KPMG

# HARBORVIEW MEDICAL CENTER

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

Basic Financial Statements

June 30, 2022 and 2021

(With Independent Auditors' Report Thereon)

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

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# Independent Auditors' Report

Board of Trustees
Harborview Medical Center:

*Opinion*

We have audited the financial statements of Harborview Medical Center, a component unit of King County, as of and for the years ended June 30, 2022 and 2021, 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, 2022 and 2021, 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). 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.

*Emphasis of Matter*

As discussed in note 2, in fiscal year 2022, Harborview Medical Center adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*. Our opinion is not modified with respect to this matter.

*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 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, 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.

KPMG LLP

Seattle, Washington
October 14, 2022

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, 2022 and 2021. 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 Neighborhood Clinics (UWNC), 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.



(Continued)

## Results of Operations

For the fiscal year ended 2022, Harborview experienced unprecedented occupancy and length of stay, primarily driven by barriers to discharging patients to long-term care facilities. Harborview has focused on maintaining appropriate staffing levels, but experienced increased labor costs due an increase in the rate per hour along with the increase in volumes and staffing vacancies. These factors created significant pressure on Harborview's operating expenses during the year.

The novel coronavirus (COVID-19) was identified in China in December 2019 and the first case in Washington State was discovered in January 2020. COVID-19 has spread globally creating a pandemic, which has significantly impacted the economic conditions at a local, national, and international level. On February 29, 2020, the governor of the state of Washington declared a state of emergency to ensure the swift deployment of resources necessary to address coronavirus in Washington and the forecasted potential surge of COVID-19 patients. On March 13, 2020, President Trump declared a national state of emergency with respect to the COVID-19 outbreak, ordering all states to establish emergency operations and authorizing the use of federal funds. Both the national state of emergency and Washington state of emergency continued through fiscal year 2022. COVID-19 cases fluctuated throughout the fiscal year and Harborview experienced multiple COVID-19 surges. In response to the many COVID-19 surges, Harborview cancelled or postponed certain inpatient non-emergent and elective procedures in both fiscal years 2022 and 2021 in order to preserve inpatient capacity.

Harborview reported an operating loss of $19.0 million and a decrease in net position of $3.8 million for the year ended June 30, 2022 compared to an operating loss of $7.8 million and an increase in net position of $4.8 million for the year ended June 30, 2021. The decrease in net position in fiscal year 2022 is primarily attributed to increased operating expenses, particularly an increase in utilization of contract labor, driven by shortages in permanent staff, and high occupancy.

For the year ended June 30, 2021, Harborview reported an operating loss of $7.8 million and an increase in net position of $4.8 million compared to operating income of $5.6 million and an increase in net position of $27.2 million for the year ended June 30, 2020. The increase in net position in fiscal year 2021 was primarily attributed to nonoperating revenues that are associated with the recognition of Coronavirus Aid, Relief, and


(Continued)

(Dollar amounts in millions)

Economic Security (CARES) Act funds, other funding associated with COVID-19, and investment income received.

| | | 2022 | 2021 | 2020 |
|---|---|---|---|---|
| Operating revenues | $ | 1,172.6 | 1,128.5 | 1,048.8 |
| Operating expenses | | 1,191.6 | 1,136.3 | 1,043.2 |
| (Loss) income from operations | | (19.0) | (7.8) | 5.6 |
| Investment income, net | | 2.8 | 5.4 | 6.7 |
| Federal stimulus funding | | 3.0 | 17.5 | 31.0 |
| Other, net | | 9.3 | (10.6) | (16.3) |
| Nonoperating revenues | | 15.1 | 12.3 | 21.4 |
| (Loss) income before other changes in net position | | (3.9) | 4.5 | 27.0 |
| Other changes in net position | | 0.1 | 0.3 | 0.2 |
| (Decrease) increase in net position | | (3.8) | 4.8 | 27.2 |
| Net position, beginning of year | | 735.6 | 730.8 | 703.6 |
| Net position, end of year | $ | 731.8 | 735.6 | 730.8 |

The following table presents Harborview's key performance indicators for June 30, 2022, 2021, and 2020:

| | 2022 | 2021 | 2020 |
|---|---|---|---|
| Licensed beds | 413 | 413 | 413 |
| Admissions | 15,180 | 15,112 | 15,329 |
| Patient days | 167,573 | 151,432 | 140,502 |
| Average length of stay | 11.0 | 10.0 | 9.2 |
| Occupancy | 111 % | 101 % | 93 % |
| Case mix index (CMI) | 2.60 | 2.62 | 2.43 |
| Surgery cases | 17,909 | 17,833 | 16,228 |
| Emergency room visits | 50,401 | 47,369 | 53,550 |
| Primary care clinic visits | 87,204 | 80,596 | 76,591 |
| Specialty care clinic visits | 173,822 | 178,531 | 152,261 |
| Trauma cases | 6,883 | 6,573 | 5,891 |
| Full-time equivalents (FTEs) | 4,555 | 4,544 | 4,471 |

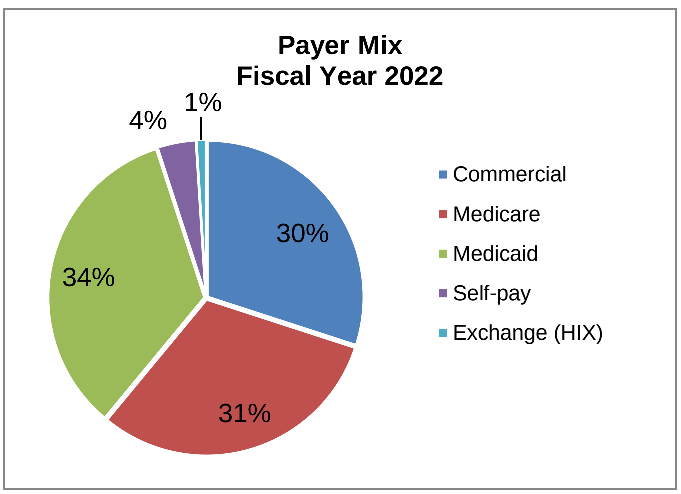


(Continued)

At the onset of the pandemic, the governor issued a waiver allowing hospitals to operate within bed counts outside of Washington's Certificate of Need statutes. This waiver was in effect throughout the pandemic and will expire on October 31, 2022, absent any other intervention. Due to this waiver, 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 extremely high occupancy and length of stay, further highlighting patient discharge barriers. In addition, Harborview continued to experience high case mix acuity. In fiscal year 2021, Harborview experienced a decline in admissions due to an increased length of stay resulting from patient discharge barriers. In addition, Harborview experienced high case mix acuity and additional surges in COVID-19 cases.

*Operating Revenues*

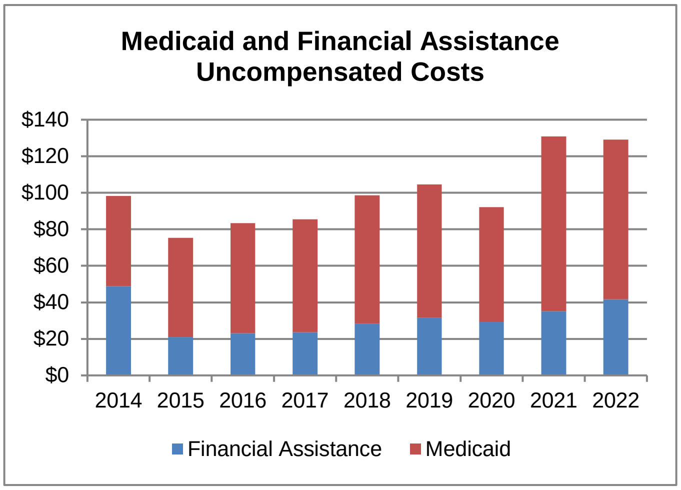
Operating revenues consist primarily of net patient service revenues and other revenue. Net patient service revenues are recorded based on standard charges less contractual adjustments, financial assistance, and a provision for uncollectible accounts. Harborview has agreements with federal and state 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.

