

VII. STANDING COMMITTEES

B. Finance and Asset Management Committee

UW Medicine Board Annual Financial Report

INFORMATION ITEM

This item is for information only.

BACKGROUND

UW Medicine Board's Annual Financial Report is one of three annual reports UW Medicine provides to the Board of Regents. UW Medicine last reported to the Finance and Asset Management Committee on financials in November 2014.

*Attachment*

UW Medicine Annual Financial Report



HARBORVIEW



NORTHWEST



UW MEDICAL  
CENTER



VALLEY

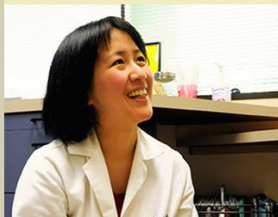
# UW Medicine

UW PHYSICIANS

UW NEIGHBORHOOD  
CLINICS

UW SCHOOL  
OF MEDICINE

AIRLIFT NORTHWEST



## UW Medicine Annual Financial Report

University of Washington Board of Regents

November 12, 2015

## EXECUTIVE SUMMARY

**FY 2015 was another successful operational and financial year for UW Medicine.** This is due to the efforts and commitment of over 25,000 talented staff, faculty, students, trainees and volunteers. Consistent with the goals established for the year, UW Medicine focused on fulfilling its mission of improving the health of the public by leading as an Accountable Care Organization, delivering world class clinical care, research and training, continuing to implement its evolving strategic plan and achieving the UW Medicine Patients Are First pillar goals.

**The healthcare environment is rapidly changing as the shift from fee-for-service payments to value-based reimbursement provides the impetus for organizations to transform.** The Pacific Northwest, in particular, has been experiencing significant consolidation, affiliations, and integration in the healthcare market. In addition, self-insured employers are seeking alternative contractual relationships with health systems to improve the health of employees and their family members, increase the satisfaction with the care that is provided and reduce overall cost.

As part of its strategic plan, UW Medicine formed the UW Medicine Accountable Care Network (ACN) in 2014 to position itself as a leader in the evolving market. In January 2015, the UW Medicine ACN began providing services to selected Boeing employees and their families as part of a preferred partnership arrangement, with initial enrollment surpassing Boeing's expectations. The UW Medicine ACN was also selected as one of two Accountable Care Programs (ACPs) for state employees in five counties in the Puget Sound area and will begin providing care and services under that arrangement in January 2016. These accountable care arrangements provide an opportunity for UW Medicine to lead the way in transforming care and services. The UW Medicine ACN is the only network selected to participate in both of these innovative new programs. Demonstrating our ability to provide improvements in value by effectively managing costs and utilization while continuing to improve quality of care, patient safety, satisfaction and access to care remains a top priority. It is anticipated that the market will continue to change and evolve over the next year, creating downward pressure on reimbursement.

**Consistent with national and regional trends, UW Medicine has experienced slower growth of inpatient admission volumes over the past few years while at the same time showing strong growth in the inpatient observation and outpatient clinic areas.** The focus for future growth in inpatient volumes is targeted to key core service lines. Outpatient volumes are expected to increase because advances in technology and changes in reimbursement are rapidly moving some of the traditional inpatient care to outpatient services.

**UW Medicine continues to be an international leader in medical research.** UW Medicine faculty were once again in the top two in the country among all medical schools and first among public medical schools in National Institutes of Health (NIH) research funding based on federal FY 2014 awards. The UW School of Medicine was again ranked #3 among all medical schools in the world in a prestigious international study.

**The financial results for FY 2015 significantly exceeded expectations.** Total combined UW Medicine revenue (unaudited) in FY 2015 was approximately \$4.5 billion: \$3.3 billion related to the medical centers, clinics and professional billing and \$1.2 billion related to the School of Medicine. This represents a 9 percent increase compared to FY 2014. Total income for UW Medicine was \$116.6 million, yielding a 2.6 percent margin. This compares very favorably to budgeted total income of \$19.0 million and a 0.4 percent total margin. The primary drivers of the positive performance were key growth in targeted service lines, additional reimbursement for newly eligible Medicaid patients who were previously uninsured, achievement of process improvement goals at the medical centers of approximately \$55 million and an increase in gift support to the School of Medicine. Factors influencing results of the individual entities are discussed in the financial highlights section.

**The combined balance sheet for UW Medicine remained stable with unrestricted cash and investments of \$1.2 billion at June 30, 2015, an increase of \$0.1 billion over the prior year.**

## FINANCIAL HIGHLIGHTS FOR FY 2015 (UNAUDITED)

### UNIVERSITY OF WASHINGTON MEDICAL CENTER (UWMC)

University of Washington Medical Center recorded operating revenues of \$1.1 billion in FY 2015, an increase of 12 percent over the prior year. UWMC reported total net income of \$25.2 million, or 2.3 percent of net revenue. Net income exceeded budget by \$7.4 million. Although admissions were below budget and commercial payer mix was less favorable than budget, strong case volumes in cardiology, oncology, neurosurgery and transplant resulted in higher acuity patients and higher income from those service lines. FY 2015 also included the first full year of operation for the UW Medicine Sports Medicine Center in Husky Stadium, the UW Medical Center Eastside Specialty Center and a state of the art hybrid operating room procedure unit.

Significant components of Phase 2 of the Montlake Tower expansion project will become operational in FY 2016. Seven new operating rooms, including two hybrid rooms, will be occupied while six existing rooms built in 1959 will be taken offline. The number of ICU beds will increase in FY 2016 from 53 to 79, and an additional 31 bed acute care unit will open April 2016. The project is scheduled to be completed in October 2017 (early FY 2018).

### HARBORVIEW MEDICAL CENTER (HMC)

Harborview Medical Center recorded operating revenues of \$926.4 million in FY 2015, an increase of 14 percent over the prior year. HMC reported total net income of \$35.0 million, or 3.8 percent of net revenue. Net income exceeded budget by \$35.0 million, a significant improvement over FY 2014. The net gain can primarily be attributed to a higher volume of inpatient surgical cases as well as the additional reimbursement that resulted from previously uninsured patients being eligible for Medicaid. Additional factors contributing to the positive financial results included focused management of expenses and successful process improvement initiatives in the areas of revenue cycle, supply chain management and transformation of care.

### NORTHWEST HOSPITAL & MEDICAL CENTER (NWH)

Northwest Hospital & Medical Center recorded operating revenues of \$357.7 million in FY 2015, an increase of 10 percent over the prior year. NWH reported a total net loss of \$(5.1) million, or (1.4) percent of net revenue. Net income was below budget by \$5.1 million. NWH continued to focus on building infrastructure and expanding its ambulatory network to position the medical center for growth in FY 2015 and beyond, resulting in higher volumes compared to FY 2014. However, a change in payer mix, lower-than-budgeted inpatient volumes and a continued need to invest in infrastructure resulted in the negative variation from budget for the year.

Key strategic initiatives included expanding in Ballard by relocating the Sports Medicine Clinic to a larger, more prominent site co-located with a new UW Neighborhood Clinic and Urgent Care Center. In addition, the medical center was able to accomplish key physician recruitments in orthopedics, general surgery, primary care and obstetrics and gynecology. NWH is in the process of replacing its antiquated hospital billing and registration system with Epic, the system used by other UW Medicine medical centers as well as NWH's ambulatory clinics. The system will be implemented in February 2016 and will facilitate further integration of NWH. In addition, \$71 million dollars of debt was refinanced in the month of June through the University of Washington at a more favorable interest rate. NWH has a critical need to have a new building on its campus to replace aging inpatient care facilities that are no longer efficient to operate nor competitive in the market. This will be a major area of focus in FY 2016.

