healthcare Crises				
	93.391	Community Health worker	Washington State Dept. of Health	PRV26826-0	4/20/2022 to 5/31/2023	45,717	-
					AL 93.391 Total	45,717	-
	93.497	Family Violence Prevention and Services/ Sexual Assault/Rape Crisis Services and Supports					
	93.497	OCVA American Rescue Plan	Washington State Dept. of Commerce	F21-31321-012	2/28/2022 - 2/28/2024	57,965	-
					AL 93.497 Total	57,965	-

HARBORVIEW MEDICAL CENTER
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2023

Federal Grantor	Federal AL No.	Program Description	Pass-Through Grantor	Contract ID	Contract Period	Federal Expenditures	Expenditures to Subrecipients
	93.498 COVID-19 Provider Relief Funds						
	93.498 Provider Relief Funds		Direct Award		7/1/2021 to 12/31/2021	3,002,084	-
					AL 93.498 Total	3,002,084	-
	93.604 Assistance for Torture Victims						
	93.604 IRC - Survivors of Torture		International Rescue Committee	HHS-2022 ACF-ORR-ZT-0051	10/1/2022 to 9/30/2023	51,908	-
					AL 93.604 Total	51,908	-
	93.686 Ending the HIV Epidemic: A Plan for America — Ryan White HIV/AIDS Program Parts A and B						
	93.686 Aurora Commons in North Seattle		Public Health Seattle & King County	6985 PREV	3/1/2022 - 2/28/2023	271,689	-
	93.686 Aurora Commons in North Seattle		Public Health Seattle & King County	6985 PREV Amd #1	10/12/2022 - 2/28/2024	230,663	-
	93.686 EHE - Low Barrier Services		Public Health Seattle & King County	9767 PREV	10/1/2022 - 2/28/2024	77,813	-
					AL 93.686 Total	580,165	-
	93.788 Opioid STR						
	93.788 HUB Mat Services State Targeted Response to the Opioid Crisis		Washington State Health Care Authority	K4856 Amd #1 & 2	9/30/2021 - 9/29/2022	200,556	-
	93.788 HUB Mat Services State Targeted Response to the Opioid Crisis		Washington State Health Care Authority	K6679	9/30/2022 - 9/29/2023	460,408	-
	93.788 Opiate Treatment Networks		Washington State Health Care Authority	K4866 AMD #1	9/30/2021 - 9/29/2022	116,073	-
	93.788 Opiate Treatment Networks		Washington State Health Care Authority	K6460	9/30/2022 - 9/29/2023	307,897	-
					AL 93.788 Total	1,084,934	-
	93.918 Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease						
	93.918 Ryan White Part C		Direct Award - HRSA	H76HA00198-30	1/1/2022 - 12/31/2022	1,195,175	-
	93.918 Ryan White Part C		Direct Award - HRSA	H76HA00198-31	1/1/2023 - 12/31/2023	1,105,088	-
					AL 93.918 Total	2,300,263	-
	93.940 HIV Prevention Activities Health Department Based						
	93.940 Aurora Commons in North Seattle		Public Health Seattle & King County	6985 PREV	3/1/2022 - 2/28/2023	488,556	-
	93.940 Aurora Commons in North Seattle		Public Health Seattle & King County	6985 PREV Amd #1	10/12/2022 - 2/28/2024	243,101	-
	93.940 EHE - Low Barrier Services		Public Health Seattle & King County	9767 PREV	10/1/2022 - 2/28/2024	70,082	-
					AL 93.940 Total	801,739	-
	93.958 Block Grants for Community Mental Health Services						
	93.958 Trauma-Focused Behavioral Therapy		Washington State Health Care Authority	K5688	9/30/2021 - 9/29/2022	66,114	-
					AL 93.958 Total	66,114	-
					Department of Health & Human Services Total	9,893,064	10,529
Department of Homeland Security							
	97.036 COVID-19 Disaster Grants - Public Assistance (Presidentially Declared Disasters)						
	97.036 Contract Labor		University of Washington	UWSC - 12044	1/20/2020 - 3/22/2024	33,029,792	-
	97.036 FY21 Personal Protective Equipment, Cleaning Supplies		University of Washington	UWSC - 12044	1/20/2020 - 3/22/2024	4,187,953	-
	97.036 FY22 Personal Protective Equipment, Cleaning Supplies		University of Washington	UWSC - 12044	1/20/2020 - 3/22/2024	4,095,964	-
					AL 97.036 Total	41,313,709	-
					Department of Homeland Security Total	41,313,709	-
					FEDERAL EXPENDITURES GRAND TOTAL	52,153,835	10,529

See accompanying independent auditors' report and notes to schedule of expenditures of federal awards.

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

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2023

(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, 2023. 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 statements of net position, statements of revenues, expenses, and changes in net position, 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.

(3) Indirect Cost Rate

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

(4) Personal Protective Equipment Receipts (unaudited)

The Medical Center has not received any donated personal protective equipment (PPE).

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

Schedule of Findings and Questioned Costs

Year ended June 30, 2023

(1) Summary of Auditors' Results

- a. Type of report issued on whether the financial statements were prepared in accordance with generally accepted accounting principles: **Unmodified**
- b. Internal control deficiencies over financial reporting disclosed by the audit of the financial statements:
 - Material weaknesses: **No**
 - Significant deficiencies: **None Reported**
- c. Noncompliance material to the financial statements: **No**
- d. Internal control deficiencies over major programs disclosed by the audit:
 - Material weaknesses: **No**
 - Significant deficiencies: **None reported**
- e. Type of report issued on compliance for major programs: **Unmodified**
- f. Audit findings that are required to be reported in accordance with 2 CFR 200.516(a): **No**
- g. Major programs:
 - ALN 93.498 – Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution
 - ALN 97.036 – COVID-19 Disaster Grants – Public Assistance (Presidentially Declared Disasters)
- h. Dollar threshold used to distinguish between Type A and Type B programs: **\$1,564,615**
- i. Auditee qualified as a low-risk auditee: **Yes**

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

None

(3) Findings and Questioned Costs Relating to Federal Awards

None