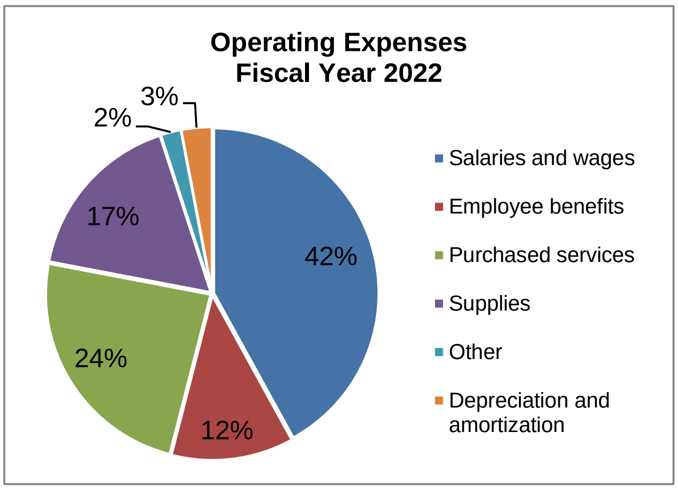
Harborview's payer mix is a key factor in the overall financial operating results. The chart to the left illustrates payer mix for fiscal year 2022 gross patient service revenue. For the years ended June 30, 2022 and 2021, Medicaid revenue represented 34% and 33%, respectively; commercial revenue represented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

Uncompensated care costs, as illustrated in the chart below, 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 is below commercial rates. Reimbursement rules are complex and subject to both interpretation and retrospective settlements. Harborview has significant government revenues subject to settlements as a result of Medicaid and Medicare revenues.

For the years ended June 30, 2022, 2021, and 2020, Harborview's total operating revenues were $1,172.6 million, $1,128.5 million, and $1,048.8 million, which was comprised of $1,084.8 million, $1,020.8 million, and $933.0 million, in net patient service revenues and $87.8 million, $107.7 million, and $115.8 million, in other revenue, respectively. The increase in operating revenues of $44.1 million is driven by increased net patient service revenue as a result of higher occupancy and length of stay in fiscal year 2022. The increase in operating revenues in fiscal year 2021 of $79.7 million was driven by net patient service revenue as a result of higher acuity and case mix index and an increase in volumes.




*Operating Expenses*

Operating expenses were $1,191.6 million for fiscal year 2022 compared to $1,136.3 million for fiscal year 2021 and $1,043.2 million for fiscal year 2020. The composition of fiscal year 2022 operating expenses is illustrated in the chart to the left.

**Salaries and wages** increased $56.7 million from $448.6 million in fiscal year 2021 to $505.3 million in fiscal year 2022. The increase in salaries and wages in the current year is primarily attributed to additional staffing needs due to an increase in volumes and increasing labor costs in the market.

Salaries and wages increased $39.4 million from $409.2 million in fiscal year 2020 to $448.6 million in fiscal year 2021. The increase in salaries and wages in fiscal year 2021 was primarily attributed to an increase in FTEs and higher contract labor hourly rates. Contract labor hourly rates increased as a result of demand nationwide associated with COVID-19.

**Employee benefits** decreased $5.5 million from $142.5 million in fiscal year 2021 to $137.0 million in fiscal year 2022 and increased $0.8 million from $141.7 million in fiscal year 2020 to $142.5 million in fiscal year 2021. 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.

Between fiscal year 2020 and fiscal year 2021, the University benefit load rate for classified and professional employees decreased as a result of reduced healthcare expenses and employer pension contributions, which offset the increase in employee benefits expense driven by an increase in FTEs.

**Purchased services**, which consist of UW Medicine shared services, clinical department funding to the School, residency programs, and other purchased service expenses increased $3.8 million from $279.8 million in fiscal year 2021 to $283.6 million in fiscal year 2022 and increased $24.7 million from $255.1 million in fiscal year 2020 to $279.8 million in fiscal year 2021. 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.

The increase in purchased services in fiscal year 2021 was driven by increased costs associated with Destination: One, 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. This was fully implemented in March 2021. Additionally, there was an increase in clinical department funding to the School as a result of an increase in volumes during the year.

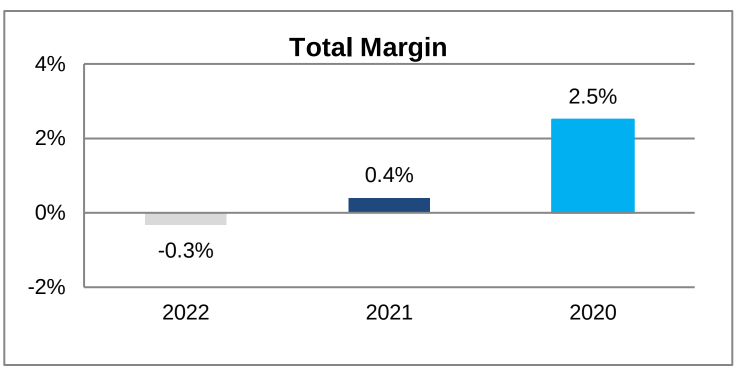
**Supplies expense** includes medical, surgical, pharmaceutical, and nonmedical supplies. In total, these expenses increased $5.9 million from $192.9 million in fiscal year 2021 to $198.8 million in fiscal year 2022 and increased $23.8 million from $169.1 million in fiscal year 2020 to $192.9 million in fiscal year 2021. 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.

The increase in supplies expense between fiscal years 2021 and 2020 was driven by higher pharmaceutical and prosthesis expenses as a result of an increase in volumes in fiscal year 2021.

*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, and COVID-19 federal stimulus funding. Net nonoperating revenues increased $2.8 million from $12.3 million for the year ended June 30, 2021 to $15.1 million at June 30, 2022. The increase is 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 balances being held within the King County Investment Pool. Additionally, in fiscal year 2022, Harborview recognized $3.0 million of COVID-19 federal stimulus funding, compared to $17.5 million of COVID-19 federal stimulus funding recognized in the prior year.

In fiscal year 2021, net nonoperating revenues decreased $9.1 million from $21.4 million for the year ended June 30, 2020 to $12.3 million at June 30, 2021. The decrease is due to the difference in the amount of COVID-19 federal stimulus funding recognized between the two fiscal years. In fiscal year 2021, Harborview recognized $17.5 million compared to $31.0 million in the prior year. Additionally, at June 30, 2021, the investment pool performance was 0.75% compared to 1.38% in fiscal year 2020.




*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 2022, 2021, and 2020 is illustrated in the chart to the left.

(Dollar amounts in millions)

**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, 2022, 2021, and 2020:

| | 2022 | 2021 | 2020 |
|---|---|---|---|
| Current assets | $ 518.1 | 583.2 | 575.9 |
| Noncurrent assets: | | | |
| Capital assets, net | 266.7 | 268.9 | 286.3 |
| Right-to-use lease assets, net | 157.9 | 161.0 | — |
| Internally designated assets | 110.2 | 95.3 | 76.9 |
| Other assets | 62.7 | 78.6 | 33.7 |
| Total assets | 1,115.6 | 1,187.0 | 972.8 |
| Current liabilities | 171.3 | 197.8 | 223.3 |
| Noncurrent liabilities | 175.6 | 215.1 | 18.7 |
| Total liabilities | 346.9 | 412.9 | 242.0 |
| Other deferred inflows of resources | 36.9 | 38.5 | — |
| Net position | 731.8 | 735.6 | 730.8 |
| Total liabilities and net position | $ 1,115.6 | 1,187.0 | 972.8 |

Total assets are $1,115.6 million at June 30, 2022 compared to $1,187.0 million at June 30, 2021, a decrease of $71.4 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.