### VALLEY MEDICAL CENTER (VMC)

Valley Medical Center recorded operating revenues of \$516.8 million in FY 2015, an increase of 9 percent over the prior year. VMC reported total net income of \$17.1 million, or 3.3 percent of net revenue. Net income exceeded the budget by \$11.9 million. The revenue increase was primarily the result of continued growth in clinic and outpatient hospital services as well as a reduction in uninsured patients through Medicaid expansion. VMC continued to expand its primary care network, building volumes in new clinics in Covington and Maple Valley, and completing new physician recruitments in key areas of neurology, stroke and obstetrics. VMC focused on management of expenses and successfully implemented a process improvement plan to achieve the positive financial results.

## FINANCIAL HIGHLIGHTS FOR FY 2015 (UNAUDITED), continued

### UW NEIGHBORHOOD CLINICS (UWNC)

UW Neighborhood Clinics reported operating revenue of \$37.1 million, an increase of 14 percent over the prior year. UWNC reported a total net loss of \$(2.1) million, or (5.6) percent of net revenue. The net loss exceeded the budget by \$67,000. The majority of the growth was due to the expansion and addition of urgent care clinics and growth in the Medicaid program. In FY 2015, UWNC opened urgent care capability at the existing Ravenna and Federal Way facilities as well as a new UW Neighborhood Clinic in Ballard. Also in FY 2015, the neighborhood clinics achieved full three year accreditation from the Accreditation Association for Ambulatory Health Care (AAAHC) for the fourth time.

### UNIVERSITY OF WASHINGTON PHYSICIANS (UWP)

University of Washington Physicians' FY 2015 operating revenues were \$298.7 million, an increase of 7 percent over FY 2014. UWP reported net income of \$37.5 million, or 12.6 percent of net revenue. Net income exceeded budget by \$23.0 million. Increased Faculty Funding from HMC and UWMC based on achievement of pre-determined goals as well as greater-than-anticipated patient volumes drove the positive variance. Net patient care revenue increased \$14.5 million over FY 2014. This increase was primarily associated with a 5 percent increase in volumes (as measured in relative value units). Net funds generated from UWP operations are transferred to the clinical departments of the School of Medicine to support operations.

### AIRLIFT NORTHWEST (ALNW)

Airlift Northwest recorded operating revenues of \$48.1 million in FY 2015, an increase of 17 percent over the prior year. ALNW reported total net income of \$8.7 million, or 18 percent of net revenue. Net income exceeded budget by \$8.2 million. Flight volumes at ALNW exceeded budget by 0.5 percent for the year. ALNW's strong financial performance is primarily the result of a market rate price increase, payments from the Airlift Supplemental Service Payment Program, the successful Air Care membership program and continued strong expense management while making key investments in continued flight safety.

### UW SCHOOL OF MEDICINE

Overall revenue for the UW School of Medicine was \$1.2 billion in FY 2015, an increase of 4 percent over FY 2014. Revenues exceeded expenses for the year by \$0.3 million, which exceeded budget by \$17 million. Revenues increased by \$42.1 million in FY 2015, primarily due to increases in grants and contracts, self-sustaining revenue programs and endowment income and gifts. Revenue generated from research activities increased by \$9.9 million (2 percent) over FY 2014. Faculty were responsible for teaching approximately 4,900 students and trainees in FY 2015.

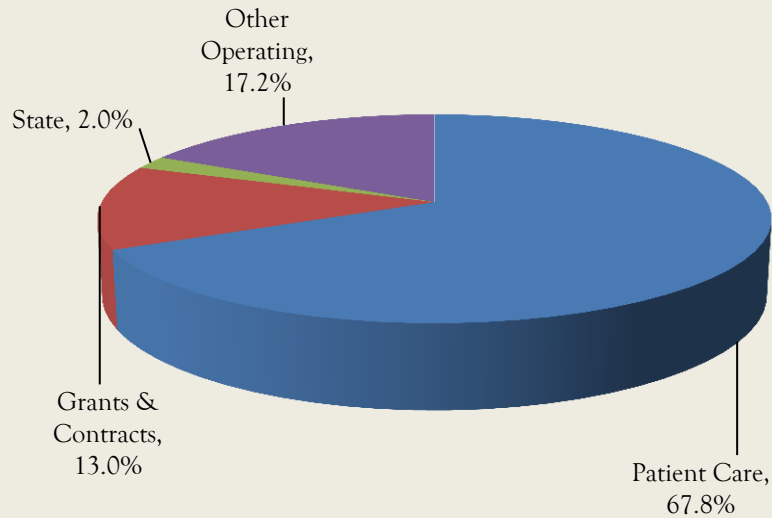
### PRIVATE SUPPORT AND GIFTS

Total private grant and gift support for UW Medicine for FY 2015 was \$177.2 million, an increase of 10 percent compared to the prior fiscal year and a new fundraising record for UW Medicine. This represents a return of \$18.81 for each budget dollar invested in the UW Medicine Advancement department. Alternatively, the cost of raising \$1 was 5.3 cents. Private grants increased to \$123.7 million from \$122.3 million in the prior fiscal year. Gifts received in FY 2015 totaled \$53.5 million, an increase of 36 percent compared to FY 2014.

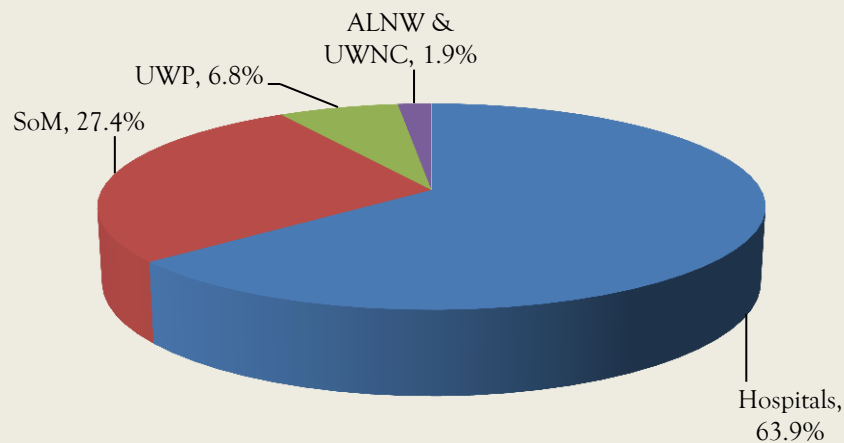
## KEY STATISTICS & RESULTS

In FY 2015, UW Medicine revenues were approximately \$4.5 billion. This represents an increase of 9 percent compared to FY 2014. The following charts summarize the sources of revenue for UW Medicine. Over the last five years, total UW Medicine revenue has increased at an average rate of 10 percent per year. These increases have occurred in the context of adding two community hospitals in a competitive local healthcare market, reductions in state funding and increased competition for peer reviewed research grant funding. UW Medicine's largest source of revenue is patient care revenue (67.8 percent).<sup>1</sup>

Revenue by Source



Revenue by Entity Category



<sup>1</sup> Other operating revenue includes revenue for self-sustaining departments, research and training and federal Meaningful Use payments.