Total assets were $1,187.0 million at June 30, 2021 compared to $972.8 million at June 30, 2020, an increase of $214.2 million. Significant events within total assets during fiscal year 2021 include an increase in patients accounts receivable which was offset by a decrease in cash and cash equivalents as a result of an increase in accounts receivable, higher operating expenses, and the recoupment by CMS of a portion of the Medicare advanced payments.



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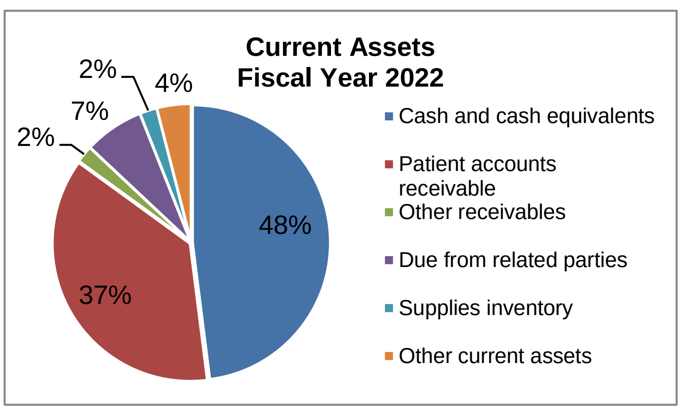
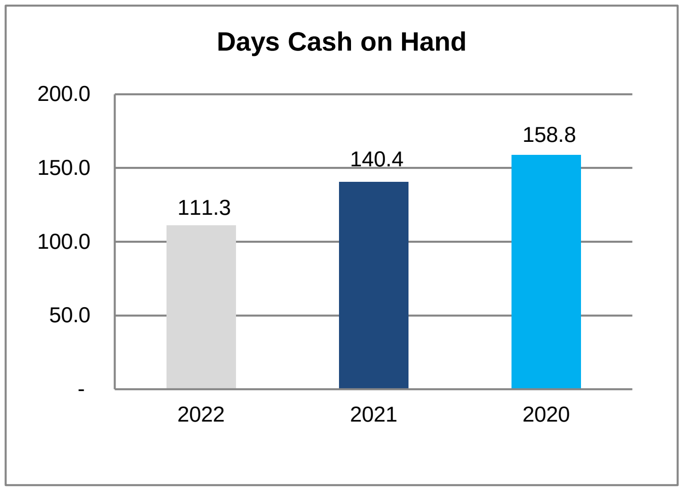
In fiscal year 2022, Harborview implemented Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*. This statement changes the previous classification of lease arrangements as either operating or capital leases and establishes a single model for lease accounting based on the foundational principle that leases represent a financing transaction associated with the right to use an underlying asset. Harborview recognized lease liabilities and right-to-use lease assets, net of accumulated amortization, for arrangements in which it is the lessee and lease receivables and deferred inflows of resources for arrangements where it is the lessor. As a result of this implementation, Harborview applied the standard retroactively to the fiscal year beginning July 1, 2020. At July 1, 2020, Harborview recognized lease liabilities and right-to-use lease assets of $186.9 million and $173.4 million, respectively, in the statements of net position. In addition, Harborview recognized lease receivables, which are recorded within other current assets and other assets, and deferred inflows of resources of $40.3 million and $40.3 million, respectively, in the statements of net position. Further discussion regarding lease activity during the fiscal years can be found in the notes to the financial statements.

*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 $518.1 million, $583.2 million, and $575.9 million at fiscal years 2022, 2021, and 2020, respectively. Fiscal year 2022 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 decreased $85.0 million from $335.1 million at June 30, 2021 to $250.1 million at June 30, 2022 and decreased $34.6 million from $369.7 million at June 30, 2020 to $335.1 million at June 30, 2021.

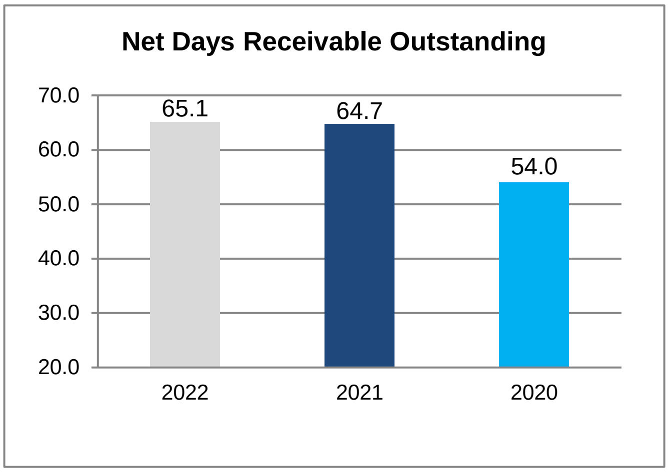



Days cash on hand is utilized to evaluate an organization's continuing ability to meet its short-term operating needs. Days cash on hand, including board and management designated assets as of June 30, 2022, 2021, and 2020, is illustrated in the graph to the right.

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.

Harborview's total days cash on hand decreased 18.4 days from 158.8 days at June 30, 2020 to 140.4 days at June 30, 2021. The decrease of 18.4 days between fiscal year 2021 and fiscal year 2020 is due to the increase in patient accounts receivable, increased operating expenses, and the recoupment by CMS of a portion of the Medicare advanced payments. At June 30, 2021, Medicare had recouped $6.4 million of Harborview's Medicare advanced payments. Excluding the payable balance of Medicare advanced payments at June 30, 2021, days cash on hand would have been 119.9 days.

**Patient accounts receivable** were $193.4 million as of June 30, 2022 compared to $180.9 million as of June 30, 2021 and $137.8 million as of June 30, 2020. Patient accounts receivable increased $12.5 million in fiscal year 2022 and increased $43.1 million in fiscal year 2021. The increase in fiscal year 2022 is primarily due to higher volumes and revenues as well as timing of payer cash collections. In fiscal year 2021, fewer non-emergent and elective procedures were cancelled due to COVID-19 as in the prior year, resulting in higher volumes, revenue, and accounts receivable. In addition, UW Medicine implemented Destination: One in late March 2021, which required overall process changes and led to a temporary delay in billing and collections at the end of the fiscal year.




Days receivable outstanding indicates an organization's ability to convert net patient service revenue to cash. Days receivable outstanding as of June 30, 2022, 2021, and 2020 is provided in the graph to the left.

Harborview's net days receivable outstanding increased 0.4 days from 64.7 days at June 30, 2021 to 65.1 days at June 30, 2022 and increased 10.7 days from 54.0 days at June 30, 2020 to 64.7 days at June 30, 2021. The increase in net days receivable in the current year is driven by timing of cash collections and increases in net patient service revenues. The increase in net days receivable in fiscal year 2021 was driven by billing and collection delays due to Destination: One and lower patient accounts receivable in fiscal year 2020 driven by the mandatory cancellation of non-emergent and elective procedures.

As of June 30, 2022 and 2021, 39% and 37% of the gross patient accounts receivable balances are due from commercial payers, 55% and 56% are due from governmental payers (Medicare and Medicaid), 4% and 5% are due from self-pay patients, and 2% and 2% from the Washington Health Benefit Exchange, respectively.

**Due from related parties** consists of amounts due for services provided by Harborview to UW Medicine entities, including the School. Due from related parties decreased $1.8 million from $36.1 million at June 30, 2021 to $34.3 million at June 30, 2022 and increased $4.1 million from $32.0 million at June 30, 2020 to $36.1 million at June 30, 2021. The increases in fiscal years 2022 and 2021 relate to the timing of payments between Harborview and other UW Medicine entities.