## KEY STATISTICS & RESULTS, continued

The following tables summarize combined operating revenue, operating income (loss) and charity care for all eight UW Medicine entities for FY 2014 and FY 2015.

Operating Revenue (\$ in Millions)	FY 2014 (Audited)	FY 2015 (Unaudited)
Harborview Medical Center	\$815	\$926
Northwest Hospital & Medical Center	\$324	\$358
UW Medical Center	\$968	\$1,083
Valley Medical Center	\$474	\$517
Airlift Northwest	\$41	\$48
UW Neighborhood Clinics	\$33	\$37
UW Physicians	\$279	\$299
UW School of Medicine	\$1,194	\$1,236
<b>Total UW Medicine</b>	<b>\$4,128</b>	<b>\$4,504</b>

Net Income (Loss) (\$ in Millions)	FY 2014 (Audited)	FY 2015 (Unaudited)
Harborview Medical Center	(\$7)	\$35
Northwest Hospital & Medical Center	(\$5)	(\$5)
UW Medical Center	\$14	\$25
Valley Medical Center	\$6	\$17
Airlift Northwest	\$3	\$9
UW Neighborhood Clinics	(\$1)	(\$2)
UW Physicians	\$40	\$37
UW School of Medicine	\$14	\$0
<b>Total UW Medicine</b>	<b>\$64</b>	<b>\$116</b>

Charity Care (\$ in Millions)	FY 2014 (Audited)	FY 2015 (Unaudited)
Harborview Medical Center	\$168	\$60
Northwest Hospital & Medical Center	\$17	\$7
UW Medical Center	\$37	\$18
Valley Medical Center	\$23	\$9
Airlift Northwest	\$3	\$2
UW Neighborhood Clinics	<\$1	<\$1
UW Physicians	\$25	\$12
UW School of Medicine	N/A	N/A
<b>Total UW Medicine</b>	<b>\$273</b>	<b>\$108</b>

Total charity care as measured by foregone charges was \$108 million, a decrease of \$165 million over FY 2014. The cost of charity care for FY 2015 was \$41 million, compared to \$110 million in FY 2014. The reduction in charity care is a result of the Medicaid expansion to previously uninsured patients and implementation of the Healthcare Exchanges effective January 1, 2014. Many previously uninsured patients served by UW Medicine became Medicaid patients in FY 2014 and FY 2015. It should be noted that Medicaid reimbursement for the four medical centers ranges from 74 percent to 90 percent of cost for inpatients and 36 percent to 58 percent for outpatients.

## KEY STATISTICS & RESULTS, continued

The following table provides comparisons of key financial indicators for the four medical centers for FY 2015.

Ratio/Indicator	HMC	NWH	Moody's Baa	UWMC	VMC	Moody's A
Operating Cash Flow Margin <sup>2</sup>	10.7%	1.4%	8.7%	10.8%	8.8%	10.4%
Debt to Capitalization <sup>3</sup>	0.3%	47.7%	42.7%	36.5%	58.8%	32.5%
Days Cash on Hand <sup>4</sup>	127.6	56.1	151.0	95.5	147.2	226.3
Days in A/R (Net) <sup>5</sup>	60.9	40.2	47.3	55.7	47.8	50.3

The very low HMC debt-to-capitalization number reflects the capital support provided by King County through voter-approved general obligation bonds.

HMC and NWH use Moody's Baa for their benchmarking while UWMC and VMC use Moody's A. This is based on the characteristics of each hospital.

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<sup>2</sup> Cash generated from medical center core activities expressed as a percentage of net revenue

<sup>3</sup> Debt outstanding expressed as a percentage of capital/net assets

<sup>4</sup> Number of days average expenditures that could be paid with current cash and investments on hand

<sup>5</sup> Average number of days to collect patient care revenues



## FIVE-YEAR PERFORMANCE COMPARISON

The overall patient care activity of UW Medicine hospitals and clinics remains stable with some growth at selected sites. Case mix index (a proxy for advanced medical care) continues to increase at HMC and UWMC, consistent with the UW Medicine strategic plan. The following tables summarize the clinical activities for the owned and managed hospitals and clinics of UW Medicine.

### Harborview Medical Center

Statistic	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Admissions	19,879	19,094	17,999	17,176	17,362
Patient Days	136,619	134,930	135,779	132,284	138,214
Outpatient Visits	240,043	244,964	245,751	247,349	247,615
Emergency Visits	61,307	62,432	66,285	64,512	62,217
Average Length of Stay	6.9 days	7.1 days	7.5 days	7.7 days	8.0 days
Case Mix Index (CMI)	1.83	1.91	1.99	2.10	2.15

### Northwest Hospital & Medical Center

Statistic	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Admissions	9,576	9,127	9,974	9,211	9,934
Patient Days	44,833	43,350	44,333	44,189	47,143
Outpatient Visits	161,297	193,992	195,978	193,387	195,031
Emergency Visits	35,146	33,832	33,942	34,276	36,159
Average Length of Stay	4.7 days	4.7 days	4.4 days	4.8 days	4.7 days
Case Mix Index (CMI)	1.35	1.37	1.42	1.43	1.46

### University of Washington Medical Center

Statistic	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Admissions	18,919	17,915	17,728	18,033	18,092
Patient Days	115,447	120,745	122,867	124,513	126,239
Outpatient Visits	306,825	300,487	284,870	291,375	302,038
Emergency Visits	24,119	23,487	22,977	25,338	26,465
Average Length of Stay	6.1 days	6.7 days	6.9 days	6.9 days	7.0 days
Case Mix Index (CMI)	1.87	1.99	1.98	2.02	2.13

### Valley Medical Center

Statistic	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Admissions		16,842	17,477	16,693	17,174
Patient days		63,001	65,769	61,395	65,792
Outpatient Visits		344,947	362,274	403,169	471,780
Emergency Visits		75,586	74,202	73,763	81,250
Average Length of Stay		3.7 days	3.8 days	3.7 days	3.8 days
Case Mix Index (CMI)		1.3	1.3	1.4	1.45

### UW Neighborhood Clinics

Statistic	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Clinic Visits	189,597	204,094	233,264	253,631	270,392
New Patients	11,894	13,097	17,440	21,530	24,209

## RESEARCH PROGRAMS

UW Medicine research awards have increased at a cumulative average of 2 percent annually over the last five years. Federal funding decreased by \$46.1 million (9 percent) from FY 2014 to FY 2015 when excluding American Recovery and Reinvestment Act (ARRA) awards, with a five-year cumulative average growth rate of (1) percent. The federal ARRA program temporarily increased awards and is shown separately below. Although federal funding experienced a small decrease over the last five years, non-federal funding saw a 13 percent cumulative average growth rate over the same period. The following table summarizes UW-based School of Medicine research awards over the past five years.