*Noncurrent Assets*

**Capital assets, net of accumulated depreciation** decreased $2.2 million during fiscal year 2022 from $268.9 million at June 30, 2021 to $266.7 million at June 30, 2022 and decreased $17.4 million during fiscal year 2021 from $286.3 million at June 30, 2020 to $268.9 million at June 30, 2021. The decreases in both fiscal years 2022 and 2021 are attributed to continued depreciation of depreciable assets offset by moderate capital spending.

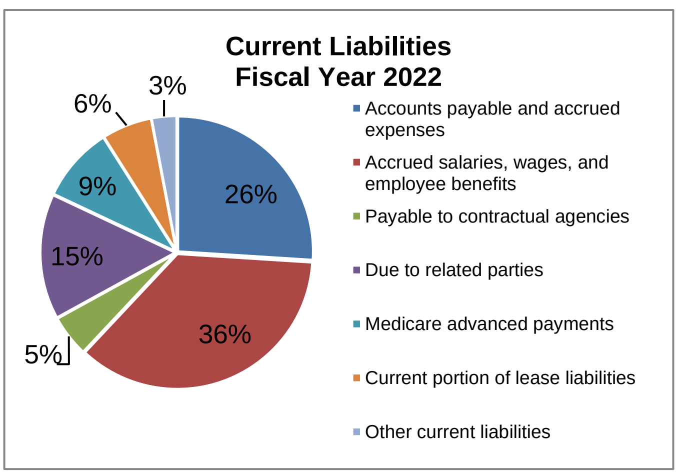
Additional discussion regarding capital asset activity, including capital commitments, during the fiscal years can be found in the notes to the financial statements.

**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, 2022, total internally designated assets were $110.2 million compared to $95.3 million at June 30, 2021, an increase of $14.9 million between years. The increase in internally designated assets between fiscal year 2021 and fiscal year 2022 relates to an increase in funds which are designated for the Maleng bed capacity project at Harborview, which is a multiyear capital project that will provide Harborview more single patient rooms.

At June 30, 2021, total internally designated assets were $95.3 million compared to $76.9 million at June 30, 2020, an increase of $18.4 million between years. The increase in internally designated assets between fiscal year 2020 and fiscal year 2021 relates to an increase in funds, which are designated for the Maleng bed capacity project at Harborview.

**Other assets** consist of long-term prepaid expenses, long-term lease receivables, and donor restricted assets. The long-term prepaid expense reflected in other assets entitles Harborview access to the enterprise-wide information technology (IT) software and services. Other assets decreased $15.9 million during fiscal year 2022 from $78.6 million at June 30, 2021 to $62.7 million at June 30, 2022 and increased $44.9 million during fiscal year 2021 from $33.7 million at June 30, 2020 to $78.6 million at June 30, 2021. Harborview had long-term prepaid rent recorded within other assets, of which the lease term began in fiscal year 2022 as construction was completed. This resulted in the $8.2 million prepayment being reclassed to right-to-use lease asset, which accounts for the decrease during the year. The decrease is also caused by the timing of IT capital projects. The increase in fiscal year 2021 was driven by an increase in donor restricted assets related to donations received in the year, timing of IT capital projects, and an increase in noncurrent lease receivables in fiscal year 2021 due to the adoption of GASB 87.




*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 $171.3 million, $197.8 million, and $223.3 million at June 30, 2022, 2021, and 2020, respectively. Fiscal year 2022 composition of current liabilities is illustrated in the chart to the left.

**Accounts payable and accrued expenses** increased $11.3 million from $33.0 million at June 30, 2021 to $44.3 million at June 30, 2022 and decreased $3.7 million from $36.7 million at June 30, 2020 to $33.0 million at June 30, 2021. Changes in accounts payable and accrued expenses are primarily driven by timing of payments to vendors.

**Accrued salaries, wages, and employee benefits** decreased $1.2 million from $62.7 million at June 30, 2021 to $61.5 million at June 30, 2022 and increased $8.0 million from $54.7 million at June 30, 2020 to $62.7 million at June 30, 2021. 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 decreased $5.2 million from $13.8 million at June 30, 2021 to $8.6 million at June 30, 2022 and decreased $10.0 million from $23.8 million at June 30, 2020 to $13.8 million at June 30, 2021. The decrease in fiscal years 2022 and 2021 was due to the timing of payments.

**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 decreased $10.3 million from $35.8 million at June 30, 2021 to $25.5 million at June 30, 2022 and increased $14.7 million from $21.1 million at June 30, 2020 to $35.8 million at June 30, 2021. The decrease in fiscal year 2022 and the increase in fiscal year 2021 in due to related parties are primarily driven by timing of payments to related parties.

Harborview has a long-term due to related parties balance of $19.2 million at June 30, 2022 compared to $25.5 million at June 30, 2021, a decrease of $6.3 million. Long-term due to related parties had a balance of $25.5 million at June 30, 2021 compared to $8.9 million at June 30, 2020, an increase of $16.6 million. The decrease in fiscal year 2022 and the increase in fiscal year 2021 relates 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. This program was fully implemented in March 2021.

**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, 2022 and 2021, the current portion of $16.0 million and $38.3 million, respectively, is presented within Medicare advanced payments in the accompanying statements of net position. The long-term portion of $0 million and $23.3 million is recorded in other noncurrent liabilities at June 30, 2022 and 2021 in the statements of net position.

The advanced Medicare funds will be recouped by Medicare by offsetting paid claims until the full amount is recouped. Medicare began recouping Medicare advanced payments in April 2021 from Harborview and has recouped $52.0 million as of June 30, 2022. Harborview expects the advances to be fully repaid by the end of fiscal year 2023.



(Continued)

## 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.

*Economic Uncertainty Facing the Healthcare Industry*

The COVID-19 pandemic continues to evolve and the future impact on Harborview's operations and financial position will be driven by many factors, most of which are beyond Harborview's control and difficult to predict. Broad economic factors resulting from the pandemic, including increased inflation and a competitive labor market, continue to impact our patient volumes, case mix acuity, service mix, and revenue mix. The pandemic has also continued to have an adverse effect on operating expenses to varying degrees. Harborview has been required to utilize higher-cost temporary labor and pay premiums due to shortages of essential workers and dealing with supply chain disruptions. In addition, the impact of government and administrative regulation regarding stimulus and relief measures such as the Coronavirus Aid, Relief, and Economic Security ("CARES") Act, the American Rescue Plan Act of 2021 ("ARPA"), and other enacted and potential future legislation is unknown. Because of these factors and other uncertainties, management cannot estimate the length or severity of the impact of the pandemic on Harborview's business.

The healthcare industry, in general, is experiencing higher demand for labor, volatility, and uncertainty in the labor market which has impacted 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 labor shortages on the 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 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 couple of years, a number of manufacturers have reduced the benefits to enrolled entities through the elimination of certain drugs in contract pharmacy settings. This had resulted in legal action at the federal level in an attempt to reinstate previous savings. This federal action appears to be favorable but is not yet resolved and 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 its strategies. In general, these strategies are intended to improve financial performance through the reduction of costs and in streamlining how it 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, Harborview’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 and UW Medicine have determined that Workday Financials® will provide the best available platform to support the business objectives for this transformation by providing a seamless, integrated solution for Human resources and Payroll (previously implemented), Procurement, and Finance. UW Medicine and the University expect 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 $340.0 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 is expected to be implemented on July 1, 2023.

*Destination: One*

In March 2021, UW Medicine fully implemented Destination: One, a multiyear clinical transformation program to improve patient engagement and clinician experience. So far, Destination: One has had many successes with the biggest benefit being UW Medicine having one medical record for both hospital and clinical based care. This has helped with capacity management, which was crucial for managing census across campuses, patient safety, provider efficiency, patient online bill pay, unified patient billing, and paperless statements. In addition, UW Medicine expects financial benefits of this project as UW Medicine has been able to retire a number of systems and streamline workflows.