Table 1. Awards to UW School of Medicine (Federal, Non-Federal and ARRA) by UW Fiscal Year (\$ in Millions)

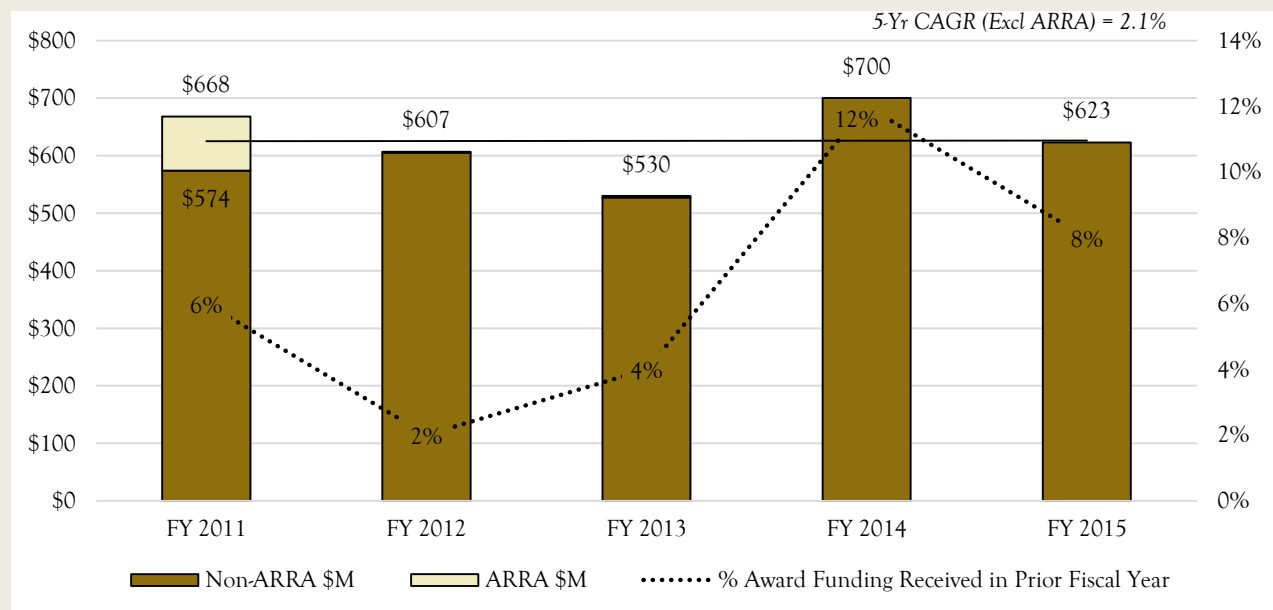
	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015 (Prelim)	5-Yr CAGR
Federal	\$470.3	\$487.5	\$414.3	\$500.3	\$454.2	(1%)
Non-Federal	\$103.5	\$117.8	\$112.9	\$200.2	\$168.6	13%
<b>Total (Excl ARRA)</b>	<b>\$573.8</b>	<b>\$605.3</b>	<b>\$527.2</b>	<b>\$700.5</b>	<b>\$622.8</b>	<b>2%</b>
ARRA	\$94.3	\$2.2	\$3.0	\$0.2	\$0.0	-

Note: Award totals are adjusted to reflect agreements between the Dean of the School of Medicine and the Deans of the College of Engineering and the School of Public Health for the Departments of Bioengineering and Global Health, respectively. Federal awards include federal flow-through from other institutions.

UW School of Medicine total awards experienced a significant decrease in FY 2013 and subsequent significant increase in FY 2014 resulting from the timing of award receipt and processing between UW fiscal years (July through June). Two factors contributed to approximately \$84 million in funding being received in Federal FY 2013 but not being reported in FY 2014 for UW Medicine:

- 1) An overall decrease in federal funding during the Federal Sequestration in March 2013 through June 2013 which resulted in delays in award funding.
- 2) UW systems and processes were updated to address new policies governing financial conflict of interest which resulted in an extended processing timeline for many awards.

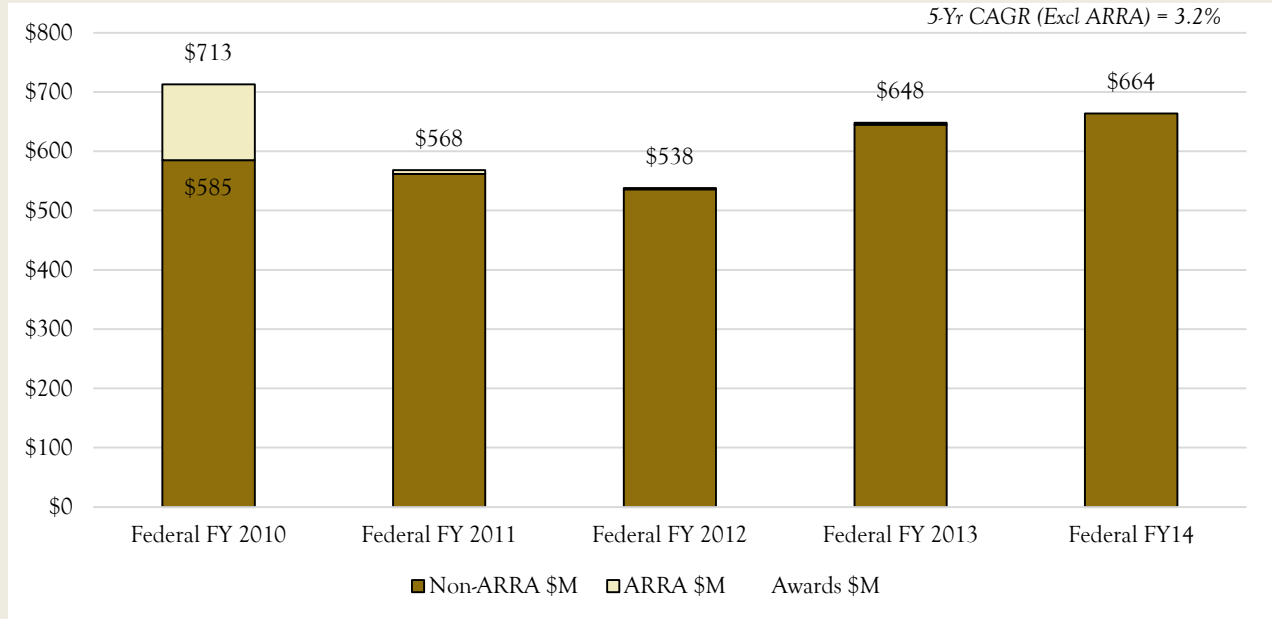
Figure 1. Awards to UW School of Medicine and Percent from Prior Period by UW Fiscal Year (\$ in Millions)