(Continued)

*Major Construction Project Update*

As part of the capital improvement bond measure of $1,740.0 million that was approved by King County voters in November 2020, and with the support of the Board of Trustees, Harborview continues its foundational work with King County to define the next phase of facility master planning. The foundational work includes programming and sequencing, strategic planning, and preliminary financial impact. The goal of this work includes single patient rooms, modernization to support clinical delivery of care, expansion of Behavioral Health programming, and continuation of seismic facility upgrades.

Harborview continues to work on the single patient room project located in the Maleng Building. It has completed the clinical programing and design development phases and the first phase of construction is set to begin in fall 2022. The total estimated cost of the construction of the single patient room project is $75.0 million.

*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, 2022 and 2021 that relates to University employees deployed at Harborview was approximately $(247.9) million and $119.5 million, respectively. In addition, Harborview's annual pension funding was $33.6 million and $40.4 million in fiscal years 2022 and 2021, 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, 2022 and 2021 that relates to University employees deployed at Harborview was $244.0 million and $228.5 million, respectively, and the OPEB expense was $12.8 million and $3.6 million, respectively. In addition, Harborview's annual OPEB funding was $4.0 million in both fiscal years 2022 and 2021, respectively, which is recorded as employee benefits expense in the statements of revenue, expenses, and changes in net position.

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

Statements of Net Position

June 30, 2022 and 2021

(Dollar amounts in thousands)

| **Assets** | | **2022** | **2021** |
|---|---|---|---|
| Current assets: | | | |
| Cash and cash equivalents | $ | 250,094 | 335,075 |
| Patient accounts receivable, less allowance for uncollectible accounts of $48,136 in 2022 and $46,301 in 2021 | | 193,384 | 180,935 |
| Other receivables | | 10,685 | 9,266 |
| Due from related parties | | 34,257 | 36,072 |
| Supplies inventory | | 10,714 | 10,891 |
| Other current assets | | 18,954 | 11,004 |
| Total current assets | | 518,088 | 583,243 |
| Noncurrent assets: | | | |
| Capital assets, net of accumulated depreciation | | 266,740 | 268,894 |
| Right-to-use lease assets, net of accumulated amortization | | 157,857 | 160,992 |
| Internally designated assets | | 110,188 | 95,343 |
| Donor restricted assets | | 13,750 | 15,857 |
| Other assets | | 48,958 | 62,632 |
| Total noncurrent assets | | 597,493 | 603,718 |
| Total assets | $ | 1,115,581 | 1,186,961 |
| **Liabilities and Net Position** | | | |
| Current liabilities: | | | |
| Accounts payable and accrued expenses | $ | 44,309 | 33,034 |
| Accrued salaries, wages, and employee benefits | | 61,456 | 62,738 |
| Due to related parties | | 25,449 | 35,797 |
| Payable to contractual agencies | | 8,568 | 13,814 |
| Medicare advanced payments | | 16,032 | 38,305 |
| Current portion of lease liabilities | | 10,223 | 9,900 |
| Other current liabilities | | 5,204 | 4,164 |
| Total current liabilities | | 171,241 | 197,752 |
| Noncurrent liabilities: | | | |
| Long-term lease liabilities | | 156,440 | 166,296 |
| Other noncurrent liabilities | | — | 23,341 |
| Due to related parties – long-term | | 19,152 | 25,469 |
| Total liabilities | | 346,833 | 412,858 |
| Other deferred inflows of resources | | 36,915 | 38,512 |
| Total liabilities and deferred inflows of resources | | 383,748 | 451,370 |
| Net position: | | | |
| Net investment in capital assets | | 257,933 | 253,690 |
| Expendable, restricted | | 10,137 | 10,946 |
| Nonexpendable, restricted | | 3,519 | 3,395 |
| Unrestricted | | 460,244 | 467,560 |
| Total net position | | 731,833 | 735,591 |
| Total liabilities, deferred inflows of resources, and net position | $ | 1,115,581 | 1,186,961 |

See accompanying notes to basic financial statements.

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

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2022 and 2021

(Dollar amounts in thousands)

| | | 2022 | 2021 |
|---|---|---|---|
| Operating revenues: | | | |
| Net patient service revenues (net of provision for uncollectible accounts of $46,108 in 2022 and $29,965 in 2021) | $ | 1,084,743 | 1,020,792 |
| Other revenue | | 87,821 | 107,733 |
| Total operating revenues | | 1,172,564 | 1,128,525 |
| Operating expenses: | | | |
| Salaries and wages | | 505,259 | 448,608 |
| Employee benefits | | 137,010 | 142,455 |
| Purchased services | | 283,535 | 279,816 |
| Supplies | | 198,834 | 192,894 |
| Other | | 28,213 | 29,380 |
| Depreciation and amortization | | 38,720 | 43,184 |
| Total operating expenses | | 1,191,571 | 1,136,337 |
| Loss from operations | | (19,007) | (7,812) |
| Nonoperating revenues (expenses): | | | |
| Investment income, net | | 2,797 | 5,432 |
| Interest expense | | (5,136) | (5,420) |
| Funding to affiliates | | (16,365) | (16,164) |
| Funding to King County | | (5,000) | (5,000) |
| Federal stimulus funding | | 3,002 | 17,471 |
| Other, net | | 35,827 | 15,957 |
| Nonoperating revenues | | 15,125 | 12,276 |
| (Loss) income before additions to permanent endowments | | (3,882) | 4,464 |
| Additions to permanent endowments | | 124 | 310 |
| (Decrease) increase in net position | | (3,758) | 4,774 |
| Net position – beginning of year | | 735,591 | 730,817 |
| Net position – end of year | $ | 731,833 | 735,591 |

See accompanying notes to basic financial statements.

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

Statements of Cash Flows

Years ended June 30, 2022 and 2021

(Dollar amounts in thousands)

| | | 2022 | 2021 |
|---|---|---|---|
| Cash flows from operating activities: | | | |
| Cash received for patient service revenues | $ | 1,022,886 | 959,436 |
| Cash received for other services | | 86,380 | 111,473 |
| Cash paid to employees | | (643,551) | (583,017) |
| Cash paid to suppliers and others | | (517,849) | (490,329) |
| Net cash used in operating activities | | (52,134) | (2,437) |
| Cash flows from noncapital financing activities: | | | |
| Funding to affiliates | | (16,516) | (13,978) |
| Funding to King County | | (5,000) | (5,000) |
| Cash received for permanent endowments | | 124 | 310 |
| Cash received for Federal stimulus funding | | 3,002 | 730 |
| Other | | 39,650 | 16,547 |
| Change in due to/from related parties | | (5,691) | 17,520 |
| Net cash provided by noncapital financing activities | | 15,569 | 16,129 |
| Cash flows from capital and related financing activities: | | | |
| Cash paid for principal and interest on leases | | (15,214) | (15,760) |
| Cash paid for capital expenditures | | (22,721) | (15,175) |
| Cash paid for capital contributions | | (1,301) | (300) |
| Other | | 742 | 724 |
| Net cash used in capital and related financing activities | | (38,494) | (30,511) |
| Cash flows from investing activities: | | | |
| Internally designated and donor restricted assets | | (12,529) | (22,124) |
| Investment income received | | 2,607 | 4,346 |
| Net cash used in investing activities | | (9,922) | (17,778) |
| Decrease in cash and cash equivalents | | (84,981) | (34,597) |
| Cash and cash equivalents, beginning of year | | 335,075 | 369,672 |
| Cash and cash equivalents, end of year | $ | 250,094 | 335,075 |
| Reconciliation of loss from operations to net cash used in operating activities: | | | |
| Loss from operations | $ | (19,007) | (7,812) |
| Adjustments to reconcile loss from operations to net cash used in operating activities: | | | |
| Depreciation and amortization | | 38,720 | 43,184 |
| Provision for uncollectible accounts | | 46,108 | 29,965 |
| Net increase in current and other assets | | (65,355) | (71,058) |
| Net decrease in current liabilities | | (29,259) | (19,198) |
| (Decrease) increase in other noncurrent liabilities | | (23,341) | 22,482 |
| Net cash used in operating activities | $ | (52,134) | (2,437) |
| Supplemental disclosures of cash flow information: | | | |
| Change in capital assets included in accounts payable | $ | 1,930 | (1,353) |
| Loss on disposal of capital assets | | — | (450) |

See accompanying notes to basic financial statements.

**(1) Organization and Operations**

Harborview Medical Center (Harborview) is a 413-licensed-bed hospital operating in Seattle, Washington with extensive ambulatory services and is a component unit of King County, Washington (King County). Harborview is managed and operated by UW Medicine under a Hospital Services Agreement between King County and the Board of Regents of the University of Washington (the University) in accordance with policies established by the Harborview Board of Trustees (the Trustees). Harborview is a Level 1 adult and pediatric trauma medical center that serves a four-state region.

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.

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 2022 and 2021, the annual allocation was not reduced. For both of the years ended June 30, 2022 and 2021, 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 King County, which is recorded within due to related parties in the statements of net position. Since 2016, Harborview has paid total allocations of $30,000 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.

Harborview is part of UW Medicine which also includes UW Medical Center, Valley Medical Center (VMC), UW Neighborhood Clinics (UWNC), UW Physicians (UWP), UW School of Medicine (the School), Airlift Northwest (Airlift), UW Medicine Shared Services, and Fred Hutchinson Cancer Center (FHCC).

## (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.

(Dollar amounts in thousands)

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:

| | 2022 | 2021 |
|---|---|---|
| Cash and cash equivalents | 12.7 % | 8.5 % |
| U.S. Treasury and agencies securities | 79.3 | 66.5 |
| Washington State Local Government Investment Pool | 5.1 | 20.8 |
| Corporate and other fixed income securities | 2.9 | 4.2 |
| Total | 100.0 % | 100.0 % |

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

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

Harborview has unrestricted access to deposit and withdraw from the King County Investment Pool at its discretion and without limitation, and as such, these investments are considered cash equivalents. Harborview has cash equivalents of $250,094 and $335,075 as of June 30, 2022 and 2021, 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.

### *(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 are removed from the accounts, and any resulting gain or loss is recorded.

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

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

### *(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.



(Continued)

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 asset is 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 asset is 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 asset.

*(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, 2022 and 2021, $9,300 and $7,600, respectively, is recorded in other current assets and $12,296 and $16,661 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, 2022 and 2021, $19,152 and $25,469, respectively, is recorded within due to related parties – long term in the statements of net position for Destination: One. At June 30, 2022 and 2021, $1,578 and $951, respectively, is recorded in due to related parties in the statements of net position for

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, 2022 and 2021 is $26,426 and $28,443, respectively. Sick leave accrued as of June 30, 2022 and 2021 is $7,770 and $8,249, 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.

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


(Continued)

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, other federal and state funding, and federal stimulus 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 note 3(a) for discussion surrounding the Medicaid certified public expenditures program.

*(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.



(Continued)

*(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 $127,584 and $88,174, respectively, for the years ended June 30, 2022 and 2021.

Harborview estimates the cost of financial assistance using its Medicaid cost to charge ratio of 37.4% and 39.5% for the fiscal years ended June 30, 2022 and 2021, respectively. 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. Applying Harborview's Medicaid cost to charge ratio of 39.5% to total financial assistance of $88,174 results in an estimated cost of financial assistance of $34,829 for the fiscal year ended June 30, 2021.

***(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, lease, or construction of those assets. Expendable restricted net position consists of resources that Harborview is legally or contractually obligated to expend in accordance with time or purpose restrictions placed by donors and/or external parties. Nonexpendable restricted net position, primarily endowments, represents gifts to Harborview's permanent endowment funds, in which the donor or other external party has imposed a restriction that the corpus is not available for expenditure. Unrestricted net position is all other funds available to Harborview for any purpose associated with its operations and mission.

***(p) Federal Income Taxes***

Harborview, as a component of the state of Washington, is not subject to federal income taxes under Section 115 of the Internal Revenue Code.



(Continued)

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

In June 2017, the GASB issued Statement No. 87, *Leases*, which was effective for the fiscal year ended June 30, 2022, as amended by the issuance of Statement No. 95. This statement changed the current classification of lease arrangements as either operating or capital leases, and established a single model for lease accounting based on the foundational principle that leases represent a financing transaction associated with the right to use an underlying asset. This statement applies to contracts that convey the right to use a nonfinancial asset in an exchange or exchange-like transaction for a term exceeding 12 months. Lessees will be required to recognize a lease liability and a right-to-use lease asset, and lessors will be required to recognize a lease receivable and a deferred inflows of resources. As a result of implementation, Harborview applied the standard retroactively to the period ended June 30, 2021. The statements of net position, statements of revenues, expenses, and changes in net position, and the statements of cash flows for the fiscal year beginning July 1, 2020 have been restated to conform with the requirements of this statement and current year presentation. At July 1, 2020, upon adoption of the statement, Harborview recognized lease liabilities and right-to-use lease assets of approximately $186,956 and $173,420, respectively, in the statements of net position. In addition, Harborview recognized lease receivables and deferred inflows of resources of approximately $40,265 and $40,265, respectively, in the statements of net position.

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 an SBITA, establishes that an 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 an SBITA), and requires note disclosures regarding an SBITA. Harborview is currently analyzing the impact of this statement.

## (3) Net Patient Service Revenues

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. In 2022 and 2021, net patient service revenues increased $11,142 and $6,743, respectively, relating to prior years' net Medicare and Medicaid settlements and revised estimates, including Disproportionate Share Hospital (DSH) reimbursement and the CPE program.

(Dollar amounts in thousands)

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

| | | 2022 | 2021 |
|---|---|---|---|
| Gross patient service charges | $ | 3,089,709 | 2,822,623 |
| Less adjustments to gross patient service charges: | | | |
| Financial assistance | | (127,584) | (88,174) |
| Contractual discounts | | (1,831,274) | (1,683,692) |
| Provision for uncollectible accounts | | (46,108) | (29,965) |
| Total adjustments to gross patient service charges | | (2,004,966) | (1,801,831) |
| Net patient service revenues | $ | 1,084,743 | 1,020,792 |

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, 2022 and 2021 is as follows:

| | Gross patient service revenues | Gross accounts receivable |
|---|---|---|
| 2022: | | |
| Medicare | 31 % | 28 % |
| Medicaid | 34 | 27 |
| Commercial and other | 30 | 39 |
| Self-pay | 4 | 4 |
| Exchange (HIX) | 1 | 2 |
| Total | 100 % | 100 % |

(Dollar amounts in thousands)

| | Gross patient service revenues | Gross accounts receivable |
|---|---|---|
| 2021: | | |
| Medicare | 31 % | 27 % |
| Medicaid | 33 | 29 |
| Commercial and other | 31 | 37 |
| Self-pay | 4 | 5 |
| Exchange (HIX) | 1 | 2 |
| Total | 100 % | 100 % |

### *(a) Medicaid Certified Public Expenditure Reimbursement*

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

"Full cost" payments are determined using the respective hospital's Medicaid ratio of cost to charges to determine the cost for covered medically necessary services. The costs will be certified as actual expenditures by the hospital and the State claims 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 $49,366 and $47,142 in claims payments under this program for the years ended June 30, 2022 and 2021, respectively.