## RESEARCH PROGRAMS, continued

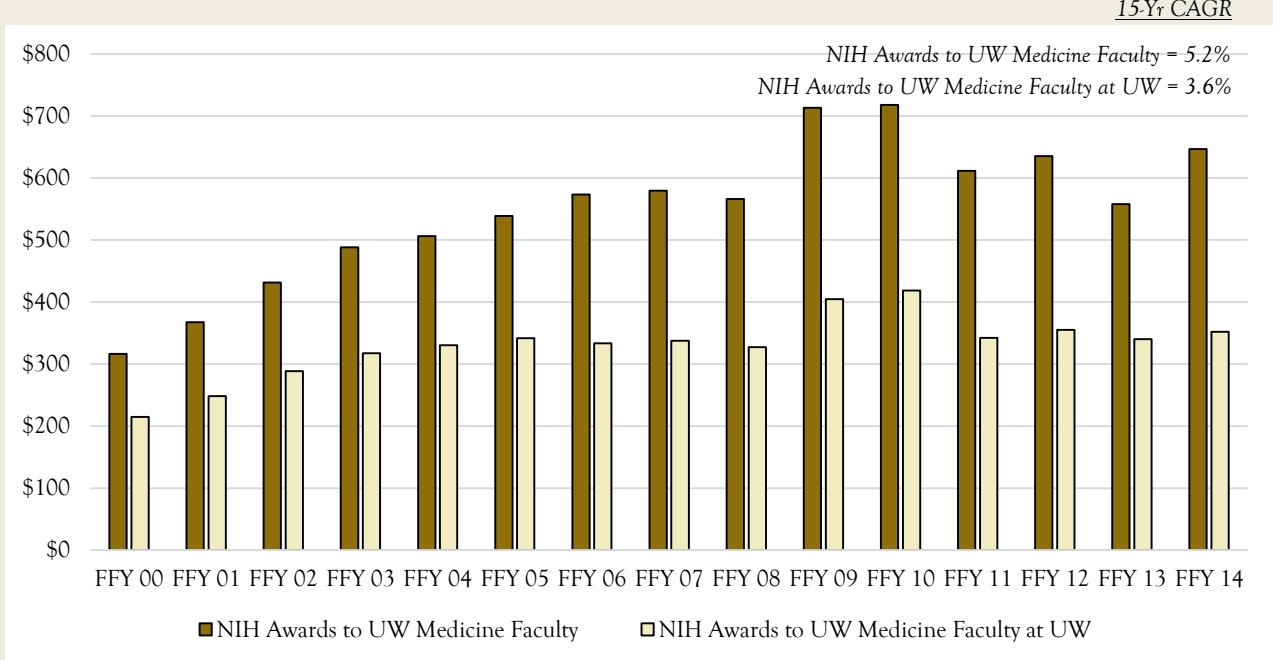
National Institute of Health (NIH) awards represent the largest single source of awards received by UW Medicine faculty. Funding cycles for NIH awards are per the federal fiscal year (October through September), and UW School of Medicine award trends demonstrate a different pattern when viewed in the federal fiscal year.

Figure 2. Awards to UW School of Medicine by Federal Fiscal Year (\$ in Millions)



The following chart tracks the growth of NIH awards to UW Medicine faculty over the past 15 federal fiscal years ending in Federal FY 2014 (the most recent year available); the 15-year cumulative average growth rate is 5.2 percent. NIH funding is on a federal fiscal year basis and comparative information is not available until several months after the close of the federal fiscal year on September 30.

Figure 3. NIH Awards to UW Medicine Faculty by Federal Fiscal Year (\$ in Millions)



## RESEARCH PROGRAMS, continued

In Federal FY 2014, there were 691 separate NIH awards to 445 UW-based School of Medicine Principal Investigators. There were an estimated 897 UW-based School of Medicine regular and research faculty working on those grants. In addition to these NIH awards managed by the University of Washington, 345 NIH awards were received by UW School of Medicine faculty and were managed by affiliated institutions (for example, Fred Hutchinson Cancer Research Center, Seattle Children’s Hospital and Seattle Biomedical Research Institute). In total, NIH awards to UW Medicine faculty were \$646.8 million in Federal FY 2014, an increase of \$89.1 million (16 percent) over Federal FY 2013.

UW Medicine faculty were second in the country among all medical schools and first among public medical schools in total NIH research funding based on Federal FY 2014 awards.

Table 2. Ranking of Organizations per Total NIH Awards by Federal Fiscal Year (\$ in Millions)

Organization	2010 NIH Awards	2011 NIH Awards	2012 NIH Awards	2013 NIH Awards	2014 NIH Awards	5-yr CAGR
Harvard	\$1,729.2	\$1,346.3	\$1,117.1	\$1,370.7	\$1,412.9	-5%
<b>U of Washington</b>	<b>\$717.8</b>	<b>\$611.4</b>	<b>\$635.3</b>	<b>\$557.7</b>	<b>\$646.8</b>	<b>-3%</b>
U of Pennsylvania	\$662.0	\$533.6	\$538.8	\$516.0	\$550.5	-5%
UCSF	\$535.9	\$539.6	\$498.4	\$524.7	\$549.0	1%
Johns Hopkins	\$480.0	\$586.6	\$534.2	\$511.7	\$528.4	2%
UCLA	\$569.4	\$552.1	\$500.4	\$439.2	\$416.2	-8%
Columbia	\$473.1	\$424.6	\$393.1	\$366.4	\$373.2	-6%
U of Pittsburgh	\$410.9	\$368.2	\$379.5	\$344.9	\$369.6	-3%
Washington U	\$431.6	\$372.3	\$375.9	\$325.3	\$356.3	-5%
Stanford	\$344.9	\$329.7	\$323.5	\$329.6	\$354.7	1%
Michigan	\$447.1	\$382.1	\$383.0	\$346.3	\$350.8	-6%
Yale	\$408.8	\$398.1	\$359.3	\$347.9	\$342.9	-4%
NYU	\$183.7	\$239.1	\$257.4	\$255.9	\$340.7	17%
Vanderbilt	\$406.9	\$353.9	\$332.2	\$322.2	\$337.5	-5%
Duke	\$412.6	\$328.8	\$319.2	\$314.6	\$324.9	-6%

Note: ARRA funding was a factor in Federal Fiscal Year 2010.

UW Medicine’s comparative success in NIH funding is due to a number of factors, including the interdisciplinary breadth of its research programs, the addition of new laboratory space at South Lake Union and the increased emphasis on 21<sup>st</sup> century science such as genomics, proteomics, regenerative medicine and global health research.

## LOOKING FORWARD: FY 2016

As an integral part of preparing the UW Medicine Long Range Financial Plan (LRFP) and Annual Budget, the boards and senior leaders at each individual UW Medicine entity, in conjunction with the UW Medicine Board and executive leaders, identify specific risks and mitigation plans. This planning process enhances our ability to achieve the financial performance that is required to implement strategic objectives that have been identified. The graphic below displays the consolidated assessment that was done for FY 2016 regarding global risks shared across all of UW Medicine as well as specific risks identified at the individual entity level.

### UW Medicine FY 2016 Financial Risks



### Financial Risks

#### Revenues and Expenses

In FY 2016 and beyond it is anticipated that there will be continued downward pressure on reimbursement. Revenue assumptions factored into the budget and LRFP include flat or declining payments from government payers such as Medicare and Medicaid, a shift from commercial payers to lower paying Health Insurance Exchange plans and continued reduction of fee-for-service based payments to reimbursement based on value (quality, patient access and patient satisfaction). For the same time period expense inflation factors have been applied to the cost of supplies, labor and equipment, putting additional pressure on margins.

#### International Classification of Diseases (ICD)-10 Coding System Transition

ICD-10 went into effect October 1, 2015, and represents a significant change in the standard healthcare coding system used in the United States. It impacts every system process and transaction that uses a diagnosis code. UW Medicine has extensively prepared for this transition; however, it is possible that cash payments from government and commercial payers could be delayed for a period of time due to the implementation of ICD-10. It is expected that any payment delays will be resolved within a few months of the conversion. Each day of delay across UW Medicine is approximately \$8 million of cash so close monitoring will be occurring until we can ascertain that issues that are identified have been resolved.