In addition, Harborview receives the federal match portion of DSH payments, which are the lesser of qualifying Medicaid and financial assistance uncompensated care cost or the hospital's specific limit. Harborview recognized $56,159 and $46,644 in DSH funding under this program for the years ended June 30, 2022 and 2021, 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.

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, 2022 and 2021. Claims payments, DSH payments, and state grant funds are included in net patient service revenues in the statements of revenues, expenses, and changes in net position.

CPE payments are subject to retrospective determination of actual costs once Harborview's Medicare cost report is audited. CPE program payments are not considered final until retrospective cost reconciliation is complete after Harborview receives its Medicare Notice of Program Reimbursements for the corresponding cost reporting year.

Interim state grant payments are retrospectively reconciled to "hold harmless" after actual claims are repriced using the applicable DRG payment methodology. This process takes place approximately 12 months after the end of the fiscal year and results in either a payable to, or receivable from, the state Medicaid program. Harborview has estimated the expected final settlement amounts based on the difference between CPE payments received and the estimated hold harmless amount. As of June 30, 2022 and 2021, respectively, Harborview has an estimated payable of $1,676 and $3,915 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 $14,808 and $15,468 for the years ended June 30, 2022 and 2021 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 IGT's.

Harborview recognized $3,332 and $3,132 in supplemental payments for the years ended June 30, 2022 and 2021, respectively. These payments are included in net patient service revenues in the statements of revenues, expenses, and changes in net position.

PSSP and PAP funds are combined with other revenue used by the School for the central support of faculty costs. As a result, the School requires less funding from Harborview and UW Medical Center. Harborview's clinical department funding to the School is recorded in purchased services expense in the statements of revenues, expenses, and changes in net position and was reduced by $37,801 and $38,171 in fiscal years 2022 and 2021, respectively, due to the PSSP and PAP funds received by the School.

## (4) Medicare Advanced Payments and Federal Stimulus Funding

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 April 2020. The advance Medicare funds are recovered by Medicare by offsetting paid claims until the full amount is recouped.

On September 30, 2020, a federal law was signed to extend the deadline for repayment under the Medicare Advanced Payment Program, which gave hospital providers one year from the date of the original advance before Medicare began to recover the advances and 29 months from the date of the original advance to fully repay the advanced payments without interest.

Medicare began recouping Harborview's Medicare advanced payments in April 2021 and recouped $51,968 as of June 30, 2022. Harborview expects the advances to be fully repaid by fiscal year 2023. As of June 30, 2022 and 2021, the current portion of $16,032 and $38,305, respectively, is recorded within Medicare advanced payments in the accompanying statements of net position. The long-term portion of $0 and $23,341 is recorded within other noncurrent liabilities as of June 30, 2022 and 2021, respectively, in the statements of net position.

The federal government passed the Coronavirus Aid, Relief, and Economic Security (CARES Act) in March 2020 and the American Rescue Plan Act (ARPA) in March 2021. Both the CARES Act and ARPA were aimed to direct economic assistance for the American workers, families, and small businesses and preserve job for American industries. The CARES Act and ARPA require the amount of funding to be validated, which requires management to quantify lost revenues and incur expenses associated with the pandemic. During the years ended June 30, 2022 and 2021, Harborview recognized CARES Act and ARPA funds $3,002 and $17,471, respectively, which is recorded within federal stimulus funding in the statements of revenues, expenses, and changes in net position.

## (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 $14,722 and $8,948 for the years ended June 30, 2022 and 2021, respectively, which is recorded within other, net in the statements of revenues, expenses, and changes in net position.



(Continued)

(Dollar amounts in thousands)

## (6) Capital Assets

The activity in Harborview's capital asset and related accumulated depreciation accounts for the years ended June 30, 2022 and 2021 is set forth below:

| | Balance June 30, 2021 | Additions | Transfers | Retirements | Balance June 30, 2022 |
|---|---|---|---|---|---|
| Capital assets, not being depreciated: | | | | | |
| Land | $ 2,432 | — | — | — | 2,432 |
| Construction in process | 5,792 | 13,520 | (6,791) | — | 12,521 |
| Total capital assets, not being depreciated | 8,224 | 13,520 | (6,791) | — | 14,953 |
| Capital assets, being depreciated: | | | | | |
| Land improvements | 7,378 | — | — | — | 7,378 |
| Buildings, renovations, and furnishings | 448,580 | — | 10,663 | — | 459,243 |
| Fixed equipment | 128,341 | — | (4,176) | — | 124,165 |
| Movable equipment | 190,056 | 11,189 | — | (2,308) | 198,937 |
| Leasehold improvements | 13,854 | — | 304 | — | 14,158 |
| Total capital assets, being depreciated | 788,209 | 11,189 | 6,791 | (2,308) | 803,881 |
| Total capital assets at historical cost | 796,433 | 24,709 | — | (2,308) | 818,834 |
| Less accumulated depreciation 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) |
| Movable equipment | (154,127) | (11,625) | — | 2,308 | (163,444) |
| Leasehold improvements | (7,863) | (851) | — | — | (8,714) |
| Total accumulated depreciation | (527,539) | (26,863) | — | 2,308 | (552,094) |
| Total capital assets, net | $ 268,894 | (2,154) | — | — | 266,740 |

(Dollar amounts in thousands)

| | Balance June 30, 2020 | Additions | Transfers | Retirements | Balance June 30, 2021 |
|---|---|---|---|---|---|
| Capital assets, not being depreciated: | | | | | |
| Land | $ 2,432 | — | — | — | 2,432 |
| Construction in process | 12,796 | 9,704 | (16,708) | — | 5,792 |
| Total capital assets, not being depreciated | 15,228 | 9,704 | (16,708) | — | 8,224 |
| Capital assets, being depreciated: | | | | | |
| Land improvements | 7,387 | — | (9) | — | 7,378 |
| Buildings, renovations, and furnishings | 427,604 | — | 21,058 | (82) | 448,580 |
| Fixed equipment | 134,550 | — | (6,209) | — | 128,341 |
| Movable equipment | 187,098 | 4,118 | 364 | (1,524) | 190,056 |
| Leasehold improvements | 12,354 | — | 1,504 | (4) | 13,854 |
| Total capital assets, being depreciated | 768,993 | 4,118 | 16,708 | (1,610) | 788,209 |
| Total capital assets at historical cost | 784,221 | 13,822 | — | (1,610) | 796,433 |
| Less accumulated depreciation for: | | | | | |
| Land improvements | (4,376) | (301) | — | — | (4,677) |
| Buildings, renovations, and furnishings | (228,203) | (14,758) | — | 48 | (242,913) |
| Fixed equipment | (115,163) | (2,796) | — | — | (117,959) |
| Movable equipment | (143,197) | (12,040) | — | 1,110 | (154,127) |
| Leasehold improvements | (7,003) | (862) | — | 2 | (7,863) |
| Total accumulated depreciation | (497,942) | (30,757) | — | 1,160 | (527,539) |
| Total capital assets, net | $ 286,279 | (16,935) | — | (450) | 268,894 |



(Continued)

(Dollar amounts in thousands)

## (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, 2022 and 2021 is set forth below:

| | | 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 |

| | | July 1, 2020 | Additions | Modifications and renewals | Deductions | June 30, 2021 |
|---|---|---|---|---|---|---|
| Lease assets: | | | | | | |
| Buildings | $ | 172,112 | — | — | — | 172,112 |
| Equipment | | 1,307 | — | — | — | 1,307 |
| Total lease assets | | 173,419 | — | — | — | 173,419 |
| Less accumulated amortization for: | | | | | | |
| Buildings | | — | (11,368) | — | — | (11,368) |
| Equipment | | — | (1,059) | — | — | (1,059) |
| Total accumulated amortization | | — | (12,427) | — | — | (12,427) |
| Total lease assets, net | $ | 173,419 | (12,427) | — | — | 160,992 |