## LOOKING FORWARD: FY 2016, continued

### Information Technology (IT)

Significant strategic IT investments are a priority at many organizations, including UW Medicine. Continued implementation and optimization of the enterprise-wide electronic medical record as well as other clinical and business systems require an annual investment of \$50 to \$100 million per year.

### Accountable Care Network (ACN) Risk

As the number of UW Medicine ACN agreements grows, the risk to UW Medicine increases. While the financial impact of the Boeing contract for FY 2015 is not expected to be significant, there is potential for a material impact in the future. The addition of the contract for state employees as of January 1, 2016, has the potential for financial risk to occur as well. The opportunity with the ACN contracts includes gaining additional market share as well as providing the impetus for reducing the overall cost of care, improving the quality of care and increasing patient satisfaction.

## LOOKING FORWARD: FY 2016, continued

UW Medicine's five areas of focus for FY 2016 are:

- 1. Delivery of world class research and training.**
  - a. The continued development of research space at South Lake Union is a major step in ensuring the continued growth of UW Medicine research programs.
  - b. Continued development of information technology platforms to support the needs of researchers is occurring.
  - c. Aggressive recruitment continues to attract strong research and teaching professionals to UW Medicine.
  - d. Work to assure a supportive environment for interdisciplinary and translational research continues with a focus on retaining leaders of important research areas.
  - e. Continue to assess and develop support for the ongoing need for an expanding physician workforce to meet the demands for healthcare professionals across the WWAMI states, including telemedicine options.
  - f. Maintain cost effectiveness of the teaching program at \$70,000 per student per year compared to the national average cost of \$107,000 to \$153,000.
  - g. Continuous curriculum renewal to enhance active learning and increase integration across all years of medical school across all teaching sites in our five-state program.
  - h. Launch of center initiatives that encompass teaching, training and basic and translational research.
  - i. Utilize simulation and modeling in our hospitals to train health professionals in the areas of procedural and communication skills.
- 2. Leading as an Accountable Care Organization by focusing on:**
  - a. Measuring and improving the health of those served, effectively coordinating care across a continuum of health care settings and utilizing a "medical home" based model that supports patients with chronic conditions on a routine and individualized basis to ensure high-quality, efficient and affordable care.
  - b. Reducing the cost of healthcare by standardizing care protocols based on evidence-based research.
  - c. Improving the experience of care by focusing on quality, safety, service and access.
  - d. Leading the UW Medicine Accountable Care Network (including Overlake Hospital, MultiCare, Capital Medical Center, PeaceHealth, Skagit Valley Hospital, Cascade Hospital, Island Hospital, Seattle Cancer Care Alliance and Seattle Children's in addition to all UW Medicine entities) to ensure sufficient size and geographic distribution to meet the needs of the populations served.
  - e. Meeting and exceeding expectations and requirements relative to the Boeing and Health Care Authority contracts.
- 3. Advancing our mission of improving the health of the public and our commitment to being socially responsible to serve patients from all walks of life.**
  - a. UW Medicine's commitment to serving all populations will continue.
  - b. Leadership has worked proactively with other hospitals and healthcare professionals in the community to share in this responsibility.
  - c. Continuing to contract with all the Medicaid Managed Care plans will assure that we are able to continue to serve patients who are newly eligible Medicaid beneficiaries and receive payment for the currently uninsured who will be eligible for the new insurance exchange products.
  - d. UW Medicine leadership will play an important role in improving mental health services.
- 4. Integrating and implementing the UW Medicine Strategic Plan.**
  - a. Focused on achieving the "Triple Aim" of better healthcare for individual patients, better health of the population served and more affordable care.



## LOOKING FORWARD: FY 2016, continued

- b. Significant accomplishments will continue to occur in the five priority areas of building clinical programs, building networks and affiliations, delivering excellent service, delivering high-quality, safe and effective patient care and enhancing the integration of research, teaching and patient care.
5. **Achievement of the UW Medicine Patients Are First pillar goals.**
- a. Focus on serving the patient and family
  - b. Provide the highest quality care
  - c. Become the employer of choice
  - d. Practice fiscal responsibility

The healthcare industry generally has relatively small operating margins, incurs large capital expenditures to keep current with advances in technology and has a high reliance on government payments. Healthcare is entering into a period of consolidation and destabilization. The operating, clinical and financial aspects of our work will become increasingly challenging over the next few years with the transition from fee-for-service to a value-based reimbursement system. The development of a strong philanthropic revenue stream to support UW Medicine priorities will be a key focus for our leaders going forward.

UW Medicine's ability to be successful requires that it has strong, effective and visionary leadership, makes well-informed strategic choices, recruits and retains excellent staff, faculty, students and trainees, implements best practices in all aspects of its operations, and strengthens its financial health to be able to invest in its future.

# UW MEDICINE BOARD FINANCE AND AUDIT COMMITTEE: FY 2015 ROSTER

## Voting and Ex Officio Members

<p>Jim Anderson, Board Member</p> <ul style="list-style-type: none"> <li>o Member of UW Medicine/Northwest Board</li> <li>o Former chair of the Strategic Planning Committee for the Board of Directors for Northwest Healthcare Insurance Services and Washington Casualty Company</li> <li>o Former chair of the Budget Committee of the Board of Overseers of Whitman College</li> <li>o Former board of director for the Pacific First Financial Corporation, MultiCare Health System, Tacoma/Pierce County Economic Development Council and the Corporate Council for the Arts and Reality Based Learning.</li> </ul>	<p>Terry Lengfelder, Board Member</p> <ul style="list-style-type: none"> <li>o Member of the UW Medicine/Northwest Board</li> <li>o Retired consultant in business management, finance and accounting. Prior to his years of consultancy, he spent almost four decades at Arthur Anderson &amp; Co. in a wide variety of management positions, the most recent of which was Managing Partner of Global Service Quality. Chairman of the Technical Advisory Committee of two large drug companies.</li> <li>o Bachelor of Science in Business Administration from Washington University in St. Louis, MO.</li> </ul>
<p>Kristi Blake, Ex Officio. Board Member</p> <ul style="list-style-type: none"> <li>o Kristi Blake is President of Kristianne Gates Blake, PS. She served as a partner with Deloitte, Haskins &amp; Sells prior to starting her own firm in 1987. Kristi serves as a trustee of the Russell Funds and as a director of Avista Corporation.</li> <li>o Community board service included YMCA Retirement Fund, Saint George's School, YMCA of the Inland Empire, Spokane Area Chamber of Commerce, United Way of Spokane County, Junior League of Spokane and the Higher Education Coordinating Board.</li> <li>o Kristi was born and raised in Seattle, graduating with a BA in Business Administration from the University of Washington.</li> <li>o Member of the UW Board of Regents</li> </ul>	<p>Dennis Okamoto, Board Member and Committee Chair</p> <ul style="list-style-type: none"> <li>o Dennis I. Okamoto is a 1970 graduate of the UW with a bachelor's degree in general business.</li> <li>o Held many significant leadership positions in local business and community organizations.</li> <li>o Retired in 1996 as regional vice president for US West, now Qwest.</li> <li>o Served in Gov. Booth Gardner's cabinet as director of the Department of Revenue and is a past president of the Japan America Society.</li> <li>o Serves as director and treasurer of the board of Watermark Credit Union.</li> </ul>
<p>Alan Frazier, Board Member</p> <ul style="list-style-type: none"> <li>o Alan Frazier is the founder and managing partner of Frazier Healthcare Ventures, which has raised seven venture capital funds representing \$1.8 billion and invested in more than 100 emerging life science companies since 1991.</li> <li>o Serves on the boards of Alexza Pharmaceuticals, Ascension Orthopedics, Cadence Pharmaceuticals, Calixa Therapeutics, Nuon Pharmaceuticals, Portola Pharmaceuticals and Trilogy Health.</li> <li>o Earned a bachelor's degree from the UW and serves on the boards of the Washington Biotechnology and Biomedical Association and the Western Washington University Foundation. In addition, he is a member of the UW Medicine industry advisory committee and the advisory council for the J. David Gladstone Institute, associated with the University of California San Francisco.</li> </ul>	<p>Peter van Oppen, Board Member</p> <ul style="list-style-type: none"> <li>o Partner at Trilogy Partnership, a venture capital and private investment firm in Bellevue, WA. He served as Chairman and CEO of Advanced Digital Information Corporation (ADIC) and its predecessor companies from 1989 to 2006.</li> <li>o Worked in medical electronics and as a consultant at Price Waterhouse LLP and Bain &amp; Company in New York, Boston and London.</li> <li>o He was an initial investor in companies that became Voicestream (VSTR) and Western Wireless (WWCA) and served as a director of related entities at various times between 1992 and the sale of Western Wireless in 2005. In addition to ADIC and Western Wireless, he has served on numerous public and private company boards including Isilon Systems (ISLN) through its sale to EMC as well as many private entities. He is currently a director of Level 3 Communications, Inc. (LVLT).</li> <li>o Former Chair of the Whitman College Board of Trustees and former director of the Seattle Branch of the Federal Reserve Bank of San Francisco.</li> <li>o He is a member of the American Institute of Certified Public Accountants on inactive status and holds a B.A. in political science from Whitman College and a Harvard MBA, where he was a Baker Scholar.</li> </ul>
<p>Bob Gerth, Community Member</p> <ul style="list-style-type: none"> <li>o Bob is retired from his long time profession as a partner with the international accounting and consulting firm of Deloitte.</li> <li>o Previously Bob was a partner in the Seattle office of Deloitte and led the International Group, was office managing partner and then Office Chairman at the time of his retirement in the year 2000.</li> <li>o Bob remains active in business and civic activities.</li> <li>o The primary focus of his interests is affordable housing, education and support for cancer research.</li> </ul>	<p>Larry Pinnt, Community Member</p> <ul style="list-style-type: none"> <li>o Past chair of the UW Medicine Board, retired in 1989 as chief financial officer of US West Communications.</li> <li>o Trustee for the SAFECO Mutual Funds and chairs its Audit Committee, and is chair of the board of directors for Cascade Natural Gas Corp.</li> <li>o Past chairman of the board of Blue Cross of Washington &amp; Alaska and of Premera, and served on the board of Key Bank of Washington.</li> <li>o Former chair of the Washington Research Council.</li> <li>o Earned a bachelor's degree in mathematics from Central Washington University and did additional work in special programs at Stanford University and the University of Pennsylvania Wharton School in engineering studies and marketing.</li> </ul>

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## UW MEDICINE BOARD FINANCE AND AUDIT COMMITTEE: FY 2015 ROSTER, continued

### Non-Voting Members

<p><b>UW Medicine</b>                  Paul G. Ramsey, M.D., CEO, UW Medicine, executive vice president for medical affairs, and dean of the UW School of Medicine, University of Washington</p> <p>Ruth Mahan, chief business officer, UW Medicine, and vice president for medical affairs, University of Washington</p> <p>Lori Mitchell, chief financial officer, UW Medicine, and vice president for medical affairs, University of Washington</p> <p>Johnese Spisso, chief health system officer, UW Medicine, and vice president for medical affairs, University of Washington</p> <p>Liz Shirley, enterprise finance officer for accounting and financial reporting, UW Medicine</p> <p>Maureen Broom, enterprise finance officer for financial planning and analysis, UW Medicine</p> <p>Mary Fran Joseph, Associate Dean for Administration and Finance, University of Washington</p>	<p><b>Practice Plans</b>                  Mika Sinanan, M.D., Ph.D., president, UW Physicians</p> <p><b>Hospitals/Clinics</b>                  Cindy Hecker, executive director, Northwest Hospital and Medical Center                  Meg Kerrigan, executive director, UW Neighborhood Clinics                  Paul Hayes, executive director, Harborview Medical Center                  Larry Smith, chief financial officer, Valley Medical Center                  Steve Zieniewicz, executive director, UW Medical Center</p>
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# UW MEDICINE BOARD FINANCE AND AUDIT COMMITTEE CHARTER

## UW Medicine Board Finance & Audit Committee Charter

### **Committee Name**

*UW Medicine Board Finance & Audit Committee*

### **Committee Establishment and Authority**

*Section 4.5 of the UW Medicine Board (UWMB) Bylaws establishes and defines the authority of the UW Medicine Board Finance & Audit Committee.*

### **Committee General Duties**

*In conformance with Section 4.5.1 of the UWMB Bylaws, the Finance and Audit Committee (the Committee) shall be accountable to the UWMB and responsible for reviewing and evaluating the financial results, plans and audits of UW Medicine and its component entities<sup>1</sup> and for preparing the Chairperson of the UWMB to advise the Board of Regents, the President, and the Chief Executive Officer, UW Medicine, Executive Vice President for Medical Affairs, University of Washington, and Dean, University of Washington School of Medicine (CEO/EVPMA/Dean) regarding the implementation and effectiveness of UW Medicine finance and audit programs. The Committee shall also participate in the development of the annual UWMB financial report to the UW Board of Regents and the President in conformance with Section 1.4.2 of the UWMB Bylaws.*

*The Committee shall keep the UWMB informed of its activities and findings concerning the implementation and effectiveness of UW Medicine finance and audit programs. Such duty anticipates a report from the Chair of the Finance & Audit Committee (or other member of the Committee if the Chair is not available) to the UWMB at the next meeting of the UWMB following a meeting of the Finance & Audit Committee.*

### **Committee Specific Duties and Responsibilities**

*Duties of the Committee shall include but are not limited to advising on the following (UWMB Bylaws, Section 4.5.1):*

- *Assessing the overall financial risks and capacities of UW Medicine; and*
- *Assessing the congruity of the financial management, plans, and objectives of UW Medicine.*

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<sup>1</sup> Component entities include Harborview Medical Center (HMC), Northwest Hospital & Medical Center (NWH), Valley Medical Center (VMC), UW Medical Center (UWMC), UW Neighborhood Clinics (UWNC), UW Physicians (UWP), UW School of Medicine (UWSOM), Airlift Northwest (ALNW) and UW Medicine's investments and risk related to Children's University Medical Group (CUMG) and the Seattle Cancer Care Alliance (SCCA).