(Dollar amounts in thousands)

*(ii) Lease liabilities*

Changes in lease liabilities during the fiscal years ended June 30, 2022 and 2021 are summarized below:

| | | Beginning balance | Additions | Remeasurements and renewals | Deductions | Ending balance | Due within one year |
|---|---|---|---|---|---|---|---|
| Fiscal year ended: | | | | | | | |
| June 30, 2022 | $ | 176,196 | 483 | 39 | (10,055) | 166,663 | 10,223 |
| June 30, 2021 | | 186,956 | — | — | (10,760) | 176,196 | 9,900 |

*(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, 2022, for both principal and interest:

| | | Principal | Interest | Total |
|---|---|---|---|---|
| 2023 | $ | 10,223 | 4,843 | 15,066 |
| 2024 | | 10,268 | 4,553 | 14,821 |
| 2025 | | 10,402 | 4,234 | 14,636 |
| 2026 | | 10,717 | 3,917 | 14,634 |
| 2027 | | 11,037 | 3,591 | 14,628 |
| 2028–2032 | | 60,284 | 12,725 | 73,009 |
| 2033–2037 | | 53,512 | 4,089 | 57,601 |
| 2038–2042 | | 220 | 3 | 223 |
| Total payments | $ | 166,663 | 37,955 | 204,618 |

*(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 $2,945 and $2,844 for the years ended June 30, 2022 and 2021, respectively. At June 30, 2022 and 2021, the right-to-use lease asset, net of accumulated amortization was $22,756 and $25,172, respectively. At June 30, 2022 and 2021, $2,292 and $2,231 is recorded within current portion of lease liabilities and $23,874 and $26,165 is recorded within long-term lease liabilities, respectively, in the statements of net position for this lease.



(Continued)

(Dollar amounts in thousands)

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 $11,367 and $11,122 for the years ended June 30, 2022 and 2021, respectively. At June 30, 2022 and 2021, the right-to-use lease asset, net of accumulated amortization, was $123,841 and $132,429, respectively. At June 30, 2022 and 2021, $7,379 and $7,173 is recorded within current portion of lease liabilities and $129,877 and $137,257 is recorded within long-term lease liabilities, respectively, in the statements of net position for this lease.

## (8) Internally Designated and Donor Restricted Assets

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

| | | 2022 | 2021 |
|---|---|---|---|
| Internally designated and donor restricted assets: | | | |
| Board designated assets: | | | |
| Pooled investments | $ | 34,135 | 33,700 |
| Receivables and other | | 192 | 181 |
| Property held for future use | | 2,718 | 2,718 |
| Total board designated assets | | 37,045 | 36,599 |
| Management designated assets: | | | |
| Pooled investments | | 68,744 | 53,871 |
| Funds held by the University: | | | |
| Pooled investments | | 4,399 | 4,873 |
| Total internally designated assets | | 110,188 | 95,343 |
| Donor restricted assets: | | | |
| Pooled investments | | 13,750 | 15,857 |
| Total donor restricted assets | | 13,750 | 15,857 |
| Total internally designated and donor restricted assets | $ | 123,938 | 111,200 |

(Dollar amounts in thousands)

### *(a) Board Designated Assets*

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

| | | 2022 | 2021 |
|---|---|---|---|
| Commuter service fund | $ | 24,375 | 21,725 |
| Self-insurance fund | | 1,291 | 1,284 |
| Walter Scott Brown property | | 2,718 | 2,718 |
| Equipment fund | | 5,163 | 5,133 |
| Building repair and replacement fund | | 3,498 | 5,739 |
| Total | $ | 37,045 | 36,599 |

## (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, 2022 and 2021 are summarized below:

| | | Beginning balance | Increases | Decreases | Ending balance | Due within one year |
|---|---|---|---|---|---|---|
| Fiscal year ended: | | | | | | |
| June 30, 2022 | $ | 27,505 | 1,063 | (23,364) | 5,204 | 5,204 |
| June 30, 2021 | | 12,121 | 25,708 | (10,324) | 27,505 | 4,164 |

## (10) Risk Management

Harborview is exposed to risk of loss related to professional, automobile and general liability, property loss, and injuries to employees. Harborview participates in risk and professional liability programs managed by the University to mitigate risk of loss related to these exposures.

The University's professional liability program currently includes self-insured and commercial reinsurance coverage components 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, UWNC, 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 $5,838 and $10,264 in 2022 and 2021, 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.

*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/2021/06/2021-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 $32,330 and $39,797 in fiscal years 2022 and 2021, 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.

Based on the University's benefit load apportionment, Harborview incurred and paid $5,691 and $5,580 in fiscal years 2022 and 2021, 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 $1,292 and $613 in fiscal years 2022 and 2021, 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 $4,036 and $4,019 in fiscal years 2022 and 2021, 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.

**(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, 2022 and 2021, $27,260 and $26,046 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.

### *(b) UW Neighborhood Clinics*

Under an annual agreement between the involved UW Medicine entities, Harborview provided funding of approximately 26.6% of the UWNC’s annual operating loss for fiscal years 2022 and 2021 and 20.0% of capital funding needs. Funding for operations from Harborview to UWNC was $11,142 and $13,344 for fiscal years 2022 and 2021, respectively, and is recorded as purchased services expense in the statements of revenues, expenses, and changes in net position. Capital funding from Harborview to UWNC was $1,301 and $300 for fiscal years 2022 and 2021, 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).

(Dollar amounts in thousands)

### *(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, 2022 and 2021:

| Revenue (expense) transactions | | 2022 | 2021 |
|---|---|---|---|
| Services and supplies purchased from the University and its departments and affiliates: | | | |
| The School | $ | (125,801) | (117,765) |
| UW Medicine Shared Services | | (134,333) | (134,379) |
| UW Medicine Central Costs | | (12,109) | (11,802) |
| UW Medical Center | | (4,642) | (3,450) |
| Other University divisions and departments | | (13,036) | (17,136) |
| Services provided to the University and its departments and affiliates: | | | |
| The School | | 13,513 | 13,636 |
| UW Medicine Shared Services | | 1,676 | 2,446 |
| UW Medical Center | | 4,056 | 3,367 |
| Other UW Medicine entities | | 3,691 | 795 |
| Services provided to King County | | 13,016 | 13,152 |

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, 2022 and 2021 are as follows:

| Due from related parties | | 2022 | 2021 |
|---|---|---|---|
| The University and its departments and affiliates: | | | |
| The School | $ | 21,533 | 19,683 |
| UWP | | 3,072 | 2,539 |
| UW Medical Center | | 154 | 314 |
| UW Medicine Shared Services | | 1,140 | 1,345 |
| Airlift | | 4,202 | 3,391 |
| Other University divisions and departments | | — | 1,998 |
| UW Neighborhood Clinics | | — | 824 |
| King County | | 4,065 | 5,924 |
| Valley Medical Center | | 91 | 54 |

(Dollar amounts in thousands)

| Due to related parties | | 2022 | 2021 |
|---|---|---|---|
| The University and its departments and affiliates: | | | |
| The School | $ | (4,988) | (9,482) |
| UW Medicine Shared Services | | (33,915) | (39,274) |
| UW Medical Center | | (698) | (1,145) |
| Other University divisions and departments | | — | (6,365) |
| King County | | (5,000) | (5,000) |

## (13) Commitments and Contingencies

### *(a) Purchase Commitments*

Harborview has current commitments at June 30, 2022 of $40,263 related to various construction projects and equipment purchases. Harborview intends to use its unrestricted funds for these commitments.

### *(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 75.8% of the University employees deployed at Harborview are covered by collective bargaining agreements as of June 30, 2022. 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, 2023. 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