## UW MEDICINE BOARD FINANCE AND AUDIT COMMITTEE CHARTER, continued

*In addition, the Committee shall carry out the following functions, to better advise the UWMB and UW Medicine CEO/EVPMA/Dean:*

- *Review and evaluate the financial requirements to support the strategic plans for UW Medicine;*
- *Oversee UW Medicine's processes to maintain an awareness of and anticipate the financial implications of major regulatory, policy, and other healthcare program transition points that may have a significant financial impact on UW Medicine;*
- *Oversee financial integrity and legal and regulatory compliance including financial reports and statements and required financial reporting;*
- *Provide oversight of enterprise risk (e.g., information technology) management to ensure major financial and non-financial risks are effectively identified and managed;*
- *Review and advise on 5-10 year capital plans, the adequacy of capital funding, and the results of capital investments (e.g., information technology) versus plans;*
- *Review and advise on the financial aspects of proposed operating plans, key budget assumptions, and the strategic risks to achieving the operating plans for UW Medicine;*
- *Review and examine quarterly operations and finance reports for UW Medicine, and identify issues for further analysis;*
- *Review and approve the annual UW Medicine financial report for presentation to the UW Board of Regents and the President;*
- *Advise regarding the appropriate scope of internal and independent audits and review internal audit reports and the annual independent audit reports;*
- *Oversee UW Medicine's policies related to reserves and investments;*
- *Review major debt, capitalized leases, and other borrowings;*
- *Review UW Medicine's policies and procedures for the selection and vetting of financial advisors and provide advice on the selection of advisors for major assignments;*
- *At the request of the Executive Committee, review financial implications of proposed strategic alliances to assess risk and opportunity; and*
- *Other duties assigned by the UWMB.*

### **Committee Member Composition**

*In conformance with Section 4.5.2 of the UWMB Bylaws, the Chairperson and voting members of the Committee shall be appointed by the Chairperson of the UWMB in consultation with the CEO/EVPMA/Dean. Voting members include:*

- *At least four UWMB members, including the Chairperson of the Committee, the Chair of the UWMC Committees of the UW Medicine Board, and two additional UWMB members appointed by the UWMB Chair; and*
- *Up to three community members who are not members of the UWMB.*

## UW MEDICINE BOARD FINANCE AND AUDIT COMMITTEE CHARTER, continued

*UWMB members and community members shall be appointed to the Committee for a term of one year, which may be renewed annually. Any vacancies that occur shall be filled in the same manner as the original appointments to the Committee.*

*The following non-voting individuals shall also be invited to attend the Committee meetings on a regular basis:*

- *CEO/EVPMA/Dean;*
- *Chief Health System Officer, UW Medicine/Vice President for Medical Affairs, University of Washington (CHSO/VPMA);*
- *Chief Business Officer, UW Medicine/Vice President for Medical Affairs, University of Washington (CBO/VPMA);*
- *Controller, UW Medicine, Associate Vice President for Medical Affairs, University of Washington;*
- *Associate Dean for Administration and Finance, School of Medicine;*
- *Financial Planning Officer, Associate Vice President, UW Medicine Health System;*
- *Financial Operations Officer, Associate Vice President UW Medicine Health System;*
- *Chief Financial Officer, VMC*
- *Executive Directors, HMC, UWMC, UWP, and UWNC;*
- *Chief Executive Officer, VMC*
- *Presidents of NWH and UWP;*
- *Other non-voting individuals invited by the Committee Chair.*

### **Committee Member Requisite Skills and General Qualifications**

*Committee members shall have the following skills and qualifications:*

- *The highest ethical standards and integrity;*
- *A willingness to act on and be accountable for Committee recommendations;*
- *The ability to provide informed and thoughtful counsel to senior leaders and financial and audit officers;*
- *A history of achievement that reflects superior standards;*
- *Commitment to act in the best interests of UW Medicine; and*
- *Finance, accounting, business and/or investment management experience commensurate with UWMB's and the Committee's duties and responsibilities.*

### **Committee Decision-Making Processes**

*Consistent with Section 4.5.4 of the UWMB Bylaws, a majority of voting Committee members will constitute a quorum for the purpose of making official decisions and taking formal actions of the Committee. Other types of decision-making will be based on member consensus.*

### **Committee Reporting Requirements**

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## UW MEDICINE BOARD FINANCE AND AUDIT COMMITTEE CHARTER, continued

*The Committee shall report meeting proceedings and recommendations to the UWMB at the Board's regularly scheduled meetings.*

### **Committee Member Obligations**

- *Members will attend the majority of scheduled Committee meetings and notify the Committee Chair when circumstances prevent attendance.*
- *Members will review germane materials in advance of each Committee meeting.*
- *Members will not act as an agent for any person or organization where such an act would create a conflict of interest with the terms of service to the Committee.*
- *Members will recuse themselves from discussions or decisions that may represent a potential conflict of interest.*
- *Members will safeguard the confidentiality and security of information obtained during the course of their Committee service.*

### **Annual Committee Goals, Objectives and Performance Measures**

- **Goal:** *Assess the performance of the UW Medicine's financial affairs and management team*

**Performance Measure:** *The Committee holds an annual meeting with the independent auditors and UW internal auditors to review the audits of each of the UW Medicine entities and the required communications surrounding the audits. The members will have opportunities to ask questions and provide feedback in the regular Committee session and in an executive session with the auditors.*

- **Goal:** *Maintain awareness of UW Medicine's primary financial risks, mitigation strategies, and audit work plans.*

**Performance Measure:** *The primary risk areas are identified annually from three sources: the annual independent audit; the UW internal audit risk assessment; and the UW Medicine budget process. The risk areas are consolidated during the fourth quarter of the fiscal year into a matrix that assesses the likelihood and impact of each risk. The members will have opportunities to ask questions and provide feedback.*

- **Goal:** *Maintain awareness of emerging financial issues facing UW Medicine.*

**Performance Measure:** *Each meeting of the Committee will include briefings about emerging issues, changes in the finance and audit environment, and open issues that may affect the year-end financial position of UW Medicine and each of the entities. Members have opportunities to ask questions and provide feedback.*

### **Committee Administrative Matters**



**UW MEDICINE BOARD FINANCE AND AUDIT COMMITTEE CHARTER,  
continued**

*In conformance with Section 4.5.3 of the UWMB Bylaws, the Finance & Audit Committee shall meet at the call of the Chairperson as often as necessary, but not less than quarterly, to perform its duties. The annual schedule of meetings (including planned focus areas) shall be developed and distributed at the beginning of each fiscal year. The meeting schedule will be updated as necessary. A meeting agenda and materials referenced in the agenda shall be provided to Committee members one week in advance of the relevant meeting.*

*The Committee shall be staffed by the UW Medicine Controller.*

*Voting members of the Committee will be oriented to their roles and responsibilities in a joint meeting with the Committee Chair and the UW Medicine Controller.*

*Written minutes shall be maintained of each Finance & Audit Committee meeting. Minutes shall accurately record the topics discussed, decisions reached, and attendance of Committee members and guests. Official documentation of each meeting, including minutes, supporting handouts, and presentation materials, shall be maintained by the office of the UW Medicine Controller.*

*The Committee shall conduct a review of the Committee Charter at least annually, and amendments to the Charter shall be submitted to the UWMB for review and approval.*

**Other Committee Items**

*None.*

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**Approved by the Committee and Recommended to the UW Medicine Board**

  
\_\_\_\_\_  
Committee Chair

1/9/12  
Date

**Approved by the UW Medicine Board**

  
\_\_\_\_\_  
Chair of the UW Medicine Board

1/9/2012  
Date